

Milan Pajevic, Chairman of the Board of Directors of Slav-Invest Holding Company:

“Housing cost will not go down, but their growth rates could be slowed down”

The Conference “Insurance of Investment into Real Estate as a principle of risk minimization of project realization participants” will take place tomorrow. The organizers of this Conference are Expert magazine together with Ukrainian Building Association and domestic insurers. On the eve “i” spoke to Mr. Milan Pajevic, the Chairman of the Board of Directors of Slav-Invest Holding Company.

Question: How burning is the problem of property investment insurance?

Answer: The participants of the project: investors, banks, contractors, everyone who is involved in the process should guarantee the in time project realization, its proper financing and quick overcoming of the negative consequences in case of loss occurrence. Unfortunately today it’s only construction risks that are insured. And even that is not always done. Although the construction process risks are very high in Ukraine.

Q.: Do market players insist on insurance?

A.: The majority of local developers consider this as a useless and insignificant process. They insure their sites only if a bank demands it.

Q.: What is a percentage of the developers who are ready to insure?

A.: This question should be raised in a different way. To what extent is the market ready to accept the standards that have been existing for a long time already on the market of the West and Far East? One should affect the market and environment where the investment activity is carried on and set certain demands for its participants. If the participant does not answer the demands, he should not be a market player. This will help to prevent the recurrence of ‘Elita-Center’ and similar situations. If one insures all stages of the vertical and horizontal levels, then most of the risks will be minimized and the cost of the real estate regulated.

Q.: What do vertical and horizontal levels mean?

A.: The horizontal level stands for all stages of project realization beginning with land allotment, marketing research, concept work out, architectural and construction design up to designing, construction risks and the risks of putting the site into operation. And the vertical level means all participants of the investment project: investor, bank, developers, real estate agencies, customer-builder, and property management company.

Q.: Do you believe that the prices at the real estate market can be reduced by means of insurance?

A.: The prices can be controlled. The thing is that the cost price of the square meter consists of three components. For instance, the square price of the finished housing in the suburbs of Kyiv reaches \$3000. 1/3 of it is the real expenses of the builder, 1/3 is the preferred profitability of the project participants, and the last 1/3 covers the part that we call un contemplated risks and ‘compulsory payments’.

Q.: Do you mean bribing officials?

A.: The answer to your question is seen in the rating of the most corrupted countries of the world, where Ukraine occupies an ‘honorable’ place. If we managed to control at least this component then the final project cost could be materially influenced. The prices will not decrease, but their growth rates will slow down. I also would like to emphasize that every project needs C&PI – the credit and political insurance against governmental interference, foreign currency exchange regulation, political constraint and possible denial of the party to fulfill the engagements. This would allow foreign investors to consider the investment to Ukraine more evenly, because now the political instability is the biggest obstacle for the large investment attraction.

Milan Pajevic

- Chairman of the Board of Directors of Slav-Invest.
- Was born in 1952 in Uzhice, the Republic of Serbia.
- Graduated from the machine-building institute in Belgrade in 1977.
- Owner of the Slav-Invest brand and Chairman of the Board of Directors of Slav-Invest Holding Company since autumn 2006.
- The member of the Board of Directors of UBA
- Married, has four children.