

THE ARMENIAN REAL ESTATE ASSOCIATION (AREA)

A Feasibility Study For Establishment Of An Association Of Real Estate Professionals In Armenia

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I. EXECUTIVE SUMMARY

The current process of converting Armenia's economy to the market-oriented model requires a complete restructuring of some industries, one of which is the real estate industry, and the creation of new ones as well. Based upon an urgent need for reorganizing the existing housing management/ maintenance force, the project group proposed to organize a professional association to consolidate and coordinate activities of the industry, provide new members with proper management assistance, market analyses, and information support. Formation of a more organized market for such services in Armenia, and the promotion of high-quality housing maintenance, property management and real estate brokerage services: these were identified as the mission of the proposed Armenian Real Estate Association.

Because of several reasons, the primary interests of the project group were directed towards the housing management and maintenance industry. These reasons included:

- small businesses specializing in the area of management and maintenance will develop rapidly with the fast pace of privatization of state housing stock.;
- "ZSHEK"s (State housing maintenance organizations) are anticipated to be privatized soon, and this will lead to elimination of State subsidies, thus further contributing to the further decline of the housing stock;
- The property management industry will develop as the number of condominiums will increase in Armenia.

Based on the above, the project team decided to pursue the following: investigate the situation and assess feasibility for the creation of the Association; and ultimately, create the Association and register it.

The group also assumed the responsibility to recommend actions that will help the Association to operate independently, and identify sources of funds that would provide its self-sustainability and viability.

The project lasted for six months - from June to November 1994. In various phases of implementation, the project group faced some problems and challenges that could be classified as follows:

- The industry had not been investigated before, hence, the project group could not base their analysis on previous information, experience and knowledge.
- The idea of professional associations is uncommon for Armenia.
- Income levels of the population are extremely low in Armenia, and there was not enough effective demand for management and maintenance services.
- The population still considers “ZSHEK”s to be the only organizations to perform management and maintenance services of the housing stock, in other words “ZSHEK”s have a monopoly in the industry.

After data collection and analysis, along with market testing, the group came to following conclusions: the maintenance and service industry is in a premature stage today. Until now, all maintenance has been accomplished by the “ZSHEK”s which are not yet privatized. Under the conditions of extremely high costs for maintenance and repair, the population cannot afford these services, and so the effective demand for this private industry is very low.

Another finding related to the potential members of the Association. The individuals operating in housing management/maintenance industry have little experience, influence, and financial resources to support the Association.

Taking into account these findings, the group made the following strategic decisions:

1. To consider only legal entities as Association members.
2. To include brokerage firms, considering them as the core group within the Association. Management and maintenance firms would encourage to join the Association in the future as the industry emerges and develops.

AREA (Armenian Real Estate Association) was officially registered at Executive Committee of the Arabkir Regional Council of Deputies on November 10, 1994, with twenty two member firms, virtually all active brokerage firms in Yerevan. A Board of Directors has been elected and is actively managing the affairs of the Association.

This report includes recommendations for hiring a professional Executive Manager for the Association along with a staff and other specialists on a contractual basis, as necessary, to pick up where AUA students phase out as the interim staff. As for a marketing strategy, the AREA must establish an image of high-quality and reliability in the eyes of community. Since the Association is a non-profit organization, the profits it earns should be reinvested, for example, into the training and programs like the “Quick-match” information system and the “Info-Share Network” of AREA.

These recommendations are intended to help AREA operate independently and successfully as Armenia's private real estate industry develops.

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III. INTRODUCTION

Armenia is in the period of an unprecedented transition from a State-monopolistic structure to a free market economy. This process is impeded by political instability, a severely depressed economy, the blockade, and the war with Azerbaijan. The population suffers from unemployment, poverty, deteriorated infrastructure and energy crisis. In spite of all the above mentioned difficulties and challenges, Armenia continues to advance economic restructuring and the creation of a market-oriented economy. One of the important steps is the privatization of agricultural land, housing and selected industrial and commercial organizations.

The process of transition to a market economy is very complex and ambiguous. Several industries are dying while reality forces to establish new ones which meet the purposes of restructuring the economy. One such industry that has to develop in the nearest future is the one related to real estate. This industry includes real estate management, maintenance, service, brokerage, insurance, as well as some other services. Previously, 75% of housing stock was State-owned, but after adoption of the Law of the Republic of Armenia "On Privatization of the State and Public Housing Stock" in September, 1993, a significant part of housing stock is already privatized. The possible legal forms of housing stock are expected to be State/Public co-operative, single-family housing stock (all presently existing), and "condominium" which is a new concept for Armenia. After the privatization of residential units, new problems have occurred due to the resultant heterogeneous housing stock. The Government of Armenia is now preparing to move on to the privatization of not only housing stock, but also privatization of management and maintenance organizations. The current condition of residential housing stock is disastrous. In the past, maintenance expenses were covered by subsidies from the State

budget. Due to rapid price increases for construction materials and services, this budget has been depleted and the Government is now unable to execute basic required maintenance, further contributing to the deterioration of the housing stock.

Presently, the maintenance, utilization, and service of the housing stock is conducted by the State through “ZSHEK”s (State Housing Maintenance Organizations). The “ZSHEK”s implement, manage, and supervise utilization and servicing activities. That is, “ZSHEK”s act as client and contractor simultaneously. This, no doubt, leads to major inefficiencies and many inherent risks.

This system of state-owned housing management/maintenance organizations - “ZSHEK”s - is extremely inefficient due to the above-mentioned reasons, as well as poor financing and low quality standards. It is difficult to anticipate whether the new privatized “ZSHEK”s will become the remedy for the desperate situation with housing services in Armenia, and for the existing private sector, since it is weak and unprepared to operate in the environment of a free market.

To improve this situation, our project group proposed to accomplish a business project to reorganize existing housing management/maintenance force, to train and support it. In other words, the project group proposed to organize a professional association to consolidate and coordinate their activities, provide them with proper management assistance, market analysis, and information support. This Association, being a non-profit organization, would also promote their services, lobby the Government on behalf of the members of the Association, and provide training programs to increase awareness of new trends in real estate industry. The proposed Association initially was suggested to be called Housing Management/Maintenance Association - HMA. This idea was presented in the business proposal submitted to ICMA in June, 1994.

The project has been accomplished in six months - from June to November 1994, as it was planned initially. While some stages of the project were accomplished strictly according to the initial plan, some other stages had to be changed and adjusted to the existing conditions. One of the global changes was the types of specialists who were targeted to become Association members: a decision was made to include into the Association, besides management and maintenance specialists, also brokerage and other firms involved in areas related to real estate. So, the Association changed its strategy, its form, and naturally its name: it became Armenian Real Estate Association (AREA).

There were certain obstacles that the group had to overcome during the implementation of the project. Some of them are listed below:

- The industry had not been investigated before, hence, the project group could not count on previous information, experience and knowledge.
- The idea of professional associations was not common for Armenia, and the market was not ready for it.
- Income levels of the population are extremely low in Armenia and there is not enough effective demand for management and maintenance services.
- The population still considers “ZSHEK”s to be the only organizations to do management and maintenance services of housing stock; in other words, “ZSHEK”s have a monopoly in the industry.

Geographically, the scope of the project intended to mainly involve the companies and individuals from Yerevan, primarily because of the difficulties related with communication to other parts of the Republic. However, the group is already considering expanding the Association, so that in the future it will also include members from other regions of

Armenia. Real estate companies from Vanadzor, Giumry and Abovian have expressed their intention to join AREA.

This report consists of several sections, that describe the steps the project group undertook to investigate the situation, the methodology it used to collect necessary data and to accomplish the feasibility analysis. Then the report describes conclusions the group has made on the basis of the feasibility analysis, alternative actions and recommendations for management, and implementation plan for the Association.

IV. METHODOLOGY

A. *Project Objectives*

Based on the needs and problems stated above, the main objectives of the project team were the following:

1. Investigate the situation and assess feasibility for the creation of the Housing Management/Maintenance Association.
2. Depending on the results of feasibility analysis, find alternative ways for the creation of the Association;
3. Assess the alternatives;
4. Find the best alternative to create the Association and to register it; and
5. Recommend actions that will help the Association to operate independently, and identify potential sources of funds that would provide its self-sustainability and viability.

To meet these objectives the group needed primary data on the attitudes of specialists working in management and maintenance areas (since these were the areas of primary focus of the project group), and ultimately in all areas related to real estate, to find out if the concept of the Association was feasible and realistic under the current conditions. The group also needed secondary data, Government regulations, laws of the Republic of Armenia on privatization, private property, drafts of the law on condominiums and status on privatization of “ZSHEK”s, and so on.

B. Data Sources

To find out the approximate number of people specializing in the areas related to housing management and maintenance who will to join the Association, the project group needed data on the individuals and firms that might be interested in creation of a professional association, and who might be willing to devote their efforts and funds to maintain it.

The project group identified the following sources for potential association members: management and maintenance staff of foreign offices and embassies in Armenia; staff of "ZSHEK"s; private maintenance firms and individuals specializing in this industry.

One of the potential sources was also the list of managers and contractors who participated in the Condominium Workshop organized by ICMA/USAID in November 1993, at the American University of Armenia. Another source of potential members was considered to be the list of candidates who participated in the contest for the position of the manager of "Triangle" demonstration Condominium.

C. Data Collection

To collect necessary data, the project group used the method of personal and telephone interviews. The group contacted people who work in the areas related to real estate - mainly management and maintenance - and introduced the idea and possible benefits of being Association members. The interviews were unstructured, and direct:

i.e. the group did not use special questionnaires for interviews, but simply asked people about their attitudes towards the idea of creation of the HMA, and the purpose of the interviews was explained to respondents. About 50 people have been interviewed.

The project group also interviewed some officials from the Executive Committee of the Yerevan City Council, to find out if they support the idea of the project.

D. Data Analysis

The attitudes towards the idea were generally not optimistic, both among the people specializing in the industry and among Yerevan city officials. The Department of Utilization of Buildings and Constructions considered this idea to be innovative, but at the same time mentioned that there were no conditions for its viability; in other words, it was premature. Their opinion was that this can work only after the privatization of “ZSHEK”s.

Analysis of the gathered data showed that 42 from 50 or 84 percent of interviewed respondents, were not very enthusiastic about joining the Association, since they did not see the benefits of it, and only 8 of them expressed interest in the idea.

E. Testing the Market

Analyzing all the information that was collected during the investigation process, the group decided, however, not to rely on the gathered data only, since there might be some bias here: even people who showed favorable attitudes towards the Association during the first contact might not necessarily agree to become its members, and to the contrary, people who were not interviewed might express the desire to join the Association.

To have more reliable information on the number of people who really agree to become Association members, the project group decided to organize a series of work sessions and meetings to introduce the idea of the Association, and to attract people to these meetings

it launched an advertising campaign. The regular announcements made by radio and in major newspapers, such as "Hayastani Hanrapetutiun", "Azg", and "Yerkir", invited all specialists and firms who work in the industry of housing management and maintenance to informative meetings, during which the idea of the Association would be introduced. The first meeting took place on August 16, 1994, followed by several other meetings and work sessions.

V. FINDINGS

A. *Market condition*

After data collection and analysis, along with market testing, the group concluded that the private housing maintenance and service industry is premature. All maintenance has been accomplished by the "ZSHEK"s until now which are not yet privatized. Under the conditions of extremely high costs for maintenance and repair, the population cannot afford these services, so the effective demand for this industry is very low. While in the public sector there are managers, few are familiar with the main ideas and concepts of real estate management. The only real estate manager who desired to join the Association was the manager of "Triangle" demonstration condominium. Meetings with interested individuals revealed that they are not ready to contribute to the Association, rather, they expected to get some benefit from being members of the Association, mostly, they hoped to get job contracts with the help of the Association, or engage in do some business in which they had not been successful individually. This conclusion was supported by the passive behavior of the members of the "initiative group" (mainly specialists of the housing maintenance industry - employees of "ZSHEK"s) who were waiting to get all direction (programs, budgets and by-laws) from the project group without showing any particular interest in the future of the Association.

Another finding related to the entities that could be potential members of the Association. Since individuals operating in housing management/maintenance industry have little experience, influence, and financial resources to support the Association, it should pursue companies and firms, i.e. legal entities, as opposed to individuals.

B. Feasibility Assessment

Thus, the project group came to the conclusion that the following factors make the creation of the Housing Management/Maintenance Association unfeasible at this time:

- Immature management/maintenance market;
- Lack of legislative basis (particularly: Laws on Condominiums, on Urban Land and on Land Cadastre, status on privatization of “ZSHEK”s, etc.).
- Monopoly of State-owned “ZSHEK”s in the area of management and maintenance;
- Weak and unprofitable private management and maintenance companies; and
- Low income level of population (according to the World Bank Report, 1993, on the economic condition of Armenia, more than 90 percent of households have monthly income of less than \$1 per family member).

Lack of a legislative basis is probably a principle impediment for creation of Housing Management/Maintenance Association. The Law about Condominiums is not approved yet, and housing privatization is has not completed. Additionally, since the income levels of the population are very low, and people can afford only a minimum scope of housing maintenance or repairs, specialists working in these areas do not have very active

businesses and high profits. Therefore, they would have difficulty providing enough membership fee base for the Association to be self-sustainable and viable. This means that the idea of the Association is not feasible in the initially proposed concept, i.e. including only specialists and firms in the area of property management and maintenance.

C. *Project Adjustment*

Taking into account all the above-mentioned factors, the group arrived logically to the decision of expanding the scope of the project and involving all the organizations involved on the real estate market. The initial contacts with firms working in real estate brokerage, especially with the top management of the Yerevan Real Estate and Stock Exchange, revealed the best potential for members of the Association. The brokers have become the core of the Association, as there is already an active market of buying and selling real estate in Yerevan, primarily privatized residential units. The name of the Association has been changed accordingly to Armenian Real Estate Association (AREA).

VI. CONCLUSIONS

A. *Evaluation of Results*

A very important result of the project is that the existing real estate market in Armenia has been investigated and feasibility analysis of creation of the Association has been conducted in two different areas - housing management/maintenance and real estate brokerage. The conclusion have been made about unfeasibility of creation of housing management and maintenance association under the present conditions. On the other hand, the market conditions for real estate brokerage association were favorable, and the decision was made to proceed with establishment of the latter.

As a result of the business project, the **Armenian Real Estate Association (AREA)** was created and registered. The Charter of the Association determines the following initial programs for the Association:

- real estate appraisal;
- information exchange;
- training program;
- publication program;
- communication with other national associations of Realtors.

Until now, there is no adopted real estate appraisal methodology and the prices are established with inconsistent criteria. The development of a real estate appraisal program is very important and urgent for establishing fair real estate prices, and will also serve as a source of income generation and self-sustainability of the Association. The members of the Association have already developed some methodology and are ready for introducing them to the Government.

The results of the Association's establishment will play a significant role for the real estate industry of Armenia. Creation of the Real Estate Association will assist development of a civilized real estate market and contribute to the whole real estate industry. Cooperation with national associations of other countries will help to generate new ideas, to organize useful and innovative programs in Armenia, and to avoid possible mistakes. It will be extremely useful for the Association members to participate in training programs where real estate experts will lecture on the real estate problems and issues. Publication of information bulletins and newspapers will assist in increasing public awareness of the real estate market and in establishing fair prices for real estate.

In order to establish cooperation with similar foreign and international associations the project group made a presentation for the representatives from USAID and ICMA, Washington, who visited Armenia in October, 1994. Recently the group received a copy of the letter from Barry Veret, Housing Project Officer, USAID/W to Allan Decker, Eastern European Real Property Foundation (EERPF), that refers to AREA and suggests possible cooperation between the latter and EERPF (see Appendix B).

For the purpose of public awareness and to announce the official establishment of the Armenian Real Estate Association, the group is organizing official reception with participation of Government officials, representatives from different international organizations, press and TV, to be held on November 12, 1994, at the American University of Armenia.

The group also made an announcement about official bidding for the position of the Executive Manager of AREA. The job description and the application form developed by the group, are presented in Appendix C.

B. Meeting Objectives

The objectives of the project were the following:

- to conduct a feasibility study for creation of a professional association in the real estate sphere;
- to create a real estate association if the conditions are favorable for this;
- to play the role of the interim management team for the association during the first several months;
- to help establish of the association programs;
- to create a marketing and financial plans for the Association for the first year;

Evaluation of the project shows that the majority of these objectives have been met. The project group assessed the feasibility of creation of Housing Management/Maintenance Association and came to the conclusion that the market was not ready for this idea. Therefore, the group decided to include into the Association the real estate brokerage industry which is more mature and accepted the idea more willingly. The analysis even showed that brokers had made several attempts to coordinate their activities and to accomplish some of the programs which later were included into the Charter of the Association.

The project group acted as an interim staff for the Association until the permanent staff is hired. It helped the Association members to develop their Charter, to register and to design the final version of the programs that the Association intends to establish. The group members also helped the Association to elect a Board of Directors, its president and vice-presidents, to organize and coordinate their activities, to prepare budgets and a marketing plan. The group also assisted in development of the programs and their

fulfillment. For instance, one of the programs of the Association is to organize an information exchange between the Association members on the conditions of the real estate market. The project group collaborated with a computer/ statistics specialist who had already developed a program of information processing and analysis, and who will assist the Association to develop its own information exchange program and data processing.

C. *Lessons Learned*

The project revealed the following facts about the condition of the real estate market:

1. The real estate management and maintenance market was immature and was not ready for the creation of the Housing Management/Maintenance Association. The management and maintenance industry does not have the demand in the current conditions where people cannot afford to pay for proper maintenance of their housing. Consequently, the management and maintenance industry is not well developed, and people working in this area are not interested in creating a professional association. Even if this Association was created, it would not be self-sustainable and its members would be require for external sources of funding.
2. It is not reasonable to create an association under the above mentioned conditions. The idea of the association suggests that people want to unify their activities to reach greater results than it was possible for independent individuals. The management and maintenance industry was not ready for this idea and the project would not succeed if the emphasize continued to be only on this aspect of the real estate industry.

VII. ALTERNATIVE ACTIONS, WITH ASSOCIATED COSTS

A. *Possible Management Actions*

The Armenian Real Estate Association will include legal entities involved in all areas related to real estate. In the future, new associations may form AREA, more specific to professional interests. The highest body of the Association is the General Membership, with a forum held periodically, which elects Board of Directors. The Board of Directors, in turn, will hire an Executive Manager by open competition who will act on behalf of the Association and execute the policies defined by the Association and its Board of Directors. He will accomplish day-to-day operations, make administrative and financial decisions, report to and be supervised by his superior - the Board of Directors¹.

The following management actions are possible for the Association:

1. **Fixed Costs:** Under the “Fixed Costs” approach, the Association hires permanent specialists for day-to-day operations, such as accountants, lawyers, designers, programmers, and so on. These specialists will provide their services to the members of the Association.

¹ See Chapter VII, Paragraph C and Exhibit I for the organizational structure and the organizational chart of the Association.

2. **Variable Costs:** Under the “Variable Costs” approach, the Association retains specialists-contractors, i.e. only for a limited period or for a special project, and not permanently.
3. **Combination Of Fixed Costs With Variable Costs:** Under this approach the Association hires some of the specialists permanently, and some other specialists by temporary contracts. For instance, the Association has a permanent accountant and a programmer, but if it needs services of a lawyer it turns to a practicing lawyer for consultation.

B. Associated Costs

The costs associated with the above mentioned management arrangements are presented in Appendix A. The Executive Manager and the secretary shall be permanent staff under any version.

C. Comparative Analysis

The tables presented in Appendix A indicate that the “Fixed Costs” version is least attractive, since it requires the highest salary expenses. Besides this, there may be no enough workload for an accountant, a lawyer, a designer, etc. On the other hand, it is anticipated that the programmer will have enough work load. Therefore, it is more desirable to have a permanent programmer. At the same time, it may be more desirable to have a permanent accountant than to hire him or her on a temporary contract. This leads to the conclusion that the most optimal approach is a “Combination of Fixed Costs with Variable Costs”.

VIII. RECOMMENDATIONS

The group suggested and implemented the establishment of the Armenian Real Estate Association. The next step was to decide the management, marketing and fiscal policy of the Association.

A. Management

In the previous section we recommended a combined method of hiring the employees and contractual consultants for management of the Association: combination of “fixed costs” with “variable costs”.

The Executive Manager of administration should have a strong leadership style, since much of the success of the Association depends on the manager. He/she will hire a small group, a high-quality professional staff, who will carry on day-to-day operations. Very strong commitment and participation of the administrative staff is the key to accomplishing the main objectives of the Association. The job description is presented in Appendix C.

B. Marketing

The idea of a professional Association is a new concept in Armenia, and it is extremely important that the community would aware of and acknowledge the role the Association can play for the Country. That is why promotion of this idea becomes a vital part of the activities of the Association.

One of the major objectives of the Association is to provide high-quality services to the community, related to real estate. The Association should promote this image of high-

quality and professionalism. When the Association establishes itself and people acknowledge its good image and reliability, all Association members will benefit as well in their private businesses.

One of the most significant programs of the Association is to develop and implement a real estate appraisal methodology. This program of appraisal is vitally important both for the Government of Armenia (GOA) and for the population, because it will promote setting real prices for real estate, thus, increasing effectiveness of the real estate market, generate revenue for the GOA, create an external source of funding for the Association, and provide appraisal services for all participants in the real estate market (buyers, sellers, insurance agents, the Government, etc.). Therefore, it is important that this program will be aggressively promoted to the community. Another very important program is the “information-sharing system” for firms and individuals operating in the real estate market. This system will provide a so called “Quick-match” - search of necessary information on the real estate market. “Quick-match” will be beneficial both for sellers and for buyers, and its intensive promotion is also very desirable.

The Association members will have their Code of Ethics, and should develop their norms and rules, which will be mandatory for every member of the Association. This can greatly assist the creation of the image of reliability of the Association.

C. *Fiscal Policy*

It is not a secret that Armenia does not have a well-developed, proper system of financial institutions, that would provide credit and insurance services to the Association and to the community as well. Therefore, the fiscal policy of the Association should be organized so that profits it might earn be reinvested wisely. An example can be short-term reliable

IX. IMPLEMENTATION PLAN AND COSTS

Government bonds, if available. Another option is to reinvest these funds into the appraisal program or the "Quick-match" information system of the Association.

A. Major Objectives of the Association

Approved in 1974, the plan for the Association and the Association's objectives are as follows:

1. To provide a national network of appraisers and appraisers-in-training.

APPRAISERS

1. To provide a national network of appraisers and appraisers-in-training.

2. To provide a national network of appraisers and appraisers-in-training.

3. To provide a national network of appraisers and appraisers-in-training.

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14. To provide a national network of appraisers and appraisers-in-training.

15. To provide a national network of appraisers and appraisers-in-training.

IX. IMPLEMENTATION PLAN AND COSTS

A. *Main Objectives of the Association*

As a result of the business project, the Armenian Real Estate Association was created and registered. The Charter of the Association determines the following programs for the Association:

- to create and form a civilized real estate market;
- to provide the community with high-quality services related to real estate;
- to provide the Association members with information on the real estate market;
- to develop and implement a method for real estate appraisal;
- to organize training programs and seminars for the Association members;
- to create mechanisms for effective relationships between condominium associations and real estate service organizations;
- to lobby the government on behalf of the Association members;
- to provide the Association members with legal, accounting, technical and other support;
- to organize advertising campaigns on behalf of the Association members.

Accomplishment of these objectives will play a significant role for the real estate industry of Armenia. Creation of the Real Estate Association will assist development of a civilized real estate market and to development of the whole real estate industry. Cooperation with national associations of other countries will help to generate new ideas, to organize useful and

innovative programs in Armenia, and to avoid possible common mistakes. It will be extremely useful for the Association members to participate in training programs where real estate experts will lecture on the real estate problems and issues. Publication of information bulletins and newspapers will assist in increasing of public awareness on the situation of the real estate market and in establishing fair prices for real estate.

B. Organizational Structure of the Association

The highest body of the Association is the General Membership. The elected Board of Directors will hire an Executive Manager by open competition who will accomplish day-to-day operations, make administrative and financial decisions, report to and be supervised by his superior - the Board of Directors. He also may hire specialists for everyday needs if necessary. The subordinates of the Executive Manager will be professionals responsible for administrative and financial services, marketing, public relations, and information services, publication services, training programs, and other services for the members of the Association. Depending on the decision of the Association, the special committees, composed of the members of the Association, can be formed to assist in its management.

C. Work Plan and Budget

By the decision of the Board of Directors, the interim management of AREA were requested to prepare a workplan and budget for AREA covering the period from November 1, 1994 to October 31, 1995. The project group, acting as the interim management staff, prepared the draft workplan and budget that will be fully discussed, amended as necessary and approved by the Board of Directors.

In order to fulfill the objectives of AREA the group identified the following tasks that should be carried out during the first year of operations:

Task 1: Develop and implement a method for real estate appraisal.

Purpose: Currently used real estate appraisal methods in Armenia were developed by the Soviet Government within a central planning economy and accounts mainly for cost of construction. As a result, it gives unrealistic values, significantly differing from market prices. Development and implementation of a new methodology, which will realistically reflect the market value of real estate is very important for the GOA and the real estate industry to get accurate market data and provide fair revenues for the GOA. Thus, by performing this task, AREA intends to increase the effectiveness of the real estate market, result in balanced, fair revenues for the GOA, and create an external source of funding for itself by selling the methodology and providing appraisal services for the participants of the real estate market.

Duration: 3 months.

Commencement: November 1994

Task 2: Create an integrated real estate database.

Purpose: Currently, each brokerage company has a separate computer data file and only a small part of the existing information regarding the entire real estate market and services are available to a company and its customers. Combining all the separate computer data files into one global database will benefit each brokerage company as well as its customers. The computer will make all the information available to the all customers and speed up services. Additionally, the integrated database will be appropriate tool for statistical and market analysis. It will also generate income for the Association.

Duration: 6 months.

Commencement: January 1995.

Task 3: Conduct two seminars for the members of AREA.

Purpose: Companies operating in the real estate industry lack the necessary knowledge and skills to operate in market conditions. They need to increase their awareness in a market economy, learn from experiences of similar companies and associations in the West, and improve their business administration skills. Thus AREA will organize two seminars: one of which will be devoted to the business training and basics in a market economy, while the second will give an opportunity to AREA members to talk with the representatives of Western real estate companies and/or associations to get acquainted with the real estate industry in the West.

Duration: 3 days each.

Commencement: April, 1995 and September, 1995.

Task 4: Lobbying the GOA on the taxation of real estate transactions

Purpose: The existing taxation system in real estate industry is very unfavorable for business activities. The 10% transfer tax on each real estate transaction with mandatory notary approval forces the brokerage companies and individuals to hide the real prices of transactions and to evade taxation. The companies operating in the market are convinced that the reduction of the tax rates would reveal true prices and ultimately increase the total amount of taxes paid.

Duration: 9 months.

Commencement: December 1994.

Task 5: Issuing the Information Bulletin

Purpose: To provide Association members and the community with reliable information on the real estate market. This bulletin is planned to be source of income. This will include the results of statistical processing of data from an integrated database (see Task 2).

Duration: 3 months each.

Commencement: February, 1995 with regular publication

Task 6: Organizing Advertising Campaigns

Purpose: To promote the image of the Association and its members, as well as the programs that should be accomplished (such as real estate appraisal) and services provided by the Association.

Duration: 12 months.

Commencement: January 1995

Budgets for the first year of operation of AREA are presented in Appendix D.

X. EXHIBITS

Exhibit 1. Organizational Chart of the Association.

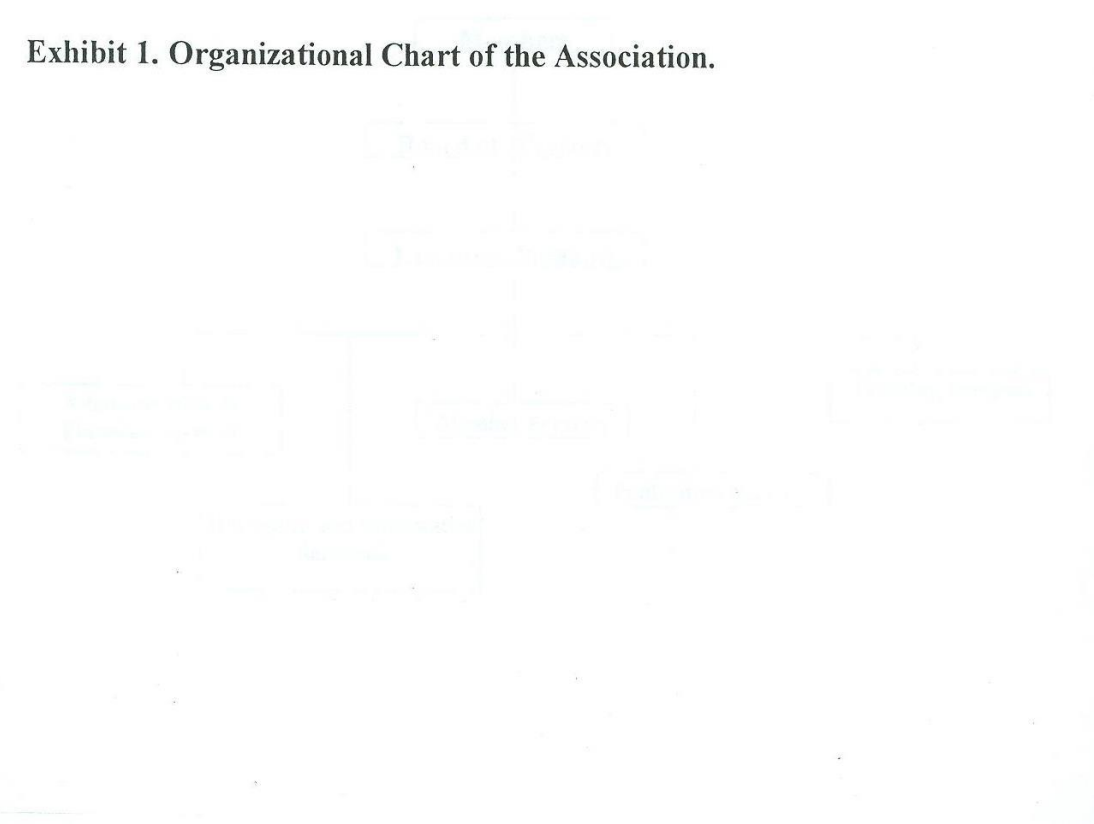
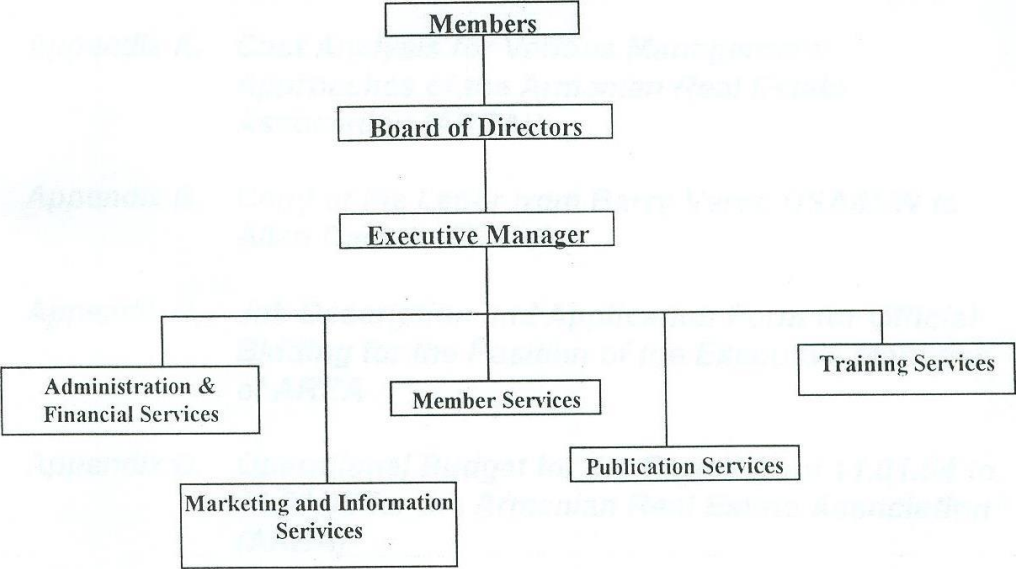


Exhibit 1. Organizational Chart of the Association



XI. APPENDICES

- Appendix A. *Cost Analysis for Various Management Approaches of the Armenian Real Estate Association (AREA)***
- Appendix B. *Copy of the Letter from Barry Veret, USAID/W to Allan Decker, EERPF***
- Appendix C. *Job Description and Application Form for Official Bidding for the Position of the Executive Manager of AREA***
- Appendix D. *Operational Budget for the Period from 11.01.94 to 11.01.95 for the Armenian Real Estate Association (AREA)***

Appendix A. Cost Analysis for Management Approaches for the Armenian Real Estate Association

1. For the “Fixed Costs” version:

Specialist	Monthly Salary (in US dollars)
Fixed Costs:	
Manager	350
Accountant	100
Lawyer	200
Programmer	150
Marketing Specialist	150
Secretary	50
Total Fixed Costs:	\$1,000
Total Management Costs:	\$1,000

2. For the "Variable Costs" version:

Specialist	Monthly Salary or a Total Monthly Sum for Services Provided (in US dollars)
Fixed Costs:	
Manager	\$350
Secretary	\$50
<hr/>	
Total Fixed Costs:	\$400
Variable Costs:	
Accountant	\$350
Lawyer	\$50
Programmer	\$800
Marketing Specialist	\$1,200
<hr/>	
Total Variable Costs	\$2,400
Total Management Costs	\$2,800

3. Optimal Combination Of Fixed And Variable Costs:

Specialist	Monthly Salary or a Total Monthly Sum for Services Provided (in US dollars)
Fixed Costs:	
Manager	\$350
Accountant	\$100
Programmer	\$150
Marketing Specialist	\$150
Secretary	\$50
Total Fixed Costs	\$800
Variable Costs:	
Lawyer	\$50
Total Variable Costs	\$50
Total Management Costs	\$850

M E M O R A N D U M

TO: Allan Decker, EERPF
FROM: Barry Veret, USAID *[Signature]*
RE: Armenia
DATE: October 19, 1994

Allan: I returned last week from a TDY to Armenia and have a lead on a possible role for EERPF I'd like to explore with you. The ICMA resident advisor in Yerevan, Steve Anlian, has been working with a group of business school students at the American University who are organizing the Armenian private sector real estate brokers into an association. We had a briefing by the students, who spoke excellent English, and were the very model of a modern MBA general (to paraphrase Gilbert and Sullivan). The night I left town there was scheduled the organizational meeting of the association with the real live brokers to be present and accounted for (I think some 25 firms or individuals.)

Of course, the key to this is a reality check on the brokers themselves, their interest, what's going on in the real world, etc. My impression overall, however, is that there is a fair degree of sophistication in Armenia (say, compared with Ukraine) and this might just be an interesting place to do some modest EERPF work. I like the connection with the American University as well, which could even at some point give us a link into a real estate center possibility. In any event it represents an institutions which probably can quickly understand what we are talking about.

I will ask Steve Anlian to give us an update on the association's founding meeting. Then I'd like you to get in touch with him and try to schedule a visit there for yourself or one of your gang to do some exploratory work with the association.

For now, I don't see this as a major commitment for EERPF, so don't get too nervous. It would be worth it, however, to look into what they are doing and perhaps give them some help down the line. Maybe you have some Armenian-American NAR types who would be interested.

I may miss you on your return, since I'll be on TDY in Central Asia. Feel free to contact Steve Anlian (copy of his letter attached.)

cc w/att. Dave Olinger
Dianne Tsitsos

Appendix C. Job Description and Application Form for Official Bidding for the Position of the Executive Manager of AREA

ԱՆՀԱՐԺ ԳՈՒՅՔԻ ՀԱՅԱՍՏԱՆԻ ԱՍՈՑԻԱՑԻԱՅԻ ԿԱՌԱՎԱՐՄԱՆ ՄԻՅՈՒՅԹ

Ներածություն

Անշարժ Գույքի Հայաստանի Ասոցիացիան հիմնադրվել է 1994 թ. հոկտեմբերի 6-ին, որպես անշարժ գույքի ոլորտում գործող կազմակերպությունների միություն, նպատակ ունենալով.

- Ստեղծել Հայաստանի Հանրապետության տարածքում անշարժ գույքի առ ու վաճառքի, շահագործման և կառավարման քաղաքակիրթ և արդյունավետ շուկա, ապահովել ծառայությունների բարձր որակ և վստահելիություն;
- Ասոցիացիայի անդամներին ապահովել անշարժ գույքի հետ առնչվող շուկայի մասին ինֆորմացիայով;
- Մշակել և կիրառել անշարժ գույքի գնահատման մեթոդիկա;
- Կազմակերպել ուսումնական ծրագրեր և սեմինարներ՝ Ասոցիացիայի անդամների համար;
- Ստեղծել կոնդոմինիումների անդամների և անշարժ գույքի սպասարկման կազմակերպությունների միջև փոխշահավետ հարաբերությունների մեխանիզմներ;
- Պաշտպանել Ասոցիացիայի անդամների շահերը կառավարական տարբեր մարմիններում;
- Ապահովել Ասոցիացիայի անդամներին իրավաբանական, հաշվապահական, տեխնիկական և այլ օգնությամբ;
- Կազմակերպել գովազդային գործունեություն ի օգուտ Ասոցիացիայի անդամների:

Ասոցիացիայի կառավարչի պարտականությունները

Ասոցիացիան իր ամենօրյա գործունեությունը կատարելու համար վարձում է կառավարիչ, որն ունի հետևյալ պարտականությունները.

- Ապահովել Ասոցիացիայի ամենօրյա գործունեությունը՝ Ասոցիացիայի նպատակները իրականացնելու համար;
- Պատրաստել Ասոցիացիայի բյուջեն և այն ներկայացնել Տնօրենների խորհրդի հաստատմանը;
- Ասոցիացիայի անունից հանդես գալ կառավարական տարբեր մարմիններում, բանակցություններ վարել և կնքել պայմանագրեր;
- Վարձել աշխատակազմ՝ համաձայն Տնօրենների խորհրդի կողմից հաստատված հաստիքային ցուցակի;
- Լինել առաջնորդ, կազմակերպել աշխատակազմի արդյունավետ աշխատանքը, ստեղծել բարենպաստ աշխատանքային պայմանները, ժամանակին վճարել աշխատավարձը;
- Մշակել ծրագրեր Ասոցիացիայի գործունեության վերաբերյալ և ներկայացնել այն Տնօրենների խորհրդին՝ հաստատման համար;

- Տնօրինել Ասոցիացիայի գույքը և ֆինանսական միջոցները, ապահովել ծրագրերի կատարումը՝ հաստատված բյուջեի սահմաններում;

Ասոցիացիայի կառավարիչը հաշվետու է իր գործունեության համար Տնօրենների խորհրդին և Ասոցիացիայի անդամների ընդհանուր ժողովին:

Ասոցիացիայի կառավարիչը Ասոցիացիայի գործունեության համար պատասխանատու է դատարանում և արբիտրաժում:

Ասոցիացիայի կառավարչի պաշտոնի մրցույթի դիմորդներին ներկայացվող պահանջները.

Ասոցիացիայի կառավարչի պաշտոնի մրցույթի դիմորդները պետք է ունենան կազմակերպությունների ղեկավարման փորձ, գործարար ղեկավարման և շուկայական տնտեսագիտական խորը գիտելիքներ:

Անգլերեն լեզվի տիրապետումը և անշարժ գույքի բնագավառում գիտելիքները ցանկալի են:

ՄՐՅՈՒՅԹԻՆ ՄԱՍՆԱԿՑԵԼՈՒ ՀԱՅՏ

Բոլոր հայտերը պետք է ներկայացված լինեն այս ձևի համաձայն մինչև 1994թ. նոյեմբերի 20-ը, ժամը 17:00, Երևան, Նաիրի Չարյան 22 հասցեով, 5-րդ հարկ, ընդունարան:

Խնդրվում է տալ հնարավորին չափ սպառիչ պատասխաններ:

Եթե տեղը չբավականացնի, կարող եք ավելացնել լրացուցիչ նույն չափսի քերթիկներ:

Խնդրվում է գրել ընթերցման ձեռագրով կամ տպել տպագրական մեքենայով:

Խնդրվում է հայտը լրացնելուց առաջ աչքի անցկացնել բոլոր կցված փաստաթղթերը:

1. Անուն, ազգանուն _____
2. Ծննդյան փիվ _____
3. Հասցե, հեռախոս _____
4. Աշխատանքային գործունեությունը (Ստորև բերված աղյուսակում նշեք վերջին երեք տարիների ընթացքում Ձեր աշխատանքային գործունեության վերաբերյալ տվյալներ՝ հետադարձ կարգով):

Աշխատանքի ժամկետները (ամիս, տարի) _____
Պաշտոնի անվանումը _____
Չեռնարկության անվանումը և հասցեն _____
Անմիջական ղեկավարի անունը և պաշտոնը _____
Պարտականությունների նկարագիրը _____ _____ _____

Աշխատանքի ժամկետները (ամիս, տարի) _____

Պաշտոնի անվանումը _____

Չեռնարկության անվանումը և հասցեն

Անմիջական ղեկավարի անունը և պաշտոնը

Պարտականությունների նկարագիրը

Աշխատանքի ժամկետները (ամիս, տարի) _____

Պաշտոնի անվանումը _____

Չեռնարկության անվանումը և հասցեն

Անմիջական ղեկավարի անունը և պաշտոնը

Պարտականությունների նկարագիրը

5. Կրթությունը (հետադարձ կարգով)

ա. ուսումնական հաստատությունը _____
ձեռք բերած մասնագիտությունը /կոչումը _____

բ. ուսումնական հաստատությունը _____
ձեռք բերած մասնագիտությունը /կոչումը _____

գ. ուսումնական հաստատությունը _____
ձեռք բերած մասնագիտությունը /կոչումը _____

6. Նկարագրեք կոմպյուտերի հետ աշխատելու Ձեր փորձը (Ինչպիսի ծրագրային ապահովման հետ եք աշխատել և որքան ժամանակ):

7. Որքանով եք ծանոթ անշարժ գույքի շուկային, կառավարման և շահագործման բնագավառին

8. Ինչպիսի ամսեկան վճարի դեպքում, դուք նպատակահարմար եք գտնում ապահովել տվյալ պայմանագրով նախատեսված աշխատանքները

9. Ներկայացրեք խնդրեմ նախկինում Ձեզ հետ գործնական հարաբերությունների մեջ եղած 2 իրավաբանական կամ ֆիզիկական անձերի անունը, հասցեն և հեռախոսը, որոնց մեք կարող ենք դիմել Ձեր մասին տեղեկություններ ստանալու համար:

10. Ձեր կարծիքը Հայաստանում անշարժ գույքի շուկայի կառավարման և շահագործման մասին, բարելավման ինչպիսի ուղիներ եք տեսնում

Իմ ստորագրությունով վստահեցնում եմ, որ վերոհիշյալ տեղեկությունները կեղծիք չեն պարունակում:

ստորագրություն

անուն, ազգանուն

1994թ.

Association (AREA)

AREA

Budget for the period from Nov. 1.1994 to Oct. 31.1995

	Nov.Dec.Jan.	Feb.Mar.Apr.	May.Jun.Jul.	Aug.Sep.Oct.	Total
REVENUES:					
<i>Revenue</i>					
Appraisal methodology	\$0	\$250	\$2,200	\$500	\$2,950
Informational service	\$0	\$100	\$500	\$1,000	\$1,600
Accounting service	\$200	\$400	\$500	\$700	\$1,800
Legal service	\$50	\$150	\$200	\$200	\$600
Publications	\$0	\$120	\$180	\$240	\$540
Membership fees	\$750	\$900	\$1,200	\$1,500	\$4,350
Entrance fees	\$1,250	\$450	\$500	\$500	\$2,700
Sponsor's contributions	\$1,050	\$1,050	\$1,050	\$1,050	\$4,200
Total revenue	\$3,300	\$3,420	\$6,330	\$5,690	\$18,740
COSTS:					
<i>Office setup costs</i>					
Computer	\$1,400	\$0	\$0	\$0	\$1,400
UPS	\$80	\$0	\$0	\$0	\$80
Printer	\$150	\$0	\$0	\$0	\$150
<i>Furniture:</i>					
Desks	\$200	\$0	\$0	\$0	\$200
Chairs	\$120	\$0	\$0	\$0	\$120
File cabinet	\$80	\$0	\$0	\$0	\$80
Kerosene heater	\$50	\$0	\$0	\$0	\$50
Total office setup costs	\$2,080	\$0	\$0	\$0	\$2,080

Budget for the period from Nov. 1.1994 to Oct. 31.1995 (continued)

Fixed costs					
Office rent	\$300	\$300	\$300	\$300	\$1,200
Salaries					
Executive manager		\$1,050	\$1,050	\$1,050	\$4,200
Accountant	\$300	\$300	\$300	\$300	\$1,200
Programmer	\$450	\$450	\$450	\$450	\$1,800
Secretary	\$150	\$150	\$150	\$150	\$600
Marketing specialist	\$450	\$450	\$450	\$450	\$1,800
Office supplies	\$60	\$60	\$60	\$60	\$240
Advertising	\$300	\$300	\$300	\$300	\$1,200
Communication	\$30	\$30	\$30	\$30	\$120
Transportation	\$45	\$45	\$45	\$45	\$180
Other administrative	\$45	\$45	\$45	\$45	\$180
Total fixed costs	\$3,180	\$3,180	\$3,180	\$3,180	\$12,720
Variable costs					
Legal services	\$15	\$45	\$60	\$60	\$180
Seminar organizational					
Room, equipment rent	\$0	\$50	\$0	\$0	\$100
Printed materials	\$0	\$25	\$0	\$0	\$50
Translation, editing	\$0	\$150	\$0	\$0	\$300
Publishing	\$0	\$400	\$0	\$0	\$800
Miscellaneous	\$0	\$20	\$0	\$0	\$40
Publications					
Paper	\$0	\$80	\$0	\$0	\$160
Printing	\$0	\$400	\$0	\$0	\$800
Other variable costs	\$0	\$25	\$0	\$0	\$50
Total variable cost	\$15	\$1,195	\$60	\$60	\$2,480
Total cost	\$5,275	\$4,375	\$3,240	\$4,390	\$17,280
Cash surplus/shortfall	(\$1,975)	(\$955)	\$3,090	\$1,300	\$1,460
Cummulative surplus/shortfall	(\$1,975)	(\$2,930)	\$160	\$1,460	-

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