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The review provides a detailed analysis of main trends in Russia's economy in 2014. 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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Construction, Commissioning and Supply of New Housing in Russia in 2014

In 2014, in housing development the highest growth in housing commissioning volumes (14.9% as compared to 2013) in the entire period after the previous financial and economic crisis was observed. However, within the entire year a downward quarterly trend of commissioning of volumes of housing as compared to the respective indices of 2013 was observed.

Generally, in 2014 1,080,300 apartments with the total floorspace of 81.0m sq. meters were commissioned (*Table 27*).

Table 27

Commissioning of housing in Russia in 1999–2014

Year	Million sq. meters of housing	Growth rates, %	
		Against the previous year	Against 2000
1999	32.0	104.2	105.6
2000	30.3	9.7	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	70.5	107.3	232.7
2014	81.0	114.9	267.3

Source: The Russian Statistical Yearbook. 2007: Statistical collected volume/ The Rosstat M., 2007, p. 507; The Russian Statistical Yearbook. 2011: Statistical collected volume/ The Rosstat M., 2011, p. 461; On Housing Development in 2014, www.gks.ru and authors' calculations.

In 2014, individual developers commissioned 260,300 of housing with the total floorspace of 35.2m sq. meters which is 14.8% more than in 2013. Growth rates of housing development by individual developers were in line with those of housing development in general, while the share of housing development by individual developers in the total floorspace of completed housing nationwide was equal to 43.5%.

Positive dynamics of housing development was observed in Russia's most regions, including nearly all the regions where the aggregate volumes of commissioning of housing exceeded 1m sq. meters (*Table 28*).

Table 28

Dynamics of commissioning of housing in Russia's regions in 2014 (arranged by the rates of commissioning)

Region	Growth rates of housing commissioning, % as compared to 2013
1	2
Chechen Republic	3.1 times
Kaliningrad Region	175.7
Orenburg Region	145.6
Volgograd Region	140.0
Sverdlovsk Region	138.3

Novosibirsk Region	128.1
St. Petersburg	126.3

Cont'd

1	2
Krasnodar Territory	120.3
Leningrad Region	117.9
Lipetsk Region	117.6
Saratov Region	115.7
Voronezh Region	115.6
Tyumen Region (with autonomous regions)	114.0
Belgorod Region	113.6
Chelyabinsk Region	113.6
Moscow Region	111.5
Perm Territory	109.9
Rostov Region	109.0
Samara Region	108.7
Dagestan	107.2
Bashkortostan	106.7
Krasnoyarsk Territory	105.9
Moscow	105.8
Nizhny Novgorod Region	103.3
Kemerovo Region	100.7
Tatarstan	100.2
Stavropol Territory	80.1

Source: On Housing Development in 2014, www.gks.ru.

As seen from *Table 28*, the dynamics of commissioning of housing which was largely above the average nationwide (over 20%) was observed in Chechnya, the Kaliningrad Region, the Orenburg Region, the Volgograd Region, the Sverdlovsk Region, the Novosibirsk Region, St. Petersburg and the Krasnodar Territory. At the same time, in the Kemerovo Region and Tatarstan, growth in the volumes of housing development did not exceed 1%, while in the Stavropol Territory there was a drop in the volumes of commissioning of housing.

The Moscow Region retained its leading position among Russian Regions as regards the volume of commissioning of housing in absolute terms. Moscow which took the 3rd place (over 3.3m sq. meters) in the country after the Moscow Region (about 8.3m sq. meters) and Kuban (4.75 sq. meters) succeeded in that, too. The unit weight of the capital region in the overall volume of housing development in Russia amounted to 14.3% of which the Moscow Region accounted for a larger portion (10.2%), while the share of Moscow proper was equal to 4.1%. It is to be noted that by the value of that index Moscow is followed closely by St. Petersburg and the Tyumen Region,¹ where volumes of commissioning of housing exceeded 3m sq. meters.

On the basis of the results of 2014, substantial growth in housing development should be unambiguously regarded as a great achievement. The case for it is the fact that annual growth rates of housing commissioning doubled as compared to 2013, physical volumes of housing development increased and fulfillment of the *Zhilische* (Housing) federal purpose program in the 2011-2015 was ahead of the schedule.

In the entire period from the beginning of the 2000s, the higher rates of commissioning of housing were observed only in the 2006–2007 period. If in the first two years of the recovery growth after the previous crisis (2011–2012) they finally succeeded in achieving the excess of the absolute value of that index over the volumes of commissioned housing in the 1990 (61.7m sq. meters), while in 2013 they got closer to the values which were the best ones in the late 1988-1989 Soviet period (71m sq. meters–72m sq. meters), in 2014 they managed to exceed them

¹ What is meant here is the territory of the Tyumen Region (together with Khanty-Mansiisk-Yugra (the Khanty-Mansiisk Autonomous Region) and the Yamalo-Nenets Autonomous Region); it is to be noted that in the Tyumen Region proper (without autonomous regions) and the Khanty-Mansiisk Autonomous Region in particular the volumes of commissioned housing exceeded 1m sq. meters.

substantially². Achievement of the target index of the volume of commissioned housing scheduled for 2015 (71m sq. meters) – which is the most important one for the Zhilische (Housing) purpose program – took place 2 years earlier.

However, the above is in no way an automatic guarantee of positive trends being preserved in future, particularly, in a new and more complicated situation of Russia's economic development in general. Due to the above, it is to be reminded that in the period of the previous crisis on the basis of the results of 2008 growth in housing development - which gave way to a drop in subsequent two years - was observed; as a result of that drop the volumes of commissioned housing fell by 9% against the index of 2008.

Further prospects of housing development are not quite clear yet. In terms of the effect of the balance of supply and demand in the market on the volumes of housing, it is important to take into account the fact that with a decrease in households' incomes and growth in the cost of lending for households and developers, in the next two years the latter will have to reduce the volumes of commissioned housing, carry out a more conservative policy and keep building only the most profitable projects preferring within a certain period of time not to initiate new projects. The first evidence of that can be seen today: while volumes of commissioned housing grow as a result of the building boom of the 2011-2012 period, in a two-year time a drop in building activities may result in a large reduction of volumes of commissioned housing.

According to the estimate of the Ministry of the Building Industry of the Russian Federation, in 2015 about 76m sq. meters of housing can be commissioned in Russia, that is, a decrease within the same volume as in 2009 is accepted. However, difficulties experienced by the banking sector may affect the building industry and the existing targets as regards commissioning of housing. M. Men, Minister of the Building Industry, Housing and Public Utilities of the Russian Federation stressed that in case of mortgage-related problems all the building entities would be affected.³

Generally, the situation on the mortgage lending market is quite a complicated one. According to the data of the Agency for Housing Mortgage Lending (OAO AHML), in January 2015 the weighted average rate on mortgage loans was equal to 14.2% amounting to 16% on some banking mortgage programs. It became apparent that in 2015 the situation on the market would be getting worse. Everything points to the fact that in the near future the mortgage market, as well as the number of mortgage-issuing banks is going to decrease.⁴

M. Zadornov, Head of the VTB24 does not exclude the prospect of a 2.5 times reduction of the volumes of mortgage issuing⁵. Most experts are unanimous that with preservation of the key rate at the level of the end of last year in 2015 it is logical to expect reduction of 20%-60% in demand on mortgage, though at the official level more optimistic estimates are made. According to A. Simanovsky, First Deputy Chairman of the Central Bank of the Russian Federation, mortgage growth will amount to about 15–17%.

According to D. Zemskov, Head of the Strategy and Development company, if the statistics of the 2008-2009 is taken as the reference point, then with an adverse situation prevailing in the economy for the next six months it is likely that 8%-10% of developers will become financially insolvent in case of 5%-7% decrease in the real average price on the primary market; in case of a decrease of 15%-20% in average prices the share of insolvent developers will already amount to 20%–25%.

² It is to be noted that such an achievement alone does not mean that housing has become more affordable for most households due to higher differentiation of the existing and desired housing conditions which arise from the difference in households' incomes, as well as changes in the pattern of commissioning of housing. At present, fewer housing premises with large floorspace are being built. So, in the 1988–1989 period in the RSFSR they commissioned over 1.2m apartments, while in 2014 with the record-high volume of housing as regards floorspace less than 1.1m apartments were built.

³ RealEstate.ru

⁴ www.Restko.ru

⁵ RealEstate.ru.

According to the estimate of experts of the Metrium Group company⁶: “The official statistics of the Rosreestr reflects quite precisely the situation on the real property market. New housing development are in great demand and the number of EPA⁷ late [2014 – *Editor.*] in the year was increasing, while the growth rates of the market of mortgage lending and the secondary housing market slowed down a great deal. However, by spring 2015 buyers’ activities are expected to be less active and then all the three indices will get adjusted against one another and start to go down smoothly. It is difficult to say now how long that recession continues. It depends much whether the Government is going to take any measures to rescue the mortgage market. If buyers have an opportunity to take more or less affordable loans for buying housing, the situation on the entire real property market will be quite a good one”.

Among anti-crisis measures approved by the Russian government as early as 2015, there is the subsidizing of interest rates on mortgage loans extended by banks so that to maintain them at the level of 13%. However, due to both a delay in implementation until relevant amendments to the budget are approved and the expected volume of compensation (Rb 20bn is to be paid out of the budget) which is incomparable with volumes of lending in the previous years the effect of the above measure for the housing market is rather questionable.

It is expected that allocation of Rb 20bn will permit banks to extend privileged loans for the total amount of Rb 400bn at the rate of 13% per annum. It is to be noted that the criteria of a mortgage issuing program are to be worked out yet.

According to the Ministry of Economic Development of the Russian Federation, it is necessary to assist those borrowers who buy their only housing (or housing with a larger floorspace in case of birth of two or more children). It is to be noted that such housing should belong to the “economy” class. The maximum amount of the loan should be limited depending on the location of the housing which is to be bought.

The Ministry of Economic Development of the Russian Federation proposes to use similar criteria in supporting borrowers who took mortgage in foreign currency. According to the opinion of the above Ministry, support should be rendered to borrowers who own the only housing of the “economy” class. In addition to the above, the criteria of support of such borrowers should include the following: existence of children and dependents, incomplete family composition, loss of a job by the borrower and a dramatic drop in the borrower’s income.⁸

It is to be reminded that to solve the problems related to the mortgages in foreign currency, the Central Bank of the Russian Federation advised banks to convert the debt at the exchange rate which prevailed as of 1 October 2014 which value was much below the current exchange rate of the US dollar and euro. However, so far, banks are not in a hurry to follow the advice of the Central Bank of the Russian Federation, while in the State Duma the idea of adoption of a special law on that issue is being discussed.⁹

It is to be added that, lowering by the Central Bank of the Russian Federation of the key rate may have a more important role. In Q1 2015, the Central Bank of the Russian Federation did it once, however the extent of that reduction was incomparable with the actions taken by the regulator of the Russian financial sector last December.

6.5.4. Pricing Situation on the Residential Property Market

Due to stagnation of the Russian economy as early as 2013, the housing market stabilized in most cities, while the effect of the above factors early and late in 2014 resulted in substantial oppositely directed dynamics of prices and activities on housing markets of different cities.

⁶ <http://www.metrium.ru/news/detail/po-itogam-2014-goda-rost-kolichestva-sdelok-na-pervichnom-rynke-moskvy-sostavil-131/>

⁷ EPA is equity participation agreements – *Editor.*

⁸ Not Everyone Can Expect to Take a Mortgage at 13%. 04.02.2015, Ё-On-line, <http://finance.rambler.ru/news/banks/157612851.html>.

⁹ Subsidizing of Mortgages will Push Interest Rates on Loans Down to 13% Per Annum. 03.02.2015, TASS, <http://finance.rambler.ru/news/banks/157564355.html>.

The main indices of the dynamics of prices on the secondary housing market of Russian cities are shown in *Table 29*. The data is presented by real-estate market analysts who collect, verify and process the data on the basis of unified methods recommended by the Russian Guild of Realtors (RGR).¹⁰

The sample includes 39 cities and one region (the Moscow Region in respect of which averaged readings on 85-70 population centers are presented), including 25 cities which are centers of constituent entities of the Russian Federation with the aggregate number of the population over 43.5m people.¹¹

If that index is used as a criteria, presented in the sample are the following:

- Moscow – about 12m people;
- The Moscow Region (with the aggregate urban population of 5.8m) and St. Petersburg (over 5.1m people) – aggregately 10.9m people;
- 9 cities with the population of over 1m people apart from two capitals (Novosibirsk, Yekaterinburg, Kazan, Samara, Omsk, Rostov-on-Don, Krasnoyarsk, Perm and Voronezh) – aggregately 10.6m people;
- 10 cities with the population from 500,000 people to 1m people (Krasnodar, Togliatti, Barnaul, Tyumen, Ulyanovsk, Irkutsk, Orenburg, Kemerovo, Ryazan and Kirov) – aggregately over 6.3m people;
- 8 cities with the population from 200,000 to 500,000 people (Cheboksary, Stavropol, Tver, Vladimir, Surgut, Smolensk, Sterlitamak and Shakhty) – aggregately over 2.8m people;
- 4 cities with the population from 100,000 to 200,000 people (Syzran, Salavat, Novokuibyshevsk and Tobolsk) – aggregately over 0.6m people;
- 6 cities with the population of less than 100,000 people (Chapaevsk, Zhigulevsk, Kinel, Otradny and Oktyabrsk) – aggregately, over 0.3m people.

Table 29

Prices on the secondary housing market in Russian cities in the 2012–2014 period

City (Region)	Average unit price of supply, thousand Rb/ sq. meters			Price index in December 2013 against December 2012		Price index in December 2014 against December 2013	
	December 2012	December 2013	December 2014	nominal	real (IGS)	nominal	real (IGS)
1	2	3	4	5	6	7	8
Moscow	203.0/195.5*	203.3	226.6	1.0015/1.04*	0.940/0.976*	1.115	1.000
St. Petersburg	95.0	96.0	103.0	1.011	0.949	1.073	0.963
Moscow Region	84.3	88.2	93.4	1.046	0.982	1.059	0.951

¹⁰ All the calculations were carried out by the author on the basis of the monthly data on the average unit price of housing supply and the volume of supply in Russian cities on the secondary and primary markets prepared in accordance with the unified methods by real-estate market analysts S.G. Sternik, OOO «Sternik's Consulting», O.Vilitskaya, «MIEL» (All – Moscow and the Moscow Region), M.A. Bent, GK «Real-Property Bulletin» (St. Petersburg and Krasnodar), M.A. Horkov and G.T. Tukhashvili, RITs UPN (Yekaterinburg), E.G. Sosnitsky and A.A. Chumakov, «Titul» (Rostov-on-Don), E.A. Yermolayeva, K. Salmina, N. Ershova, «RID Analitics» (Novosibirsk, Kemerovo, Barnaul and Krasnoyarsk), S.G. Molodkina, «UPConsAllt», E.S. Ershova, K. Brednikov, FRK «Etazhi» (All – Tyumen), E.D. Yepishina, GK «Kamskaya Dolina» (Perm), V.N. Kaminsky, E.I. Pesnya, AN «TITAN» (Tver), A. Yu. Chernov, «Ilekta» (Stavropol), E.R. Gamova and T.N. Kuklova, «Centr Nedvizhimosti» (Ulyanovsk), A.V. Trushnikov, «B.I.N.-Expert» (Sterlitamak, Ishimbai and Salavat), A.A. Moiseyeva, FSK «ETAZHI» (Tobolsk), G. Yu. Eidlina, «Realty» (Shakhty), S.V. Esikov (Vladimir, Irkutsk, Orenburg, Smolensk, Togliatti and Cheboksary), A.I. Moskalev, «InvestOtsenka» (Voronezh), R.R. Khabibrakhmanov, TATRE.ru (Kazan), R.M. Kazakov, «Yarmarka» Publishing House, M.Yu. Savina, V.V. Skvortsov, Press Agency (All - Ryazan) and A.L. Patrikeyev, SOFZHI (Samara and cities of the Samara Region).

¹¹ As compared to the sample which was used for the analysis of the pricing situation on the secondary market in the previous annual review (see G. Malginov and G. Sternik. Prices on the Real-Estate Market // Russian Economy in 2014. Trends and Prospects (Issue 35). M., The IEP. 2014, pp. 481–485), it does not include Nizhny Novgorod, Yaroslavl, Veliky Novgorod, Izhevsk and Chelyabinsk, but it is supplemented with a small group of cities (district centers) of the Samara Region (Novokuibyshevsk, Kinel, Syzran, Otradny, Zhigulevsk, Chapaevsk and Oktyabrsk).

Surgut (Tyumen Region)	85.6	87.0	78.5	1.016	0.954	0.902	0.810
Yekaterinburg	70.1	72.8	76.2	1.039	0.975	1.047	0.940
Kazan	61.2	63.7	66.6	1.041	0.977	1.046	0.939
Rostov-on-Don	62.8	63.0	66.1	1.003	0.942	1.049	0.942
Novosibirsk	59.1	61.4	65.6	1.039	0.976	1.068	0.959
Samara	55.8	58.5	64.6	1.048	0.984	1.104	0.991
Tyumen	59.4	65.7	63.8	1.106	1.039	0.971	0.872
Krasnoyarsk	59.0	61.0	61.4	1.034	0.971	1.007	0.904
Irkutsk	57.3	59.7	60.9	1.042	0.978	1.020	0.916
Krasnodar	48.2	52.0	56.4	1.079	1.013	1.085	0.974
Vladimir	51.3	52.7	55.1	1.027	0.965	1.046	0.939
Tver	57.8	56.1	54.8	0.971	0.911	0.977	0.877
Kemerovo	50.2	52.1	53.5	1.038	0.975	1.027	0.922
Perm	53.4	54.7	52.6	1.024	0.962	0.962	0.863
Voronezh	48.1	48.8	52.0	1.015	0.953	1.066	0.957
Smolensk	46.3	48.1	51.3	1.039	0.975	1.067	0.957
Orenburg	49.6	51.0	50.9	1.028	0.965	0.998	0.896
Kirov	43.3	48.5	50.9	1.120	1.052	1.049	0.942
Cheboksary	48.1	48.7	50.8	1.012	0.951	1.043	0.936
Barnaul	48.1	48.3	49.8	1.004	0.943	1.031	0.926
Tobolsk (Tyumen Region)	46.1	51.1	49.2	1.108	1.041	0.963	0.864
Omsk	44.7	47.4	48.7	1.060	0.996	1.027	0.922
Togliatti (Samara Region)	43.5	45.7	48.3	1.051	0.986	1.057	0.949
Ryazan	46.2	45.8	48.0	0.991	0.931	1.048	0.941
Novokuibyshevsk (Samara Region)	n/a	41.5	46.6			1.123	1.008
Sterlitamak (Bashkortostan)	40.3	43.8	44.0	1.087	1.021	1.005	0.902
Ulyanovsk	39.9	42.3	43.5	1.060	0.995	1.028	0.923

Cont'd

1	2	3	4	5	6	7	8
Kinel (Samara Region)	n/d	29.8	40.0			1.342	1.205
Stavropol	34.9	35.5	39.0	1.017	0.955	1.099	0.986
Syzran (Samara Region)	n/a	31.1	38.8			1.248	1.120
Ishimbai (Bashkortostan)	33.4	38.4	38.4	1.150	1.079	1.000	0.898
Salavat (Bashkortostan)	39.3	39.4	38.3	1.003	0.941	0.972	0.873
Otradny (Samara Region)	n/a	28.7	34.7			1.209	1.085
Zhigulevsk (Samara Region)	n/a	32.6	34.3			1.052	0.944
Shakhty (Rostov Region)	30.3	30.9	34.2	1.020	0.958	1.107	0.994
Chapaevsk (Samara Region)	n/a	23.1	28.9			1.251	1.123
Oktyabrsk (Samara Region)	n/a	21.6	20.7			0.958	0.860

* – in numerator – Moscow (within the same borders), in denominator – Greater Moscow.

As regards the level of prices achieved in December 2014, Moscow (Rb 226,600 per a sq. meter) surpassed by more than 100% St. Petersburg (Rb 103,000 per a sq. meter) which follows it. The group with prices from Rb 95,000 to Rb 60,000 per a sq. meter includes the Moscow Region and 9 cities (Surgut, Yekaterinburg, Kazan, Rostov-on-Don, Novosibirsk, Samara, Tyumen, Krasnoyarsk and Irkutsk). The group with average unit prices from Rb 60,000 to Rb 50,000 per a sq. meter includes 10 cities, while the group with prices from Rb 30,000 to Rb 50,000 per a sq.

meter, 16 cities. It is to be noted that only in two cities average prices on the secondary market were below Rb 30,000 per sq. meter.

Within a year, there was a periodic stability on the secondary housing market of cities included in the sample. By November, prices in Moscow, St. Petersburg and Krasnodar rose by 6.5%, 6.1% and 7.9%, respectively.

However, after a surge of prices in December when as a result of mistrust on the part of households to the banking sector there was a speculative demand on housing and mortgages, the annual growth in prices was generally as follows: Moscow – 11.5% (on the basis of the headline inflation), Shakhty (the Rostov Region) – 10.7%, Samara – 10.4%, Stavropol – 9.9%, Krasnodar – 8.5% and St. Petersburg – 7.3%. The annual growth in prices is in the range of 5% -7% in Novosibirsk (6.8%), Smolensk (6.7%), Voronezh (6.6%), the Moscow Region (5.9%), Togliatti (5.7%) and Zhigulevsk (the Samara Region) (5.2%).¹²

At the same time, on the basis of the results of the year there was a decrease in prices on the secondary housing market in individual cities of the sample: Surgut– a decrease of 9.8%, Oktyabrsk (Samara Region) – 4.2%, Perm – 3.8%, Tobolsk – 3.7%, Tyumen – 2.9%, Salavat – 2.8% and Tver – 2.3%). It is to be noted that even cities where prices kept falling during three-two quarters of 2014 (Tyumen, Tobolsk and Tver), there was growth of 1%-2% in prices in November-December.

In a larger portion of the sample, the dynamics of nominal prices on housing in 2014 was higher than a year before. It is to be noted that Ryazan and Tver stand out as compared to other cities. If in 2014 in Ryazan growth in prices (4.8%) succeeded a small drop in prices in 2013, in Tver a drop in prices was observed for two years running though at a smaller rate. In 2014, in a larger group of cities (Surgut, Tyumen, Krasnoyarsk, Irkutsk, Kemerovo, Perm, Orenburg, Kirov, Tobolsk, Omsk, Sterlitamak, Ulyanovsk, Ishimbai and Salavat) situated mainly in Siberia and Urals quite an opposite dynamics of slowdown of growth rates in prices and a decrease in prices was observed.

At the same time, in most cities of the sample a drop in real price on housing (with the inflation rate on the consumer market excluded) took place (IGS index).¹³ An exception is only Moscow where prices remained at the previous level and small cities of the Samara Region (Kinel, Chapaevsk, Syzran, Otradny and Novokuibyshevsk) where growth in real cost of housing from 1% to over 20% is justified by a high volatility of prices. On the opposite side, there are Ishimbai, Orenburg, Tver, Salavat, Tyumen, Tobolsk, Perm, Oktyabrsk and Surgut where real housing prices fell from 11% to 19%. As compared to 2013, indices of the dynamics of the real cost of housing (IGS index) rose in Moscow, St. Petersburg, Samara, Voronezh, Ryazan, Stavropol and Shakhty. As regards Rostov-on-Don, the values of the IGS index in 2014 and 2013 were the same. However, they did not enter anywhere the area of positive values.

The data on prices on the primary market was collected on 13 cities and the Moscow Region (Table 30).

Table 30

Prices on the primary market of Russian cities in the 2012–2014 period

City (Region)	Average unit price of supply, thousand Rb per sq. meter	Price index in December 2013 against December 2012	Price index in December 2014 against December 2013
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¹² A group of small cities (regional centers) (Kinel, Chapaevsk, Syzran, Otradny and Novokuibyshevsk) stands apart from others. Due to a limited volume of housing supply in that group, there is high volatility of monthly average prices, while on the basis of the results of 2014 growth in housing prices happened to be higher than the level of the rate of inflation on the consumer market. Among those cities only Syzran and Novokuibyshevsk with the population of over 100,000 persons are fairly developed industrial cities, though they can hardly be compared, for example, with Togliatti.

¹³ Calculation of the IGS index is carried out on the basis of the following formula: $IGS = I_{up}/I_{cp}$, where I_{up} – the index of price on housing in rubles and I_{cp} is the index of consumer prices.

	December 2012	December 2013	December 2014	nominal	real (IGS)	nominal	real (IGS)
Moscow	230.3/205.5*	215.5	216.0	0.936/1.049*	0.879/0.985*	1.002	0,900
St. Petersburg	85.0	90.5	96.5	1.065	1.000	1.066	0,957
Moscow Region	70.7	76.5	81.0	1.082	1.016	1.059	0,950
Yekaterinburg	57.5	60.8	65.5	1.057	0.993	1.077	0,967
Kazan	50.9	49.4	57.1	0.971	0.911	1.156	1,038
Samara	48.5	49.4	57.0	1.019	0.956	1.154	1,036
Tyumen	50.4	55.9	57.0	1.109	0.996	1.020	0,915
Novosibirsk	51.3	51.7	54.6	1.008	0.946	1.056	0,948
Perm	48.0	47.1	50.8	0.981	0.921	1.079	0,968
Voronezh	43.2	43.9	46.5	1.016	0.954	1.059	0,951
Krasnodar	40.2	42.8	43.9	1.065	1.000	1.026	0,921
Sterlitamak (Bashkortostan)	40.3	43.8	42.1	1.087	1.021	0.961	0,863
Ryazan	36.2	37.0	40.5	1.022	0.960	1.095	0,983
Stavropol	31.2	30.4	34.5	0.974	0.915	1.135	1,019

* – in numerator – Moscow (within the same borders), in denominator – Greater Moscow.

On the primary housing market of cities of the sample, a relative stability is observed; it is to be noted that fluctuations among average unit prices were caused by changes in the pattern of supply depending on the class of projects offered and the stage of their development, rather than upswings of demand.

As regards growth in prices on the primary housing market, the leaders were Kazan (15.6%), Samara (15.4%) and Stavropol (13.5%) where growth in real cost (with adjustment to the rate of inflation of 11.4%) of housing (IGS index) took place. The larger group of cities where the range of growth in prices on the basis of the results of the year amounted to 5%-10% included Ryazan (9.5%), Perm (7.9%), Yekaterinburg (7.7%), St. Petersburg (6.6%) and Voronezh (5.9%). A similar result (growth of 5.9%) was observed in the Moscow Region, while in Moscow prices on the primary market did not virtually change. In other cities of the sample, insignificant growth in prices took place, while in Sterlitamak prices even fell by 3.9%.

In 2014, as compared to 2013 progressive dynamics of nominal prices took place in a larger portion of the sample (Yekaterinburg, Kazan, Samara, Novosibirsk, Perm, Voronezh, Ryazan and Stavropol). In five cities from those mentioned above (Kazan, Samara, Novosibirsk, Perm and Stavropol), indices of the dynamics of the real cost of housing (IGS index) happened to be higher, too; it is to be noted that in Kazan, Samara and Stavropol the value of that index entered the area of positive values.

The data of *Table 31* show that in the past three years the average unit price of housing on the secondary market was everywhere ahead of that on the primary market.

Table 31

Correlation of prices on the secondary and primary housing markets in Russian cities in the 2012–2014 period

City (Region)	December 2012			December 2013			December 2014		
	Average unit price of supply		(2)/(1),%	Average unit price of supply		(2)/(1),%	Average unit price of supply		(2)/(1),%
	On the secondary market, thousand Rb/sq. meters (2)	On the primary market, Thousand Rb /sq. meter (1)		On the secondary market, thousand Rb/sq. (2)	On the primary market, thousand Rb/sq. meter (1)		On the secondary market, thousand Rb/sq. (2)	On the primary market, thousand Rb/sq. meter (1)	
Moscow	203.0/195.5*	230.3/205.5*	88.1/95.1*	203.3	215.5	94.3	226,6	216,0	104,9
St. Petersburg	95.0	85.0	111.8	96.0	90.5	106.1	103,0	96,5	106,7
Moscow Region	84.3	70.7	119.2	88.2	76.5	115.3	93,4	81,0	115,3
Yekaterinburg	70.1	57.5	121.9	72.8	60.8	119.7	76,2	65,5	116,3
Kazan	61.2	50.9	120.2	63.7	49.4	128.9	66,6	57,1	116,6
Samara	55.8	48.5	115.1	58.5	49.4	118.4	64,6	57,0	113,3
Tyumen	59.4	50.4	117.9	65.7	55.9	117.5	63,8	57,0	111,9
Novosibirsk	59.1	51.3	115.2	61.4	51.7	118.8	65,6	54,6	120,1

Perm	53.4	48.0	111.3	54.7	47.1	116.1	52,6	50,8	103,5
Voronezh	48.1	43.2	111.3	48.8	43.9	111.2	52,0	46,5	111,8
Krasnodar	48.2	40.2	119.9	52.0	42.8	121.5	56,4	43,9	128,5
Sterlitamak (Bashkortostan)	40.3	40.3	100.0	43.8	43.8	100.0	44,0	42,1	104,5
Ryazan	46.2	36.2	127.6	45.8	37.0	123.8	48,0	40,5	118,5
Stavropol	34.9	31.2	111.9	35.5	30.4	116.8	39,0	34,5	113,0

* – in numerator – Moscow (within the same borders), in denominator – Greater Moscow.

Earlier, an important exception was the capital of Russia¹⁴. However, after joining to it of a portion of the territory of the Moscow Region the situation changed and in December 2014 prices on the secondary market in Moscow started to exceed those of the primary market (4.9%). Together with Perm and Sterlitamak, Moscow formed a group of cities where such a difference in prices amounted maximum to 5%. In a larger portion of the sample (the Moscow Region and 9 cities), the excess of prices of the secondary market was in the range of 11% to 20%, while in Krasnodar it amounted to the maximum value of 28.5%.

In the 2012–2014 period, in Krasnodar and Novosibirsk there was steady growth in the value of excess of prices on the secondary market. On the contrary, in Yekaterinburg, Tyumen and Ryazan, the gap between prices on the secondary and primary markets was narrowing, while in Voronezh it was quite a stable one. In other cities of the sample, there were mixed changes in it from year to year.

6.5.5. The Situation on the Real Property Market of Specific Cities and the Role of Mortgage Support

Early in 2014, the volumes of apartments for sale were quite stable, but due to exhaustion of the supply in a situation of a surge in real-estate activities in spring the supply decreased by summer, while in the last few months of 2014 it was falling as a result of both peak sales and removal by sellers of apartments from sale. A situation typical of many cities was observed in St. Petersburg (*Fig. 13*).

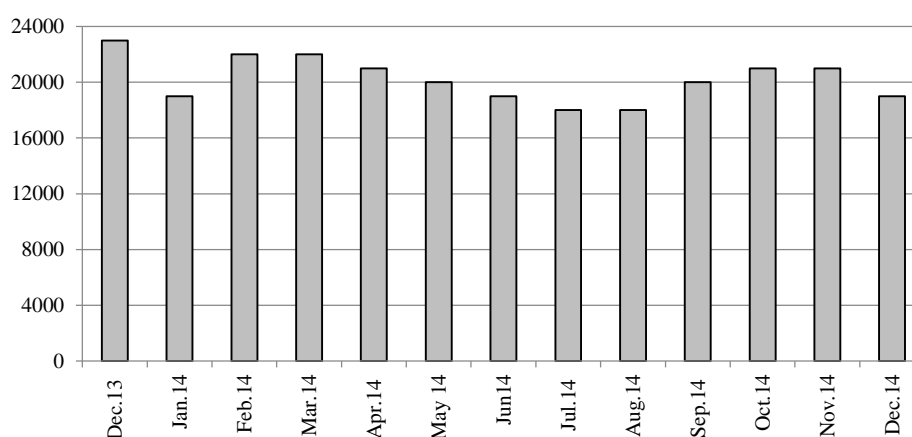


Fig. 13. Monthly dynamics of the volume of housing supply in St. Petersburg

According to the data of the Center for Research and Analysis of the Bulletin Nedvizhimosti Group of Companies, in St Petersburg prices on the secondary market kept growing during 2014. The main specifics of the second year of stagnation for the Russian housing market consisted in the fact that sudden revivals were followed by symmetrical slumps.

Most market participants and analysts are unanimous that the main factor behind growth in demand late in 2014 was the same as six months ago. Investments in housing were regarded as

¹⁴ Another exception is Sterlitamak where late in 2012 and 2013 prices on the secondary and primary markets were the same.

opportunity to save the money in a situation of another wave of depreciation of the national currency.

“No feverish demand. Just some activities by people who were late to convert their ruble savings into euro and US dollars”, S. Bobashev, Chief Analyst of the Bulletin Nedvizhimosti Group of Companies said.

“Substantial depreciation of the ruble exchange rate against foreign currencies makes Russians invest money in housing. That is why at present there is a surge in demand on the primary real-estate market”, P. Yakovleva, Director of the Residential Housing Department of the NAI Becar states.

A correspondent of the NGS NEDVIZHIMOST reported from Novosibirsk that throughout 2014 behavior of real-estate prices was not a typical one: they grew in those months when they normally fell and vice versa. In particular, housing prices rose in February-March at the backdrop of the Olympic Games and developments in Ukraine. There was no appreciation of housing prices in autumn, but the collapse of the ruble in December and dramatic growth in mortgage rates heated up the real-estate market which was, figuratively saying, almost in the state of winter dormancy.

In December 2014, the number of applications for buying apartments rose 1.5 times over as compared to November; it is to be noted that any sort of housing from rooms to luxurious apartments was in high demand. Both residents of Novosibirsk and non-residents were buying apartments. For example, nationals of Kazakhstan who were accustomed to US dollar prices on housing were buying it for cash because after depreciation of the ruble it was advantageous to them. In the last few days of December, growth in the economy-class housing increased by 150%, while in the business-class segment, by 100%. Feverish demand on real property prompted a number of developers to raise prices, while some of them even halted sales. Apartment owners raised prices and refused to bargain. Some owners even dissolved agreements with real-estate agencies despite the pledge made. In a situation of growing demand, sellers had a good grip of the situation. Buyers did not even think of bargaining.

According to E. Nekrasova, General Director of *Must Have*, an elite real property company, in Moscow price volatility in that segment is related to shifts in the pattern of consumption, that is, a partial substitution on the part of wealthy domestic buyers of foreign demand.

The number of European and US buyers decreased on account of employees of the financial (primarily banking) sector and experts engaged in supplies of high-tech equipment for the oil and gas industry. Demand was underpinned by buyers whose high income was determined by those people's competence which is in a particular demand in the new social and economic realities of 2014. They included experts engaged in development of the national system of payment cards (NSPC) and managers of large agricultural holdings and companies of the defense industry complex. For different reasons, they were at an advantage as a result of mutual sanctions imposed. Also, six months prior to the developments of February-March 2014 the number of buyers from Ukraine started to grow substantially.

Despite a drop in growth rates of households' income, in 2014 in Moscow in general as a result of a surge in market activities in spring and autumn 162,000 purchase and sale real-estate transactions on the secondary market were registered; according to the reporting of the Rosreestr from 2013, the above transactions also included swap transactions (a 23.1% growth), 43,200 mortgage contracts (a 22.4% growth) and 24,000 equity construction agreements (a 12.7% growth). It is to be noted that the dynamics of the number of registered equity construction agreements is not quite correct due to a time lag in provision of reporting by relevant companies.

According to the Moskomstroinvest,¹⁵ the list of scrupulous developers made up on the basis of the reporting for Q4 2013 included 139 Moscow-based building companies which attracted individuals' funds for equity construction, while in Q3 2013 such reporting was provided by 131 companies. It is to be noted that in 2011 the number of such developers was equal only to 20. According to experts' estimates, in Moscow the share of registered equity construction agreements

¹⁵ Restko.ru

in the total number of the signed ones amounted to 75%–80%, while as regards other cities there is a high dispersion in implementation of such procedures.

According to the data of the Rosreestr, in January–November 2014 in the Moscow Region the number of registered equity construction agreements rose by one-third. More intense consumer activities on the housing market were observed in the Moscow Region in December –as compared to the previous month growth in the registered equity construction agreements and mortgage agreements amounted to 92.7% and 27.8%, respectively. The total number of registered titles to housing increased by two-thirds against the index of November.

On the basis of the results of 2014, the unit weight of mortgage-related transactions on the primary market of the capital region amounted to nearly 50%, while as regards projects which were in particular demand, to 80%. According to experts' calculations, one-room and two-room apartments account for the main share of all the mortgage transactions. Due to a limited purchasing power, 75% of buyers who take mortgage loans buy apartments in New Moscow and in the vicinity of Moscow.

At the same time, despite the impact of international developments and general economic situation in the country the volume of mortgage lending in Russia kept growing as in the previous years though at a declining rate.

Abnormal nature of the dynamics of mortgage lending was registered by experts as early as the beginning of 2014. From February, sudden growth in applications for mortgage loans began. A portion of households which had savings used them for purchasing housing or invested in construction. It is to be noted that many buyers who used mortgage did not have enough funds. The above situation may result in aggravation of the problem related to servicing of extended loans.

In 2014, in the Russian Federation the volume of the overdue debt on mortgages rose by 19%. If in H1 stabilization of the level of the overdue debt was observed, from the beginning of Q4 the situation started to change dramatically: in September the value of that index rose by 0.2% as compared to the previous month, while on the basis of the results of October and December by 4.5% and over 5%, respectively. There was dramatic aggravation of problems related to servicing of debts of borrowers who took loans in foreign currency.

In the 2011–2013 period, the level of interest rates on mortgage loans in rubles fluctuated at the level of about 12%–13%, but after growth in the key interest rate of the Central Bank of the Russian Federation it rose in a short period of time to 15%–17% and more. Shortly after that, two large Russian banks with state participation announced that they were going to raise interest rates on mortgages. The Sberbank raised the rates on baseline mortgage products on average by 2 p.p.: as regards customers “from the street” applications for loans for purchasing of “turn-key” apartments will be met at the rate of 14.5%–15.5%, while those for purchasing of housing which is under construction, at the rate of 15%–16%. The VTB 24 raised interest rates both on new loan applications and those which were submitted earlier. Now the VTB 24 set a single rate of 14.95%. The above banks promised not to review interest rates on loans which were extended earlier. Private banks raised interest rates even further and exceeded the level of 17%.

According to M. Litinetskaya, General Director of the Metrium Group, all those developments resulted in substantial growth in the number of purchase and sale transactions late in 2014 because households fearing depreciation of the ruble actively invested funds in purchasing of housing including that with use of mortgages.

According to the OAO AHML, the “psychological level” in terms of acceptability of lending for mortgage borrowers is the rate of 15% per annum. However, in a situation of depreciation of the ruble demand on housing and mortgages is heated by willingness of a portion of households to invest available funds in that asset. Due to the above, there is quite the opposite trend now: feverish demand is observed in state-run banks which raised interest rates.

6.5.6. Prospects of Development of the Housing Market

As applied to modeling of the residential housing market, all the macroeconomic and sectorial indices were calculated with taking into account the actual level in Moscow in the base 2012 year and the regional forecast for subsequent years. In respect of other macroeconomic and market initial data (stratification of the population by the level of income, the share of demand depending on the correlation between demand and supply, cash volume of the supply of mortgage loans and other) preservation thereof at the level of the base 2012 year was acceptable.

Calculations were carried out with utilization of a math model of functioning of the local housing market¹⁶. The outputs of calculations are presented in *Fig. 14 a) and b)*.¹⁷

So, in 2014 the stability of the Moscow housing market was expected to continue and, generally, it was as such situation, except for higher actual data as regards the index of the volume of absorption and prices on the secondary market in December.

In the 2015–2016 period, recession on the Moscow residential property market is expected, that is, slowdown of growth rates of demand, housing development, commissioning of new housing, supply of housing, absorption of housing and prices.

So, according to the forecast in 2015 on the primary market demand will decrease by 15%–20% and happen to be below the level of supply; as a result of that, the volume of absorption of housing on the market will fall by 10% and prices will be going down (in 2015 – an insignificant decrease, while in 2016 – a drop of 3%–4%). In 2016, on the secondary market demand will fall below the level of supply, the volume of absorption is expected to start shrinking already in 2015 due to the limited volume of supply, while prices fall by 5%–6% in 2016.

Experts' forecasts are close to those calculated on the basis of the model.

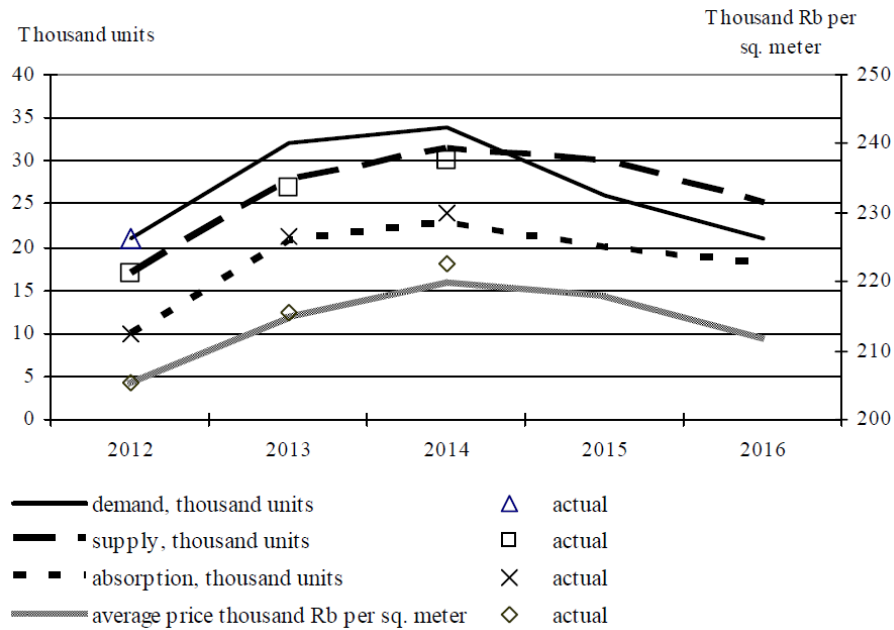
I. Shaikhutdinov, Chairman of the Sectorial Branch of the Delovaya Rossia Nationwide Non-Profit Organization and General Director of the Institute of Financial Development of Business believes that in 2015 with taking into account the crisis phenomena in the economy many companies will fix losses and due to that the access to bank funding is to be limited for them. Such a situation will have a negative impact on growth rates of volumes of housing development.

I. Husainov, Director of FRK Etazhi (Tyumen) confirmed that in 2015 the entire real-estate market is in the area of a potential risk. However, he is confident that no serious consequences will follow. Regional authorities have sufficient potential to prevent repetition of the situation with deceived shared construction participants, while risks faced by individual developers may be handled by means of provision of target support or buy-out of apartments at a dumping price.

a) The Primary Market

¹⁶ G.M. Sternik, S.G. Sternik and A.V. Sviridov. The Methods of Forecasting of the Russian Real Property Market. Part 4. Methods of Mid-Term Forecasting of the Local Real Property Market – Mechanization of Construction – 2014, No. 4, pp. 60–62.

¹⁷ In *Fig.14* the “absorption” curve shows the number of purchase and sale transactions and swap transactions on the secondary market and the total floorspace of apartments which left the primary market. On the secondary market, the unit of measurement of the volume of absorption is the number of apartments, while on the primary market, it is the number of sq. meters.



b) The Secondary Market

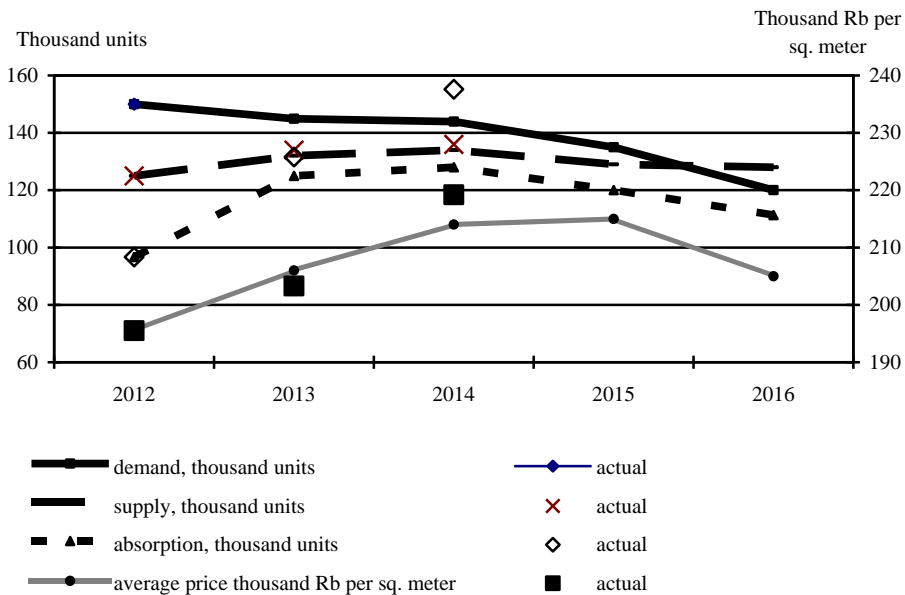


Fig. 14. The forecast of the actual dynamics of development of the residential housing market in Moscow

Acute economic difficulties naturally result in a drop in demand and in that situation it is crucially important whether developers are able to reduce prices. Taking into account the situation of the last few business days of 2014 when mass scale purchases took place the expert expressed confidence that prices would be reduced by developers which permanently needed funds and in addition to that it is to be noted that clients “from the future” who would not come later dominated among customers.¹⁸

¹⁸<http://franch.etagi.com/news/77-intervyu-s-ildarom-husainovym-direktorom-kompanii-etazhi-na-vserossiyskom-franchayzingovom>.

D. Kolokolnikov, Chairman of the Board of Directors of the RRG Group of Companies believes that in Q1 2015 demand on leasing of commercial real estate is to go down. A substantial share of tenant-companies may halt or revise their plans as regards development of their business, while a number of companies is going to close down altogether which situation naturally results in further drop in demand on high-quality office and shopping premises, and warehouses. In 2015, new projects can hardly be expected. Due to high economic uncertainties, it is too risky to enter the market with any large-scale plans. Also, appreciation of the key interest rate of the Central Bank of the Russian Federation will have a negative effect on developers: due to growth in the cost of loans, the cost of implementation of projects will increase. Taking into account the existing high rates on loans for business, most developers will be operating at a loss.¹⁹

The preliminary estimates of the Standart & Poor's²⁰ show that in the 2014–2015 period real housing prices (consumer prices adjusted for the rate of inflation) are going to fall in a situation of weakening of the economy and slowdown of growth rates of households' income. The real average nationwide price of 1 sq. meter of housing will be decreasing at the rate of about 3% a year, while the nominal price is to appreciate within the same limits.

Generally, the analysis shows that on the basis of the outputs of 2014 there is no need in revising the six-month old forecast either downward or upward.

¹⁹ <http://rrg.ru/news/13406#.VLPunpfk8U8.facebook>.

²⁰ standardandpoors.com.