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R95 **Russian Economy in 2013. Trends and Outlooks.**  
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The review provides a detailed analysis of main trends in Russia's economy in 2013. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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**The Dynamics of Residential Housing Commissioning in Russia**

The situation in Russia’s residential housing market over the past year was largely determined by the near-stagnation macroeconomic situation and the current phase of market development, which resulted in a multi-vectored movement of prices in the housing markets of different cities, because in most of them the period of post-crisis recovery was already over<sup>1</sup>, while some cities were still struggling with the consequences of the crisis.

In 2013 the housing construction sector, for a third year in a row since the end of the financial and economic crisis, displayed a rising residential housing commissioning rate (a rise of 5.6% on 2012).

Over the course of 2013, 912.1 thousand apartments with the total floor area of 69.4m square meters were commissioned (*Table 24*); it is noteworthy that the housing commissioning rate was on the rise over the first three quarters, and then in Q4, contrary to the traditional trend of many years, it demonstrated a slight drop on its previous year’s index.

*Table 24*

**The Commissioning of Residential Housing in Russia in 1999-2013**

Year	Total floor area, in millions of square meters	Rate of growth, %	
		on previous year	on 2000
1999	32.0	104.2	105.6
2000	30.3	94.7	100.0
2001	31.7	104.6	104.6
2002	33.8	106.6	111.5
2003	36.4	107.7	120.1
2004	41.0	112.6	135.3
2005	43.6	106.3	143.9
2006	50.6	116.0	167.0
2007	61.2	120.9	202.0
2008	64.1	104.7	211.5
2009	59.9	93.4	197.7
2010	58.4	97.5	192.7
2011	62.3	106.6	205.6
2012	65.7	104.7	216.8
2013	69.4	105.6	229.9

Sources: *Rossiiskii statisticheskii ezhegodnik*. 2007 [Russia: Statistical Yearbook 2007]: M., Rosstat, 2007. P. 507; *Rossiiskii statisticheskii ezhegodnik*. 2011 [Russia: Statistical Yearbook 2011]: M., Rosstat, 2011. P. 461; *O zhilishchnom stroitel'stve v 2013* [On Housing Construction in 2013] www.gks.ru; the authors’ calculations.

In 2013, the share of individual housing construction in the total area of completed residential housing units in Russia as a whole amounted to 43.8%, which roughly corresponds to last year’s index. In a number of regions (Altai, Tyva, Dagestan, Kabardino-Balkaria, Karachay-Cherkessia and Chechnya, Belgorod Oblast and Tambov Oblast), the share individual housing construction amounted to more than 70% of newly commissioned residential space.

<sup>1</sup> Sternik G. M. Zakonomernosti poslekrizisnogo vosstanovleniia rynka zhilia gorodov Rossii [The Typical Features of Post-crisis Housing Market Recovery in Russia’s Cities // *Finansovyi Zhurnal* [Financial Journal]. 2013. No 1. P. 103–112.

The positive dynamics of housing construction was observed in the majority of Russia's regions, including almost all regions where the volume of newly commissioned residential space exceeded 1 million square meters (*Table 25*).

*Table 25*

**The Dynamics of Housing Commissioning in Russia's Regions in 2012  
(Ranked by Housing Commissioning Rate)**

Region	Hosing commissioning rate, as percentage of 2012
Perm Krai	121.6
Voronezh Oblast	121.3
Samara Oblast	117.2
Leningrad Oblast	112.5
Novosibirsk Oblast	108.2
Rostov Oblast	107.5
Bashkortostan	106.9
Belgorod Oblast	106.6
Dagestan	106.5
Saratov Oblast	106.4
Chelyabinsk Oblast	106.3
Krasnoyarsk Krai	105.2
Tyumen Oblast (including its autonomous okrugs)	104.6
Moscow Oblast	104.2
Moscow	102.7
Nizhny Novgorod Oblast	101.9
Kemerovo Oblast	100.5
St. Petersburg	100.3
Tatarstan	100.0
Sverdlovsk Oblast	93.2
Krasnodar Krai	90.2
Stavropol Krai	84.9

Source: *O zhilishchnom stroitel'stve v 2013* [On Housing Construction in 2013], [www.gks.ru](http://www.gks.ru).

As suggested in *Table 25*, a dynamics of housing commissioning considerably above the RF average (more than 8%) was recorded in Perm Krai, Voronezh Oblast, Samara Oblast, Leningrad Oblast, Tyumen Oblast<sup>1</sup>, and Novosibirsk Oblast. At the same time, the volumes of residential housing construction in Kemerovo Oblast and St. Petersburg grew by less than 0.5%, while Tatarstan was experiencing stagnation. In Sverdlovsk Oblast, Stavropol Krai and Krasnodar Krai housing construction volumes dropped.

A very significant drop in the volume of housing construction, by more than 10%, was registered in Krasnodar Krai - a trend that may continue well beyond the 2014 Winter Olympics in Sochi, because housing prices may collapse in an event of a market offer of a large number of housing units over a very short period of time. The investors in the Olympic construction projects have built a total of approximately 12 thousand apartments, to be temporarily occupied by the organizers, volunteers and technical staff employed during the Olympic Games. Once the Olympic Games are over, the investors will want to generate revenue covering their initially incurred costs, and also derive some profit.

The local authorities have made a preliminary declaration that approximately 3.5 thousand people currently on the waiting list will be granted new housing units after the Olympic Games are over. Another thousand of apartments was to be leased, for the period of their employment, to the staff of local public healthcare institutions and educational establishments. This will result

<sup>1</sup> The territory of Tyumen Oblast (without Khanty-Mansi Autonomous Okrug and Yamalo-Nenets Autonomous Okrug) where the volume of newly commissioned residential space exceeds 1 million square meters.

in a significantly increased burden on the local budget, even if the investors should grant a certain discount for the authorities.

However, even if all these plans are successfully implemented in actual practice, it is still not clear what will ultimately happen to the bulk of the newly created real estate complexes. There exists a possibility to influence investor behavior and the movement of housing prices by means of regulating the process of turning hotels into residential complexes; in this connection, investors will have to carry out a comprehensive feasibility study in order to determine whether it will be more profitable to continue to run these properties as hotels, or to sell them as ongoing concerns<sup>1</sup>.

Moscow Oblast has retained its first-place position among Russian regions, in terms of the absolute volume of housing commissioning. The city of Moscow, in spite of the rather modest growth rate displayed by this index (2.7%), came third after Moscow Oblast and Kuban. The share of the Moscow region (Moscow Oblast and the city of Moscow) in Russia's aggregate residential housing construction volume remained at approximately the same level – approximately 14.5%. Most of that percentage was accounted for by Moscow Oblast (9.9%), while the rest of it – by Moscow proper (4.5%).

Out of a total of 3.1m square meters of housing commissioned in Moscow in 2013 (vs. 2.57m square meters in 2012), 1.93m square meters was built in the territory of 'Old' Moscow, which is below the corresponding indices for the previous years (in 2010 – 1.97m square meters; in 2011 – 2.11m square meters, in 2012 – 2.15m square meters). 'New Moscow' accounted for 1.17m square meters of newly commissioned housing projects (or more than 1/3 of the newly commissioned residential space across the city's entire territory within its new boundaries).

Over the course of 2013, a total of 35.3 thousand housing mortgage loan agreements were registered in Moscow (a 2.3% increase) and 21.3 thousand participatory share construction agreement (PSCA) (an 11.3% drop) (according to data released by *Rosreestr*). The possible reason for the declining activity on Moscow's primary housing market in 2013 can be buyer outflow from the city towards Moscow Oblast where prices are definitely lower, as well as the ongoing contraction in housing supply resulting from the declining housing construction volume in Old Moscow after the suspension of previously issued construction permits and revision of investment contracts.

A significant change displayed by recent *Rosreestr*'s reports has been the creation of a single pool of data on purchase and sale transactions and exchange transactions, of which a total of 145.8 thousand were registered in 2013 (vs. 94.4 thousand purchase and sale transactions in 2012). If we apply the growth rate index of 9% (derived in 2013 for the entire pool of data) separately to the category of purchase and sale transactions, it may be assumed that the total number of such transactions completed on the housing market was approximately 103 thousand.

The emphasis on transport infrastructure development, which has been declared to be one of Moscow government's priorities, makes bleaker the prospects for future expansion of housing construction projects, especially with regard to projects designed to provide low-cost social housing to families on waiting lists.

Under Moscow's targeted investment program, over the period 2013–2015 the city will augment its housing fund by 1.87m square meters of newly commissioned residential floor space, of which 1.4m square meters will be designated for the free-of-charge resettlement of

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<sup>1</sup> *Kvadratnye metry v Sochi budut prodavat' postepenno* [The Square Meters in Sochi Will Be Sold Gradually] // *Nezavisimaya gazeta* [The Independent Newspaper]. 13 December 2013.

residents of ‘temporary’ 5-storey walkups with a planned 25-year life (to be demolished) into new residential buildings, while 470 thousand square meters will be granted to families on the housing improvement’ waiting lists (which, when broken up by the existing social norm of 18 square meters of residential floor space per person, will mean that a total of approximately 8,700 families will get new apartments, or 2,900 families per annum. These apartments, newly built at the city’s expense, will be distributed via two channels: ‘social’ lease with the possibility of subsequent privatization, and sale on installments (the market price of an apartment thus sold usually exceeds its actual selling price several times over). Over the period 2011–2012, 25–40% of apartments were distributed under ‘social lease’ agreements. If this rate is to be taken as baseline, in 2013–2015 this type of housing will be granted to 725–1,160 families per annum (in 2012, 1,500 families received their new apartments free of charge).

In conditions of slow progress of the existing waiting lists, the authorities are necessarily trying to find other solutions to the housing shortage problem, based on providing the needy with means to independently obtain a new apartment.

One of the available methods is to grant to them a subsidy for purchasing an apartment, calculated depending on the length of time that a given family has been kept on the waiting list. As a rule, towards the middle of each year the annual amount of money earmarked for housing subsidies is already distributed among the applicants. In 2012, the annual limit was set at Rb 10.6bn. Another method envisages leasing an apartment under a temporary lease agreement, with revision of the amount of lease payment on an annual basis. The residential buildings included in these lease plans are called ‘dotation free’, because their residents receive no dotations to cover the cost of housing and utilities<sup>1</sup>.

The main problem areas in the housing market in 2013, as before, were the low volume of newly commissioned residential space and the situation with regard to housing mortgage lending.

In spite of the somewhat increased scale of new housing construction projects over the past 3 years, the actual volume of newly commissioned residential space remains far below the per annum target of 1 square meter per capita, which had been set with the purpose of curbing excessive growth of housing prices. The RF Ministry of Regional Development believes that the necessary preconditions for the implementation of this scenario will be personal income growth, removal of the existing administrative barriers in the construction sector, implementation of technological innovations in the construction and building materials industry, promotion of a civilized lease market, and development of various forms of consumer lending.

Below we are going to discuss some of these factors in more detail.

The government’s orientation to priority development of housing mortgage lending as one of the available mechanisms of providing housing to citizens has given rise to the interest rate issue.

Presidential Executive Order of 7 May 2012, No 600 ‘On Measures Designed to Provide Citizens with Affordable and Comfortable Housing’ set the goal, to be achieved in 2018, of bringing the interest rate on housing mortgage loans down to the inflation rate plus 2.2 pp.

At the same time in 2013, the monthly weighted average interest rate on ruble-denominated housing mortgage loans had remained stably above 12% over nearly a year-long period; in other

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<sup>1</sup> <http://finance.rambler.ru/news/nedv/128053726.html>, *Moskva sokrashchaet razdachu besplatnykh kvartir* [Moscow Reduces the Distribution of Free-of-charge Apartments] // *Vedomosti*. 8 May 2013.

words, it never fell below its 2012 level, in spite of the trend towards slow decline that had been visible since spring. It is only towards the year's end (as seen by November's results) that it amounted to 11.9%, which is 1 pp. below the record high observed in March 2013, and 0.7 pp. below the November 2012 index. These values are close to the record lows achieved in late 2011.<sup>1</sup>

In order to create market-based possibilities for lowering the interest rates on housing mortgage loans, in the autumn of 2013 the RF Central Bank and the RF Government began to consider three possible options: (1) to reduce the risk coefficients when calculating the capital adequacy ratio and required reserve norms for housing mortgage loans; (2) to increase the RF Central Bank's volume of refinancing for issued housing mortgage loans – for example, by means of lowering the discount rate on financing granted against pledged housing mortgage securities and adjusting that rate by the quality of mortgage insurance; (3) to simplify the legislative norms regulating assignment of the right of claim in a mortgage loan.

As estimated by experts, such measures may indeed result in a certain decline of the interest rates on housing mortgage loans. However, it is unlikely that the interest rates may drop by more than 1–2 pp. So, in face of a continuing upward movement of real estate prices, this negligible decline will hardly make housing more readily affordable for those who suffer from its shortage. At the same time, bank may become more inclined to take risks, which will have a negative effect on the quality of housing mortgage portfolios<sup>2</sup>.

Generally speaking, according to analysts from the Agency for Housing Mortgage Lending, the existing fundamental economic factors will probably conduce to a slowdown of the housing mortgage lending market's growth rate, because the current situation is fraught with hidden but increasingly strong risks that can not only curb growth of the mortgage market, but trigger its shrinkage in the future. First of all, this is the risk of rising unemployment among the potential borrowers coupled with increasing problems with liquidity in the banking system as a whole<sup>3</sup>. The looming stagnation in the real sector coupled with the sudden onset, in the autumn of 2013, of the campaign aimed at identifying 'problem-ridden' banks aggravate the situation even further.

As for the problem posed by the existence of administrative barriers, the Presidential Executive Orders of May 2012 have already prescribed that, before 1 January 2015, the cost of the bureaucratic procedures involved in launching a construction project should be significantly reduced, and the length of the period established for the issuance of a construction permit - considerably shortened. Meanwhile, Russia's ranking on the ease of obtaining a construction permit by Doing Business, the project launched by the International Finance Corporation and the World Bank, was nearly at the bottom of the list – 178<sup>th</sup> out of 185. To obtain a construction permit in Russia, it is necessary to go through a total of 42 procedures and spend 344 days on the entire process. The construction permit fee in the RF amounts to approximately 130% of the average per capita income.

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<sup>1</sup> <http://www.irn.ru/articles/36907.html>, 22 January 2014, *Kartina maslom: ipoteka stanovitsie vse populiarnее* [A Paining in Oil: Housing Mortgage Loans are Gaining Popularity].

<sup>2</sup> <http://finance.rambler.ru/news/banks/137586690.html>, *Zadachu snizit' stavki po ipoteke vziala na sebia lichno glava Tsentrobanka* [The Task of Bringing Down the Interest Rate on Housing Mortgage Loans Was Assumed Personally by the RF Central Bank's Head] // *Izvestiia*. 13 November 2013.

<sup>3</sup> <http://finance.rambler.ru/news/economics/139480780.html>, *Ipoteka budet deshevet'* [Housing Mortgage Loans Will Become Progressively Cheaper] // *Ъ-Online*. 27 December 2013.

However, once the problem of administrative barriers is removed, its disappearance will by no means become a guarantee of lower construction costs because a market housing construction model per se implies that the developer must bear the costs of acquisition or lease of a land plot, elaboration of blueprints, connection to public utilities, creation of an engineering infrastructure, and a number of other components of a construction project – for example, participation in local community projects as part of interaction with the local government.

Some further potential for bringing down the aggregate construction costs can be created due to the efforts of Russian authorities and the activity of the Federal Housing Construction Promotion Fund aimed at transferring land plots to developer companies on preferential conditions and shouldering some of the expenses involved in building the engineering infrastructure. However, in this connection another question inevitably arises – what will be the scale of modeling and distributing this practice across Russia, a huge and heterogeneous country?<sup>1</sup>

It can be expected that the situation in the housing construction sector will be somewhat changed as a result of the amendments introduced to the well-known law ‘On Participation in the Shared Construction of Multi-unit Apartment Buildings and Other Real Estate Objects, and on the Introduction of Alterations to Some Legislative Acts of the Russian Federation’, No FZ-214. These amendments, dating back to the end of 2012, actually came into force only from January 2014 and introduced one more method to guarantee the fulfillment of contractual obligations by property developers (alongside the pledge and the bank guarantee). The new legislation introduces civil liability insurance for property developers, effectuated by way of an insurance contract to be concluded by the property developer, or by the property developer’s membership in a mutual insurance company of developers (MIC). Also, the new legislation establishes requirements with regard to the minimum amount of insurance, the determination of an insured event, the procedure for payments, etc.

Special requirements have been introduced with regard to banks willing to act as a surety liable for a property developer’s obligation to transfer a residential unit to a party to a participatory share construction agreement: (1) the bank must hold a license, issued by the RF Central Bank, to conduct banking operations with the right to issue bank guarantees; (2) the bank must have a successful track record of banking activity for at least five years; (3) the bank’s charter capital must amount to no less than Rb 200m; (4) the bank’s equity must amount to no less than Rb 1bn; (5) the bank must comply with the mandatory norms as envisaged in existing legislation as of each reporting date over six previous months; (6) the bank must not be subject to any orders, issued by the RF Central Bank, that it should undertake financial recovery measures. A certain number of requirements have also been for the insurance company that a property developer may enter into agreements with, in order to insure individual responsibility for failure to fulfill, or for improper fulfillment of the property developer’s obligation to transfer a residential unit to a party to a participatory share construction agreement.

The requirements to a surety’s subsidiary responsibility have also been established with regard to a property developer’s obligations relating to the transfer of relevant residential units to the parties to a participatory share construction agreement; its amount must be no less than the amount calculated on the basis of the total floor area of the residential unit to be transferred under a participatory share construction agreement and the average market price index of 1

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<sup>1</sup> *Kazhdomy grazhdaninu po kvadratnomy metro* [To Every Citizen – One Square Meter] // *Nezavisimaiia gazeta* [The Independent Newspaper]. 25 March 2013.



square meter of residential floor area for a given RF subjects, as determined by the federal body of executive authority responsible for the elaboration and (or) implementation of government policy and normative legal regulation in the construction sector; this amount is to be applied in the calculation of the amount of social payments from the federal budget to all categories of citizens entitled to social benefits to cover the cost of acquisition of residential units, as of the date of concluding the relevant surety agreement.

A surety is answerable to the parties to a participatory share construction agreement to the same extent as a property developer is, including the obligation to pay all the fines and penalties as stipulated in the relevant participatory share construction agreement and established by legislation, and the period of surety is extended 2 years beyond the established timeline for the transfer of the relevant residential units to the parties to a participatory share construction agreement (previously – 6 months).

In 2013, the Law was augmented by some new elaborations and alterations, whereby more precise definitions were introduced with regard to an insured event, the mandatory requirements to be presented by an insurance company to a property developer, and the powers granted to federal and regional bodies of authority in the field of government regulation, control and supervision of projects involving participatory share construction of multi-unit apartment buildings and (or) other real estate complexes (the relevant empowered and controlling bodies).

Thus, in particular, it is established that the empowered federal body is to coordinate the activity of federal bodies of executive authority relevant for the implementation of government policy with regard to projects involving participatory share construction of multi-unit apartment buildings and (or) other real estate complexes; to set the criteria for recognizing to be victims the citizens whose money was used under participatory share construction agreements and whose rights have been violated, and to establish the rules for the controlling body to keep a register of these individuals. In its turn, the controlling body functioning at the level of a RF subject is to recognize to be victims, in accordance with the established criteria, the citizens whose money was attracted under participatory share construction agreements to fund the construction of multi-unit apartment buildings, and whose rights have been violated, and to keep a register of these individuals. The criteria for recognizing to be victims the individuals whose money was attracted to fund the construction of multi-unit apartment buildings, and whose rights have been violated, and the rules for keeping a register of such individuals were approved by the RF Ministry of Regional Development's Order of 20 September 2013, No 403.

In this connection, it should also be noted that the controlling body was also granted the right to receive from property developers on a quarterly basis, in addition to their reports on their management of the monies attracted under participatory share construction agreements for the construction (or creation) of multi-unit apartment buildings and (or) other real estate complexes, including the reports on the execution of their duties under those agreements, prepared in accordance with the forms and in the procedure established by the RF federal body of executive authority empowered by the RF Government, also the property developers' accounting reports (including annual accounting reports) drawn up as required by existing legislation.

## Prices on the Housing Market

### *The Price Situation in the Secondary Housing Market*

The main indicators of the movement of secondary housing markets in Russian cities are presented in *Table 26*. The data were supplied by housing market analysts certified by the Russian Realtor Guild<sup>1</sup>. The data were collected, verified and processed on the basis of a single methodology recommended by the Russian Realtor Guild.

The sample under consideration consists of 37 cities and one region (Moscow Oblast, for which the averaged data for 85–90 inhabited localities are applied), including 30 cities with the status of a RF subject's center, with total population of approximately 46.9m.

The sample includes the following population units:

- Moscow (total population approximately 12m);
- Moscow Oblast (total urban population 5.8m) and St. Petersburg (более 5.1m) (total population 10.9m);
- 11 cities with a population of more than 1m – Novosibirsk, Yekaterinburg, Nizhny Novgorod, Kazan, Samara, Omsk, Chelyabinsk, Rostov-on-Don, Krasnoyarsk, Perm, Voronezh (total population 13.0m);
- 12 cities with a population of 500,000 to 1m – Krasnodar, Togliatti, Barnaul, Tyumen, Ulyanovsk, Izhevsk, Irkutsk, Yaroslavl, Orenburg, Kemerovo, Ryazan, Kirov (total population 7.6m);
- 9 cities with a population of 200,000 to 500,000 – Cheboksary, Stavropol, Tver, Vladimir, Surgut, Smolensk, Sterlitamak, Veliky Novgorod, Shakhty (total population 3.1m);
- 2 cities with a population of 100,000 to 200,000 – Salavat, Tobolsk; and one city with a population less than 100,000 – Ishimbay (total population more than 0.3m).

The sample's average weighted offer price was calculated on the basis of data on the number of offers. The total monthly volume for December 2013 was 276.7 thousand offers.

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<sup>1</sup> All of the author's calculations are based on the data on median unit offer prices of housing and housing supply volumes in Russian cities' secondary and primary housing markets, published by the following housing market analysts certified by the Russian Realtor Guild: S.G. Sternik, LLC *Sternik's Consulting*; A.I. Rzhnevsky, A.N. Severianov, Real Estate Agency *Azbuka Zhil'ia* [Housing ABC]; and A.G. Beketov (all three operating in the city of Moscow and Moscow Oblast); S.V. Bobashev, M.A. Bent, *Bulleten' Nedvizhimosti* Group [Real Estate Bulletin] (St. Petersburg, Veliky Novgorod, Krasnodar); M.A. Khor'kov, A.A. Antasiuk, G.T. Tukhashvili, K.V. Oktaev, Realtor Information Center 'Urals Real Estate Chamber' (Yekaterinburg); A.L. Chemodanov, Analytical Center *Nizhny Novgorod Real Estate Market Indicators* (Nizhny Novgorod); E.G. Sosnitsky, A.A. Chumakov, *Titul* (Rostov-on-Don); E.A. Ermolaeva, K. Salmina, N. Ershova, *RID Analitics* (Novosibirsk, Kemerovo, Barnaul, Krasnoyarsk); S.G. Molodkina (ALKO Assotiation), E.S. Ershova K. Brednikov (Federal Realtor Company *Etazhi* [Storeys]) (both operating in Tyumen); E.D. Epishina, Yu.V. Seliverstova, Kamskaia dolina [Kama Valley] Group of Companies; A.V. Pechenkina (Perm), V.N. Kaminsky, E.I. Pesnia, Real Estate Agency *TITAN* (Tver); A.D. Gollay, LLC *Metro-Otsenka* [Metro Valuation] (Yaroslavl); A.M. Cheremnykh, *ASSO-Stroy* Asset Manager (Izhevsk); A.Yu. Chernov, *Ilekta* (Stavropol); E.R. Gamova, T.N. Kuklova, Tsentr nedvizhimosti [Real Estate Center] (Ulyanovsk); M.A. Repin, A.I. Zytkova, *OMEKS* (Omsk); A.V. Trushnikov, *B.I.N. - Expert* (Sterlitamak, Ishimbay, Salavat); A.A. Moiseeva, Federal Network Company *ETAZHI* [Storeys] (Tobolsk); G.Yu. Eidlina, *Realty* (Shakhty); S.V. Esikov (Vladimir, Irkutsk, Orenburg, Smolensk, Togliatti, Cheboksary); A.I. Moskalev, InvestOtsenka [Invest Valuation] (Voronezh); R.R. Khabibrakhmanov, TATRE.ru (Kazan), M.B. Landikhov, portal 74dom.ru (Chelyabinsk); R.M. Kazakov (Yarmarka [Fair] Publishing House), M.Yu. Savina (Ryazan); A.L. Patrikeev, *SOFZhi* (Samara).

Table 26

**Prices on the Secondary Housing Market  
in Russian Cities in 2013**

City (region)	Median unit offer price, thousands of rubles per square meter			Price index of December 2013, as percentage of December 2012		Sample size, thousands of offers, December 2013
	December 2012	December 2013	For reference: pre-crisis record high	nominal	real (IGS)	
Moscow	203.0/195.5*	203.3	191.5	1.040	0.976	38.2
St. Petersburg	95.0	96.0	107.7	1.011	0.949	22.1
Moscow Oblast	84.3	88.2	93.2	1.046	0.982	62.3
Surgut (Tyumen Oblast)	85.6	87.0		1.016	0.954	2.3
Yekaterinburg	70.1	72.8	67.3	1.039	0.975	8.9
Kazan	61.2	63.7	42.5	1.041	0.977	1.2
Tyumen	59.4	63.2	52.9	1.064	0.999	7.9
Nizhny Novgorod	61.3	63.1	61.4	1.029	0.967	5.7
Rostov-on-Don	62.8	63.0	64.1	1.003	0.942	0.9
Novosibirsk	59.1	61.4	65.2	1.039	0.976	15.2
Irkutsk	57.3	59.7		1.042	0.978	2.7
Samara	55.8	58.5		1.048	0.984	10.5
Yaroslavl	57.6	57.7	54.6	1.002	0.941	1.0
Krasnoyarsk	59.0	56.2	63.7	0.953	0.894	15.8
Tver	57.8	56.1	69.0	0.971	0.911	1.8
Perm	53.4	54.7	61.4	1.024	0.962	2.6
Vladimir	51.3	52.7		1.027	0.965	2.1
Veliky Novgorod	51.5	52.4		1.017	0.955	1.6
Kemerovo	50.2	52.1	54.0	1.038	0.975	14.3
Tobolsk (Tyumen Oblast)	46.1	51.1		1.108	1.041	1.0
Orenburg	49.6	51.0		1.028	0.965	1.2
Cheboksary	48.1	48.7		1.012	0.951	1.0
Kirov	43.3	48.5		1.120	1.052	2.7
Voronezh	48.1	48.4		1.006	0.945	2.1
Barnaul	48.1	48.3	43.3	1.004	0.943	6.9
Krasnodar	51.9	48.2		0.929	0.872	10.9
Smolensk	46.3	48.1		1.039	0.976	1.2
Omsk	44.7	47.4	45.6	1.060	0.996	13.5
Izhevsk	46.4	47.3	51.8	1.019	0.957	2.0
Ryazan	46.2	45.8	42.0	0.991	0.931	4.5
Togliatti (Samara Oblast)	43.5	45.7		1.051	0.986	1.7
Ulyanovsk	39.9	42.3	36.9	1.060	0.995	4.2
Sterlitamak (Bashkortostan)	40.3	43.8	29.1	1.087	1.021	1.1
Chelyabinsk	44.4	43.0	51.7	0.968	0.909	2.8
Salavat (Bashkortostan)	39.3	39.4		1.003	0.941	0.4
Ishimbay (Bashkortostan)	33.4	38.4		1.150	1.079	0.2
Stavropol	34.9	35.5		1.017	0.955	1.6
Shakhty (Rostov Oblast)	30.3	30.9	31.2	1.020	0.958	0.6
<b>Sample's total</b>	<b>86.2 (63.8)**</b>	<b>85.5(63.0)**</b>		<b>99.2(98.7)**</b>	<b>0.931(0.927)**</b>	<b>276.7</b>

\* Numerator – Moscow (within its old boundaries); denominator – Greater Moscow.

\*\* Sample's average weighted (by number of offers) offer price (in brackets – value less Moscow).

By its housing price index (Rb 203/3 thousand per square meter), Moscow is ahead of St. Petersburg which immediately follows, Moscow's index being more than twice above St. Petersburg's (Rb 96.0 thousand per square meter). The group of cities with the housing price index in the interval from Rb 60 thousand to 90 thousand per square meter includes Moscow

Oblast and 7 cities (Surgut, Yekaterinburg, Kazan, Tyumen, Nizhny Novgorod, Rostov-on-Don, Novosibirsk). The group with average prices in the interval from Rb 50 thousand to 60 thousand per square meter consists of 11 cities, and the group with lower prices in the interval from Rb 30 thousand to 50 thousand per square meter – of 17 cities. None of these cities had average unit prices in the secondary market at levels below Rb 30 thousand per square meter.

On the whole, as seen by the annual results, the housing markets of the cities included in the sample demonstrated stability of prices. The highest growth rates (above accumulate inflation rate of 6.5%) were displayed by housing prices in Ishimbay (15%), Kirov (12%), Tobolsk (10.8%), and Sterlitamak (8.7%). The nominal prices had declined by December 2012 in five cities: Krasnodar (by 7.1%), Krasnoyarsk (by 4.7%), Chelyabinsk (by 3.2%), Tver (by 2.9%), and Ryazan (by 0.9%).

Thus, the majority of the cities included in the sample were characterized by declining housing prices in real terms (cleared of consumer market inflation, whose rate for 2013 amounted to 6.5%) (IGS index)<sup>1</sup>. The exceptions are represented by the already mentioned cities of Ishimbay and Ulyanovsk (growth of housing prices in real terms by 7–8%), Kirov and Tobolsk (growth by 4–5%), Sterlitamak (growth by 2%), as well as Tyumen, Omsk and Ulyanovsk, where the housing prices in real terms for December 2013 remained approximately at the same level as a year before. At the other end of the scale are Krasnoyarsk and Krasnodar, where IGS dropped by 10–13%. In Moscow, housing prices in real terms dropped by 2.4%; in St. Petersburg – by more than 5%.

On the whole, the average weighted housing price decline on December 2012 amounted to 0.8% (outside of Moscow – to 1.3%), thus pointing to a situation of stagnation on the secondary housing market and a relative cheapening of residential units when cleared of accumulate inflation.

By December, 2013 housing prices in the majority of cities across the sample under consideration had risen above their pre-crisis level (Moscow, Yekaterinburg, Kazan, Nizhny Novgorod, Yaroslavl, Tyumen, Barnaul, Omsk, Ryazan, Ulyanovsk, Sterlitamak) or closely approached that level (Rostov-on-Don, Shakhty, Kemerovoo). However, the onset of economic stagnation halted any further growth in the cities with lower prices, as a result of which housing prices in Moscow Oblast, Novosibirsk, Izhevsk, St. Petersburg, Perm, Krasnoyarsk, Chelyabinsk, and Tver were recorded to be 5–20% below their pre-crisis level <sup>2</sup>.

### ***The Movement of Prices on the Primary Housing Market***

The primary market data for 18 cities were collected by analysts certified by the Russian Realtor Guild (*Table 27*). To obtain the sample's average offer price, the data – similarly to the secondary market data (*Table 26*) - were weighted on the basis of number of offers; the total monthly offer volume for December 2013 amounted to 153.2 thousand.

*Table 27*

### **Prices on the Primary Housing Market in Russian Cities in 2013**

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<sup>1</sup> IGS is calculated by applying the following formula:  $IGS = I_{pr}/I_{cp}$ , where  $I_{pr}$  is housing price index denominated in rubles;  $I_{cp}$  is consumer price index.

<sup>2</sup> The sample presented in *Table 26* consists of a total of approximately 40 cities. However, for some of these cities sufficient data is unavailable, and so no comparative results can be obtained.

City	Median unit offer price, thousands of rubles per square meter		Price index of December 2013, as percentage of December 2012	Sample size, thousands of offers, December 2013	Median unit price on primary market as percentage of secondary market price (December 2013)
	December 2012	December 2013			
Moscow	230.3/205.5*	215.5	104.9	15.0	106.0
St. Petersburg	85.0	90.5	106.5	2.7	94.3
Moscow Oblast	70.7	76.5	108.2	67.0	86.7
Nizhny Novgorod	66.5	64.8	97.4	8.7	102.7
Yekaterinburg	57.5	60.8	105.7	1.9	83.5
Tyumen	50.4	55.9	110.9	8.6	88.4
Veliky Novgorod	52.5	54.2	103.2	0.2	103.4
Novosibirsk	51.3	51.7	100.8	5.0	84.2
Samara	48.5	49.4	101.9	3.1	84.4
Kazan	50.9	49.4	97.1	0.8	77.6
Yaroslavl	46.4	48.2	103.9	2.8	83.5
Perm	48.0	47.1	98.1	2.4	86.1
Izhevsk	42.4	44.3	104.5	3.7	93.7
Voronezh	43.2	43.9	101.6	1.2	90.7
Krasnodar	40.2	42.8	106.5	20.0	88.8
Omsk	35.9	40.5	112.8	3.3	85.4
Ryazan	36.2	37.0	102.2	5.7	80.8
Stavropol	31.2	30.4	97.4	1.1	85.6
<b>Sample's total</b>	<b>75.6 (53.2)**</b>	<b>77.7 (56.7)**</b>	<b>102.8 (106.6)**</b>	<b>153.2</b>	<b>90.9 (90.0)**</b>

\* Numerator – Moscow (within its old boundaries); denominator – Greater Moscow.

\*\* Sample's average weighted (by number of offers) offer price (in brackets – value less Moscow).

The factors that determine these regularities in the comparative price levels are as follows:

- the differences in the quantitative and qualitative structure of the housing fund offered in these markets, based on individual features of construction projects and their location. Thus, about half of all offers in Moscow's primary market are apartments in residential complexes with above-average quality features (business class and elite class), which are situated, as a rule, in the downtown area and other prestigious districts. In the other cities, the bulk of offers come from the 'mass-scale construction' market segments (economy class and comfort class), where the quality of new residential complexes is better than that of the 'old housing fund', but they are situated predominantly in districts that are remote from the city center and have an underdeveloped transport and social infrastructure, or lack any such infrastructure altogether;
- a delay in taking up residence in a new apartment; increased risks involved in the purchase of residential units, as a result of which property developers have to grant deductions to the prospective buyers (20 to 40% of the planned price of a newly commissioned apartment) in order to ensure their participation in participatory share construction agreements at early stages of implementing a construction project;
- absence, with only a few exceptions, of finished interior decorations, or even basic decoration in almost all the newly commissioned residential complexes.

The price ratios also vary over time depending on the following factors:

- shifts in the qualitative structure of newly commissioned residential complexes towards an increasing share of 'massive-scale construction' caused by a variety of factors: general trends in local government policies; development of new territories away from downtown areas and at the outskirts of a city; changing consumer preferences under new economic conditions;

- widespread practice of large-scale market offer of residential complexes in the initial phase of their construction, or large-scale sale of finished newly commissioned projects, which conduces to construction project restructuring depending on the phase of project implementation.

Many buyers, when acquiring a new apartment for the purpose of investment at a stage when a construction project is still in progress, prefer to make a down payment of only part of its price and then pay the rest of it in installments extended over a longer period of time. In such a case, the apartment's price from the onset of the construction project to the moment of its sale usually increases by a quarter.