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REAL ESTATE INVESTMENTS: THE CASE OF BELARUS

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In the paper the author has focused on investments into real estates in European countries of transition economy on the example of the Republic of Belarus. Financial crisis in neighbouring Russia make this possibilities more attractive.

Introduction

In last decade many states of former USSR became independent. The Supreme Soviet of the Republic of Belarus adopted the Declaration of State Sovereignty of the Republic of Belarus on July 27, 1990.

Republic of Belarus (or shorter Belarus) is situated in the eastern part of the European continent. It borders on Russia in the north and east, on Ukraine in the south-east, on Poland in the west, and on Latvia and Lithuania in the north-west. The territory of Belarus constitutes 207,6 thousand square kilometers. By its size the Republic exceeds such European states as Austria, Ireland, Portugal, Greece, Czech Republic, Slovakia, Bulgaria, and Hungary. The length from north to south is 560 km, and from east to west it is 650 km (see map).

The capital of Belarus is Minsk. The headquarters of the Commonwealth of Independent States which joints the main part of former USSR are situated in Minsk. The distance from Minsk to Warsaw is 500 km, to Moscow is 700 km, to Berlin is 1,060 km. Minsk has a favorable geographic position at the crossroads from West to East, the intersection of international airlines, railroads and highways. Minsk is a large industrial centre. His popuation is 1.7 mln. (on 1 January 1998).

The basis of the Belarusian economy is industry; its share in the gross national product of the Republic constitutes over 60%. The Republic has more than 1,400 large enterprises, factories, power plants, mines, open casts and oil fields, representing more than a hundred branches of industry. A powerful base for military scientific production of former USSR such as optics and lasers, computers and microelectronic devices has been created in Belarus. Last time more important become transportation role of Belarus like bridge between Europe and wide Russian market: road, pipeline, custom.

In contradiction of other part of C.I.S. for three last years it is determined a stable increase in rates of basic economic indices.

Belarus



Map of Belarus. Above is a place of Belarus in the Commonwealth of Independent States.

Infrastructure of Real Estate Market

Today's realty market in Belarus is forming. Sellers and buyers on them are presented rather good. One of them is the government with privatizing state-owned property.

In Belarus there are rather few middlemen-professionals, most of them joint in the Belarusian Real Estate Guild, BREG. Such aspects of activity as legislative changes and raising professional standards, fit into the goals of the Belarusian Real Estate Guild. This non-government public organization joins real estate professionals from private and governmental bodies of different specialities, such as brokers, investors, valuers, owners, managers, developers, builders, etc., as well as interested foreign investors and property professionals who may be looking to the Belarus real estate market, to increase efficiency and cooperation in all stages of the development process.

Legislative Base

In Belarus there are the legislative base for privatization, investments and real estate transactions (*Trifonov, 1995*). It consists of laws of the Republic of Belarus "On Property", "On Investment Activity", "On Foreign Investments", "On Privatization of Housing Fund", "On Denationalization and Privatization of State-Owned Property", "On Right of Private Ownership on Land", "On Right of Ownership on Land", "On Name Privatization Checks", "On Lease", and "On Mortgage", "On Free Economic Zones" as well as Decrees of President of the Republic of Belarus.

According the Law "On Property" all of citizens of Belarus as well as foreign investors have the right of ownership on property. The Law "On Right of Private Ownership on Land" proclaimed this right. The later Law "On Right of Ownership on Land" declares that as private persons only citizens can enjoy the ownership on land. In the beginning of this year the Decree of President allows the ownership on land for legal bodies. Previously it is allowed only for foreign legal bodies by special permission of the Supreme Soviet.

We can point that legislative base for real estate and investment market in Belarus is becoming more liberal. One cause of that is the activity of such professional societies as the Belarusian Real Estate Guild which aim is to elaborate the fair property laws and to lobby for their enactment.

Investment Possibilities

Transition to market economy and privatization in Belarus have helped a small growth of the construction industry for some last years (*Trifonov, 1997*). This fact has contributed to housing and other types of buildings such as commercial and offices. This happens especially in those areas of country that have greater economic growth level as capital city Minsk. In addition to the impulse that it has given to the productive activity of the sector in terms of

construction, that has generated demand for administration and management services.

Real estate market in Belarus is still modest. Prices are relatively lower than those quoted in the developed economies and in neighbouring Russia. Realty transactions are encumbered with some difficulties which are the result of specific legislative base. Transaction are also affected by great inflation which makes the interest rate of long-term loans remain at a very high level.

In Belarus there are no strict barriers to prevent the flow of foreign capital. In such case (for purchasing the land, for example) foreign investors have better conditions than domestic ones. Such active foreign investors as «Coca-Cola», «Ford» or «McDonalds'» have their enterprises in Belarus.

There are some free economic zones, FEZ, in Belarus, most developed are «Brest» near Polish border and «Minsk» near National airport «Minsk». They have special privileges and taxation:

- The absence of any quotas or export licensing on the goods and services produced on the territory of FEZ;
- Favorable taxation shall be proposed: VAT is 10% (outside is 20%), income&profit tax is 15% (30% normally):
- Profit received by FEZ residents from realization of their own-produced goods (work, services) will not subject of taxation for 5 years from the date of profit declaration incl. the first profitable year;
- Profit used by FEZ residents for investing in Belarus is exempted from income tax; those residents who export 70% of their own-manufactured products shall not pay VAT during the next year;
- On the territory of FEZ no nationalization, confiscation or requisition will take place towards any investments and investors any time and in any case.

Belarusian real estate market is a local market by virtue of supply which is rooted to a particular location. *Contra*, demands tends to be more mobile and it is often derived from other areas. Buyers make transactions sporadically, hence they are scarce by nature. This feature combined with confidential character make the flow of information on the real estate market limited. Investors are quite reluctant to disclose either propensity to buy or the price they paid.

Typical investment proposal are connected:

- with industrial objects of state property of large scale;
- with so-called «small» privatization, *e.g.* shops and office buildings;
- with proposals of office buildings and hotels of private companies;
- with industrial private realty.

Now the government proposes the privatization by auctions with decreasing prices, so-called Dutch auctions. As a news it may be noted offers of private firms which have rights for construction and reconstruction in Belarusian cities. They propose parts in construction of buildings and in new-constructed ones.

Typical prices for recent sales of modern office buildings in Minsk are about USD1000 per sq.m, but it is possible to find old 2-3-store house in downtown per USD300/sq.m. In other Belarus cities prices are much lower.

Real estate market of Belarus is all the more interesting because of its potential which is starting to be realised. It is possible to operate in this new environment, and those who start right away may get a jump on late-comers. It seems especially correctly in frame of financial crisis in Russia.

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