

Beginnings of Real Estate Brokerage in Moscow

Jill Khadduri

U.S. Department of Housing and Urban Development

Alexander Pusanov

Institute for Economic Forecasting

Abstract

This article describes the private housing transactions that are emerging as a large portion of Moscow's housing stock is transferred into private ownership and becomes available for sale or rent. An industry of real estate brokers is developing to facilitate those transactions. The structure of this industry is evolving and, so far, reflects the fragmented nature of the housing market it serves. No industrywide practices or standards have been developed.

It is not clear whether the U.S. model for maximizing information available to real estate brokers and their clients—the multiple listing service based on exclusive listing contracts—will be followed in Moscow, or even whether this is the model best suited to the Russian housing market. Furthermore, the nature and timing of government regulation of real estate brokerage will require careful design to avoid restricting competition and limiting the efficient pricing and housing mobility that can result from a well-functioning real estate market.

Introduction

The process of transition to a market economy is at an early stage in all economic sectors in the city of Moscow, as it is in the rest of the Russian Federation and other parts of the former Soviet Union. In the area of housing, one feature of this transition is the creation of a private market for sale and rental of housing units. This real estate market has been made possible by the privatization of the state-owned housing stock that began in 1991 and has placed on the market a growing fraction of Moscow's housing stock.

An industry of real estate brokers is emerging to serve the new housing market, with the same role that such agents¹ play in other countries: lowering the costs of obtaining information for

¹ The term “broker” rather than “agent” is used throughout this article for convenience and is not intended to reflect the distinction in training and position in the firm implied by these terms in the United States.

both buyers and sellers of housing and thereby making it possible to conduct widespread transactions at competitive market prices. The industry is just beginning to form and reflects the fragmented and inchoate market that it serves, as well as the continued existence of many of the administered prices and informal, protomarket mechanisms of the old system. Many aspects of the future direction of the new brokerage industry remain unclear—for example, whether through a trade association or other sponsor an institution like the multiple listing service used in the United States will be developed.

This article describes and analyzes the housing market and real estate brokers in Moscow in terms of the basic functions of real estate brokerage and the key alternatives for organizing and regulating this industry that will be chosen by policy makers and the industry itself during the next few years. While government regulation of the real estate industry in Moscow and other Russian cities may be attractive for various reasons, if introduced too soon it may restrict competition among brokers and limit the efficiency in pricing and the increased housing mobility that should be major benefits of a private housing market.

The emerging real estate market in Moscow

Housing mobility and housing transactions on the eve of privatization

Even more than in Eastern Europe, the housing sector in Russia during the Communist era had few features of the market. Most housing units, almost 90 percent in the city of Moscow, belonged to the state and were allocated to households through waiting lists at low rents differentiated not by quality or location, but only by the size of the unit. There were two basic types of state rental housing in Moscow: “municipal” housing, owned and managed by the city, and “departmental” housing, owned and managed by a government agency or state enterprise. There was also a small stock of “cooperative” housing constructed since the 1970s with separate, shorter waiting lists for families willing to make loan payments in return for the right to occupy newly completed units.

The waiting period for both types of state rental housing was as long as 15 years.² It was assumed that a family who obtained an

² The length of the wait depended on a variety of frequently shifting special categories—for example, veterans, families with three or more children, “third-generation Muscovites,” and young workers with scientific or technical training.

apartment would occupy it for life and pass it along to children or grandchildren registered as living there at the time of the householder's death.

This did not mean that there was no housing mobility in Moscow. A few families, once allocated housing, later obtained a better or larger apartment by going through a new round of the waiting-list process, but this was difficult and rarely achieved. When most Russian families wanted to change to housing more suited to their needs, they had two options: illegally subletting a state rental apartment from a family who remained the tenant of record or arranging a registered exchange of state housing with another family.

The Moscow city government maintained, and continues to maintain, a well-organized process for registering exchanges of occupancy rights between families. In theory, payment to compensate the occupant of the higher valued apartment is not permitted. In fact, such compensation is nearly universal, usually through a side payment of cash. Most exchanges are not simple swaps between two families, but involve chains of apartments in order to match housing units to family needs and resources. The services of a broker are needed both to create the chains and to handle the payments.

The volume of exchanges in Moscow was 95,000 housing units per year in the early 1990s, or about 3 percent of the city's housing stock of 3 million units. To estimate the total housing mobility in Moscow in the early 1990s, one must add 50,000 completions of new units each year, an unknown but substantial number of illegal sublets, and a small number of existing state-owned rental units that were turned back to the authorities and reallocated through waiting lists. Thus, the total number of housing moves in Moscow in recent years has been something like 200,000 units, or 6 to 7 percent of the housing stock. This figure is substantially higher than the 3 to 4 percent suggested by "knowledgeable individuals" as the rate for the Soviet Union as a whole in the early 1980s (Long 1991).

Clearly the absence of straightforward sales and rentals between families constrained housing mobility, as did the absence of a market relationship between housing demand and new construction. Future mobility rates in Moscow are hard to predict. Even after administrative constraints disappear and a full-fledged housing market develops, mobility will probably never reach the 17 to 18 percent rates of the United States and Canada in the late 20th century. But because of various social and economic

factors, mobility in Russia could reach levels higher than the 7 to 10 percent rates found in Western Europe.

Factors that may result in relatively high mobility rates include a possible future relaxation of the *propiska* system that makes it difficult to obtain permission to live in Moscow or St. Petersburg and currently discourages anyone already living there from moving away; the economic dislocations associated with the overall economic transition; a greater cultural willingness among Russians than among Western Europeans to make long-distance moves; a high divorce rate; and the very fact of overdue housing adjustments. Much will depend on what kind of housing market emerges—for example, whether the government chooses a housing finance subsidy system that discourages mobility and whether municipal rental housing remains a major part of the market.³

Privatization and the beginnings of a formal market

Following the political changes of August 1991, housing privatization, already begun on a small scale, became a priority of the Yeltsin government and particularly of the Moscow city leadership (Kosareva and Struyk 1992). Two aspects of the privatization process made units available for private market sales. First, the right of families to “privatize” (take title to) their state rental units created a stock of existing apartments actually or potentially on the market for sale or rent by their new owners. Second, some of the newly completed housing stock that was developed by the traditional state-owned construction industry for ownership by the city or by enterprises was sold at market prices rather than allocated to families on waiting lists.

The process of privatization of state rental housing in effect in Moscow since the beginning of 1992 is efficiently administered and covers most of the state housing stock. The process involves the simple registration of documents transferring the ownership to the family for a nominal, fixed fee and is rapid enough that housing potentially for sale includes all the units that are eligible to be privatized, as well as those already privatized. In addition, the small stock of cooperative housing, less than 10 percent of Moscow housing, can be sold through a transaction that includes paying off the outstanding loan. As of August 1993,

³ For discussions of determinants of housing mobility in different countries, see Long (1991) and Stahl and Struyk (1985).

1.3 million housing units, or 43 percent of the total Moscow housing stock, were already registered as privately owned.

A second source of housing units available for sale at market prices is apartments in newly completed buildings originally planned by the Moscow city government as municipal housing or by enterprises or other departmental entities as rental housing for their employees. The Moscow city government decided in 1992 to sell at market 1 of every 10 new units in an attempt to raise funds to complete the 50,000 units currently in the city's construction pipeline. In addition, enterprises began to sell their newly completed units in preference to operating them as rental housing (and in preference to giving the first rental occupants a huge windfall because of the right to privatize).

The actual volume of sales of housing units in Moscow is hard to determine. In late 1992 a real estate broker's rough estimate of the volume of sales citywide was 2,000 to 3,000 per month, or 24,000 to 36,000 per year. The Department of Municipal Housing in Moscow began registering "secondary transfers" of privately owned existing housing units in March 1992, and between then and November 1992 some 20,000 such transfers were registered. By the autumn of 1993, the pace had increased to 400 units per workday, or an annualized volume of almost 100,000 units. Many of these transactions are recorded as inheritance or gifts, rather than sales. However, many of the gifts are really sales disguised to avoid the transfer tax levied on sales of housing units. Thus by late 1993 the volume of sales of apartments was probably above 2 percent and approaching the level of registered exchanges of state-owned apartments.

In 1992, more than half the individual families selling were believed to be emigrants, and another large fraction were selling apartments they had inherited from relatives and did not need themselves. In other words, only a small number of families were selling to buy a different apartment in Moscow, so the overlap with the exchange market at that time was still very small.

The first wave of buyers, in late 1991 and early 1992, consisted mainly of companies buying units for office space (technically illegal but widely practiced) or as a nonwage benefit to attract or hold high-skilled employees. By the end of 1992, the market was thought to be about evenly split between such purchasers and individual home buyers.

All these sales were for cash, and most for hard currency rather than rubles. While in principle a family buying an apartment

could take a loan from the State Savings Bank (Sperbank), the fixed-rate loans offered by the bank in early October 1993 had interest rates pegged to the Central Bank discount rate of 180 percent. No one was attempting to borrow on those terms.⁴ However, by late 1993 several banks were making preparations toward underwriting and servicing mortgage loans with a deferred, adjustable interest rate. An Association of Russian Mortgage Banks had just been formed with 17 founding members.

The extremely high and volatile rate of inflation will continue to discourage mortgage lending in any volume in the near future. On the other hand, a 1993 law on condominiums should begin to enable mortgage lenders to assess the risks associated with loans for individual apartments within multifamily buildings, removing another barrier to financed sales of housing units in Moscow.

The size of the rental market in Moscow is even harder to estimate than the size of the sales market, but it may be larger. It is especially difficult to determine the magnitude of the long-standing practice of illegal subletting of state rental housing. In 1992 families with privatized units began to rent them out in the formal market, sometimes using newspaper advertising and real estate brokers as well as personal information networks.

There is as yet little ownership of entire buildings by investor-landlords, although there have been attempts to attract private investors to city-owned residential buildings in desirable central Moscow locations. These buildings need major rehabilitation and therefore are not eligible for privatization by current occupants. As for new construction, at least one high-rent apartment building had been developed for the expatriate market by late 1993.

Finally, there is a type of complex real estate transaction known as “communal resettlement.” On the eve of privatization, 11 percent of the inhabitants of Moscow lived in communal apartments—units occupied by groups of families sharing kitchens and bathrooms (Goskomstat RSFSR 1990). These are often large apartments in pre-1917 buildings in the center of the city that can be sold at a very high price for conversion to offices or luxury housing for employees of foreign companies. The

⁴ New single-family houses could be bought in 1992 with heavily subsidized 8 percent loans from Russian state financial institutions. These loans were irrelevant to Moscow, where no more than a handful of single-family units were being built within the city limits. We have made no attempt in this article to explore developments in the housing markets of the *oblast* or suburban region around Moscow.

privatization process requires the group of families to make a joint application to take title to the unit, so the process of resettlement involves finding an apartment on the sale or exchange market for each family. In late 1992 this was an extremely profitable market, and in late 1993 the Moscow city government reportedly is considering assuming this function for itself.

Thus, the residential real estate market in Moscow, while quick to develop under the spur of privatization, is still relatively small and highly segmented. There remain separate markets for newly completed units, for existing privatized units, for Russian companies buying employee housing, and for foreign companies buying or renting luxury housing. Market real estate transactions have not yet reached many Moscow citizens, who continue to use municipal exchanges and illegal subletting to make housing adjustments. Both the small size of the private real estate market and its segmentation are also reflected in the nascent real estate brokerage industry.

The real estate brokerage industry in Moscow

Functions of real estate brokers

Real estate brokers exist because housing is difficult to buy and sell without them. Housing is a complex and highly differentiated good, with no two units precisely identical in all respects. Furthermore, sales and purchases of housing occur relatively infrequently; a family is usually involved in only a few such transactions in a lifetime.

For these reasons, it is difficult for both buyers and sellers to know whether a price offered is the best price they can obtain in a transaction or even a fairly good price. To overcome this lack of an information base for assessing a single offer, buyers must have access to many housing units offered for sale, and sellers to many potential buyers.

Buyers and sellers could search for each other on their own, but the costs of such a search are substantial. Therefore, there has grown up in market economies an industry of real estate brokers whose function is to lower the costs of gathering information on housing characteristics and prices and on the identities of potential buyers and sellers (Crockett 1982; Greer and Farrell 1993). A well-functioning real estate brokerage industry helps create an efficient housing market in which differences in prices reflect

real differences in value and transactions can be completed in the shortest possible time. It also helps expand the market by encouraging households to make housing adjustments—both by lowering information costs and by lowering the risks for buyers and sellers that a housing transaction will result in a loss of wealth (Bagnoli and Khanna 1991; Jud and Frew 1986).⁵

It follows that the more information real estate brokers provide—the broader the market to which they give their clients access—the better. This is true both from the clients' standpoint and from the standpoint of the brokers themselves: The more information brokers provide, the more willing buyers and sellers will be to use them. In the United States this principle has given rise to a particular institution, the multiple listing service (MLS) (Crockett 1982).

The multiple listing service and regulation of real estate brokerage

Brokers participating in an MLS agree to share information about their clients, and thus about units offered for sale through them, in return for an agreement that the information will not be used to steal each other's listings. This agreement includes a prearranged system for splitting commissions between the broker who delivers the information about the seller to the MLS and the broker who produces the buyer, and it is based on another feature of U.S. real estate brokerage: an exclusive listing contract between the seller and a single broker that gives the broker credit for selling the housing unit within the time frame of the contract regardless of who actually makes the sale.

The MLS as it exists in the United States is not the only possible system for information sharing among real estate brokers, nor is it without disadvantages. Miceli (1988), for example, contrasts the U.S. system with the very different system in Great Britain, in which listing contracts usually are not exclusive, households typically list units for sale with several different brokers, and brokers compete to be the first to produce an acceptable offer from a buyer. An extensive body of literature in the United States has debated the advantages and disadvantages of the MLS and the exclusive listing contract on the basis of economic

⁵ The relationship between accurate pricing and willingness to buy and sell at all is not much treated in the literature. However, the higher stakes for buying and selling compared with renting may be one reason that rental transactions are less likely to use brokers.

theories about information and about relationships between “principals” and “agents” (Anglin and Arnott 1991).

One theoretical disadvantage of the U.S. system is that it may lead to less than optimum effort by a broker on behalf of a client because it creates an asymmetry of interests between the broker and seller in completing a sale at the highest possible price in the shortest possible time. Another disadvantage is that, by setting up a mechanism for cooperation among brokers, it leads to commissions that reflect price fixing (Yinger 1981; see also Crockett 1982).

It has been argued on the other side that the standard form of the real estate commission in the United States—a straight percentage of sales price—and the fact that listing contracts are of fairly short duration provide strong countervailing incentives for the broker to exert effort on behalf of the client. It is further argued that collusion over the commission is less serious than it may appear because of competition among brokers in the quality and types of service they provide, so that the commission for identical service is not in fact fixed (Crockett 1982; Miceli 1989; Zumpano and Hooks 1987).⁶

Related to whether the organization of the real estate industry has anticompetitive elements and inadequate protection of clients is the issue of how the industry should be regulated. Regulation might protect the interests of clients of real estate brokers by establishing ethical standards, creating expectations that standards will be honored, and making ethical violations easier to detect, as well as enhancing more generally the quality of service brokers provide and thus making buyers and sellers more willing to use brokers (Miceli 1988; Zumpano and Hooks 1987).

On the other hand, regulation can itself help create monopolies by establishing or sustaining advantages for particular groups of real estate brokers. For example, public licensing of brokers on the basis of formal training and exams, required by all states in the United States, could create barriers to competition by artificially limiting the size of the industry.

In practice, passing state exams is relatively easy, and entry barriers to the U.S. real estate brokerage industry appear slight

⁶ Zumpano and Hooks make the further point that since a 1980 policy change by the National Association of Realtors, the MLS cannot be used to learn the real size of commissions and thus to enforce price-fixing agreements.

(Zumpano and Hooks 1987). However, this outcome in the United States may depend on the threat of enforcement of antitrust laws (Yinger 1981; Zumpano and Hooks 1987). Participation in a local MLS in the United States depends on membership in the local real estate trade association or board of Realtors. In practice, both memberships are open to anyone who passes the state licensing exam. Industry self-regulation, under the implicit if not explicit threat of further public regulation, has kept the MLS from being used to support a monopoly position for certain real estate brokers. In addition, the historical development of the real estate brokerage industry in the United States as many small firms in each local market may have led to a trade association that does not favor industry concentration.

Real estate brokers in Moscow

In the past two years, an industry of real estate brokers representing sales rather than exchanges of housing units has begun to appear in Moscow. A few firms calling themselves real estate brokers emerged in late 1990 and early 1991, and then in the spring of 1992, in the wake of accelerating policies for privatizing the housing stock, dozens (perhaps even hundreds) of people advertised themselves as being in the real estate business.

The types of entities engaging in real estate brokerage in Moscow in late 1992 were diverse and reflected the rudimentary and segmented markets they served. The creation of some firms, or their evolution into real estate brokers, resulted from special opportunities or access to information that arose in the privatization process. In other cases, entrepreneurs who were engaged in other commercial activities decided that real estate brokerage might be a good business opportunity. Many individuals and organizations, perhaps hundreds, have acted as agent on the sale of at least one housing unit, although their primary business is not real estate and their very existence as a firm of any sort may have been ephemeral.⁷

A few private firms were created by the Moscow city government to serve as conduits for the sale by auction of newly completed municipal and departmental housing. These organizations appear to have little interest in expanding their business to existing privatized units for sale by individual families. Instead,

⁷ An attempt in August 1992 to telephone firms that had placed newspaper advertisements as real estate agents in the spring of 1992 revealed that many had disappeared. A firm interviewed in August that appeared well organized and knowledgeable about the market could not be located in November.

they see their future in housing investment and development, drawing on their special relationships with governmental bodies to give them access to business opportunities.

On the other hand, in late 1992 some firms of moderate size were concentrating on sales or rentals of existing privatized apartments. Typically, they began as other types of private businesses but came to see real estate brokerage as their main line of work and, as individual firms, standardized their practices and procedures. There were 15 to 20 such firms in Moscow, with a volume of sales ranging from fewer than 10 to 40 sales per month.

One organization concentrating on sales of private apartments, Mosprivatizatsia, became a real estate broker through a relationship with the Moscow city government that provided special access to information. Mosprivatizatsia was created by the city's Department of Municipal Housing in early 1992 to help administer the privatization of municipal and departmental housing. It is a major contractor to that office, processing the privatization documents submitted by families and also registering subsequent secondary transfers. Mosprivatizatsia took advantage of its direct contact with families who might be interested in selling to gain a large number of listings. A network of subcontractors provides the actual brokerage services. Mosprivatizatsia claimed to have 4,000 listings in mid-1992 and, along with its subcontractors, was probably the largest firm dealing in sales of privatized apartments in Moscow.

In addition to the new industry of real estate brokers for sales and rentals of apartments, there continue to be many brokers for exchanges of state rental housing. Around the municipal agency responsible for such exchanges, Moscow Housing Service (Moszhilservis), there grew up an informal, essentially illegal real estate industry of brokers providing assistance in arranging such exchanges for a fee. The street in front of the municipal agency, Bathhouse Lane, was the location of this market. A few years ago, Moscow Housing Service itself went into the business of brokering exchanges, in addition to its original functions of publishing information on available units and registering completed exchanges.

Moscow Housing Service has almost 200 brokers who, in addition to receiving a base salary from the municipal agency, are permitted to charge commissions for helping families find the housing units they want and arranging the terms of the exchange. In theory these brokers are not permitted to handle side payments, but obviously they do.

Thus, the real estate brokerage industry in Russia in late 1992 comprised a wide range of institutions and people, some formal governmental structures, some in quasi-governmental agencies, some in private commercial firms, and some acting completely illegally in the traditional underground economy. It would be premature to conclude that one or another of these groups represents the core of the future private, competitive brokerage industry. For example, the firms that have the greatest outward appearance of novelty and private commercial orientation may in fact be the most fully dependent on the traditional structures of housing planning, construction, and allocation.

What is clear is that the traditional role of brokers in lowering the costs of information is important in Moscow. It may be even more important in a transitional economic situation—with a segmented housing market and little easily accessible information on available units and market prices—than in a full-blown market economy.

Industry organization and standards

Perhaps it is not surprising, given the early stage of development of the housing market and the eclectic nature of the real estate brokerage industry, that no formal organization of the industry has yet occurred and no industrywide practices or standards for bringing together buyers and sellers have been developed.

The predominant technique for selling units in new municipal or departmental buildings has been by auctions advertised in the press, at which buyers bid on housing units scheduled for completion during the next few months. This technique has at times been highly successful but may depend on the attractiveness of new housing as an investment for companies with extra cash and few other inflation hedges to choose from.⁸

For the negotiated sales that are the predominant method for selling existing apartments, Moscow real estate firms both attract potential sellers and bring buyers and sellers together through a combination of newspaper and other media advertisements and informal contacts. Nothing like an MLS exists as of late 1993.

⁸ The authors attended an auction of municipal housing in November 1992 at which 500-square-foot apartments on the periphery of Moscow sold for 12 million rubles, or about \$30,000. The construction cost of those units was less than one-fourth the sales price.

The concept of an exclusive listing contract is familiar to Moscow real estate brokers, and the contract law that makes such contracts enforceable is in place. However, most brokers believe that the litigation costs associated with enforcing an exclusive listing contract are prohibitive and that even when they persuade sellers to sign such contracts they often lose sales to competitors. Without an industrywide agreement both to honor exclusive listing contracts and to demand them of clients, firms are reluctant to share information on their listings widely. Instead, they operate through case-by-case discussions of individual listings and bilateral fee-splitting arrangements when they decide they need the participation of another firm to match a buyer with a seller.

Thus, the organization of the real estate industry in Moscow does not at present resemble the U.S. system but may be more like the British system, in which listings are not exclusive and brokers compete to be the first to find a buyer for a particular unit. The potential advantages of such a system are that it can maximize the combined efforts of several brokers with the same listing to make the sale and that the seller can bargain for a lower commission (Miceli 1988). On the other hand, the absence of consumer sophistication and knowledge about potential brokers may mean that most households in Moscow are not, in fact, listing with several brokers. Instead, they are buying and selling housing units on the basis of very limited information about the market value of those units.

In addition to limited information on the identity of potential buyers and units available for sale, there is a lack of reliable and systematic data on recent sales prices that brokers can use to advise buyers and sellers on the reasonableness of asking prices or offers. The system for registering transfers of ownership in Moscow includes reporting of sales prices, but because of underreporting of actual prices and concealment of sales as gifts, this information is essentially worthless (Kaganova and Berezin 1993; Lowry and Kaganova 1992). To follow market trends, firms rely on their own recent experience—both with concluded sales and with offering prices by potential buyers—and on gossip with competitors.

There is no requirement that real estate agents be licensed by a public agency in the Russian Federation or in Moscow. In the absence of self-organization of the industry, this means that there are no minimum education or training requirements, except those that individual firms or organizations may impose on themselves. The only self-imposed training requirements

apply not to brokers for sales and rentals, but to Moscow Housing Service's exchange brokers, who in recent years have been graduates of a postsecondary technical institute specializing in law.

The absence of either government regulation or an industry-created code of ethics means that there has been no elaboration of the obligations and liability borne by brokers. The services that Moscow real estate brokers perform include ensuring that the seller has privatization documents and helping the buyer register the sale with a notary public. However, it is not clear what liability the broker has if the seller's title to the unit turns out to be defective.

Standard forms of listing agreements and sales contracts have been worked out by individual firms. There has been a fair amount of imitation of the practices developed by the first firms to enter the market, as well as some attempt to adapt foreign models to the Russian legal environment. Commissions ranged from 1 to 13 percent of the sales price during 1992, with most between 6 and 10 percent. Some firms charged a straight percentage of the sales price, while others varied the commission on the basis of such factors as the size of the sale and the expected difficulty or complexity of the transaction.

In mid-1992, an attempt began to organize the industry by creating a trade association. Five private firms in Moscow sponsored the first meeting of an All-Russian Guild of Realtors⁹ in July, with participants from various cities. The founders claim among their goals the creation of some sort of MLS or appraisal database and the establishment of a code of ethics for the industry. However, while this organization continues to exist as of late 1993, its function so far has been to lobby the government of the Russian Federation for laws and decrees conducive to real estate transactions, rather than to organize the real estate brokerage industry. Furthermore, many firms in Moscow and elsewhere are reluctant to join the guild or to look to it as a standard setter (Kaganova and Berezin 1993). They see the organization as the creature of firms that serve mainly as sellers of newly completed municipal and departmental housing, and they believe that the main objective of these firms is to gain special access to additional property belonging to government agencies and state enterprises.

⁹The term "Realtors," a registered trademark of the U.S. National Association of Realtors (NAR), was used without NAR's permission.

The future of real estate brokerage in Moscow

In view of the nature of the real estate market and the starting point for the real estate brokerage industry in Moscow, what kind of industry is likely to develop? How is it likely to be organized, and what are some of its potential problems? Should government attempt to regulate the real estate industry, and in what way?

Some features of the housing stock in Moscow suggest that once the volume of sales picks up, information costs for buyers and sellers of apartments will not be very high, and sales without brokers could become common. A great deal of Moscow's housing is based on uniform building types and apartment floor plans, and value associated with location can be characterized in a fairly straightforward way by distance from the city center, convenience of public transportation, and presence or absence of industrial land uses in the neighborhood. However, even identical buildings have been altered by management that has differed in quality in the past and may differ more sharply in the future as some buildings become entirely privatized and others remain largely state rental housing. Neighborhood quality includes many subtle distinctions as well as the more obvious ones.

The very size of the city, the relatively high likely rate of housing mobility, and a privatization process that is resulting in owner occupancy of many housing units are all factors that may lead to a high rate of brokered sales (Miceli 1988). While the existence of a large illegal industry of brokers for exchanges of flats can be explained in part by the great need for information when transactions are carried out partly in money and partly in barter, the historical development of such an industry probably also reflects a strong underlying demand for real estate brokerage in Moscow.

It is less clear whether the industry will continue to broaden and assume a structure similar to the real estate industry in the United States, in which a large number of relatively small firms serve a single market.¹⁰ Much may depend on whether an MLS is created in the near future. Although an MLS can be used as a barrier to new firms entering the market, it also enables small firms to enjoy the same economies of scale in accessing information as large firms (Miceli 1988).

¹⁰ The U.S. industry is now becoming relatively more concentrated, for reasons that are not well understood but that may be related to increasing risks of litigation associated with real estate transactions (Nelson and Nelson 1988).

In Budapest, where an MLS is currently under development to serve a nascent real estate industry created by a privatization process with many parallels to Moscow's, the supporters of this development are the smaller firms, while the larger firms that were originally government creations and have built up databases of current listings and past sales prices are less interested (Struyk et al. 1992). In Moscow as well, some brokerage firms may be more interested in protecting their current competitive advantages stemming from privileged access to information, or from large size, than in participating in a formal system for sharing information.

Differential access to information and privileged access to listings through relationships with government entities are probably inevitable during the complicated economic transformation taking place in Russia. However, it is important to recognize the danger that a real estate brokerage industry with substantial entry barriers and other anticompetitive features could develop in Moscow. There is enough interest in an MLS that efforts to create one may occur relatively soon, but sponsors from within the industry would have strong reasons to attempt to restrict its membership. Government regulation to prevent such restriction might be essential (Yinger 1981).

On the other hand, government regulation of the real estate brokerage industry could bring other problems, especially if it is introduced too soon. While government licensing of real estate brokers can support a minimum quality of service and protect buyers and sellers of housing in other ways, there is as yet no basis for such licensing in Moscow. Until both good training programs related to quality of service and clearly articulated ethical standards are developed, licensing would simply be an invitation to capricious and corrupt bureaucratic behavior. Even more important, with an industry as diverse as real estate brokerage in Moscow, licensing on any basis could serve not simply to limit artificially the size of the industry, but also to exclude the very groups who could be most effective in broadening the information base on housing transactions—for example, people currently serving as illegal brokers for exchanges of apartments.

Furthermore, given the starting point of the real estate industry in Moscow, with a large role played by firms with close links to government and privileged access to listings and information, the danger that government regulation will be used to limit competition—rather than, for example, to make sure that there is open access to an MLS—is much greater than when such regulation was introduced in the United States. What may be

appropriate in these circumstances is gradual development of industry standards and practices through nongovernmental training programs, with a formal governmental role emerging later.

An MLS that restricts membership and licensing that stymies the development of a broad, competitive industry are possible developments, and dangers to be resisted, for the real estate brokerage industry in Moscow. However, another possibility is that very little formal industry organization will emerge. Despite much interest expressed by Moscow real estate brokers in creating common databases, it is quite possible that nothing resembling an MLS will be created for that city in the near future. The industry may be too diverse and, despite the creation of the All-Russian Guild of Realtors, too lacking in the institutional framework for cooperation to establish the bases needed for sharing information: agreements to honor exclusive listings and to split commissions on sales involving competing brokers on some predetermined basis. Furthermore, once an industry without cooperative institutions becomes firmly established, it may take many years to introduce the mechanisms of cooperation (Miceli 1988).

Given this possibility, it may be important not to think about the real estate brokerage industry in Moscow too narrowly in terms of the U.S. model, but to consider how best to organize and regulate an industry based on open listing contracts. Further examination of the experience of other countries that have no MLSs could be extremely useful. For example, are there other ways, besides an open MLS, to avoid the concentration of the industry in a few firms that entered the industry early, took advantage of special access to information, or both?

If Moscow does not develop an MLS, the related field of real estate appraisal could be even more important than in other places to the functioning of a market economy in housing. If buyers and sellers do not have the broadest possible access to each other, other means will be needed to help them—as well as other parties to the transaction, such as mortgage lenders—determine whether they are agreeing on a price that reflects the market.

Conclusion

Real estate brokers in Moscow play the same role they do elsewhere in facilitating transfers of housing units by providing

information that is difficult or costly for individual buyers and sellers to obtain. The real estate brokerage industry is just beginning to emerge and to become differentiated from older institutions, including both the governmental bodies that until recently enjoyed a monopoly on formal participation in the housing industry and the illegal brokerage industry for exchanges of apartments that existed outside the formal system.

This fragmented new industry reflects the diverse and rapidly changing housing market in Moscow, as private sales and rentals of housing emerge from the complex processes of privatization of the housing sector. Like many other Russian institutions in 1993, real estate brokerage reflects the beginnings of a market economy, but the exact shape that fully developed market institutions will take is both difficult to predict and, at least in part, a result of policy choices that will be made over the next year or two.

These choices include whether, to what extent, and—perhaps most critical—*when* the government should attempt to regulate the real estate brokerage industry. Premature attempts at regulation could discourage the development of a broad-based, competitive industry by restricting entry, even if licensing requirements are well intended and honestly administered. On the other hand, if trade associations begin to develop an MLS or other information base in a form that contains barriers to competition, the government may have to play a more active role in shaping these institutions. The international donor community providing technical advice should watch the ongoing development of real estate brokerage in Moscow, and the Russian Federation, with some care and above all avoid fostering developments that may appear attractive but in fact restrict the development of an open, competitive industry.

Authors

Jill Khadduri is Director of the Policy Development Division at the U.S. Department of Housing and Urban Development. Alexander Pusanov is a Research Associate at the Institute of Economic Forecasting of the Academy of Sciences of the Russian Federation.

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