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The review provides a detailed analysis of main trends in Russia's economy in 2015. 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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## Price dynamics on residential property in Russia in 2015<sup>1</sup>

The main indices of the dynamics of prices on the secondary housing market of Russian cities are shown in *Table 12*. 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).<sup>2</sup>

The research sample includes 28 cities and one region (Moscow region in respect of which averaged readings on 85-90 population centers are presented) including 23 cities which are centers of the RF subjects with total population of over 42.1m people.<sup>3</sup>

The sample presents:

- Moscow (about 12.2m people);
- The Moscow region (with the aggregate urban population of 5.9m) and St. Petersburg (over 5.2m people) – aggregately 11.1m people;
- 9 cities with the population of over 1m people apart from two capitals (Novosibirsk, Yekaterinburg, Kazan, Chelyabinsk, Samara, Omsk, Krasnoyarsk, Perm and Voronezh) – totaling to 10.6m;
- 9 cities with the population from 500,000 people to 1m people (Togliatti, Barnaul, Tyumen, Ulyanovsk, Irkutsk, Vladivostok, Yaroslavl, Kemerovo, and Ryazan) – totaling to over 5.6m people;
- 6 cities with the population from 200,000 to 500,000 people (Kirov, Stavropol, Vladimir, Surgut, Smolensk, and Shakhty) – totaling to over 2.2m;
- 2 cities with the population below 200,000 people (Pervouralsk and Tobolsk) – totaling to over 0.2m people.

*Table 12*

### Prices on the secondary housing market in Russian cities in 2013–2015

City (Region)	Average unit asking price, thousand Rb/ sq. meters			Price index in December 2014 against December 2013		Price index in December 2015 against December 2014	
	December	December	December	nominal	real (IGS)	nominal	real (IGS)

<sup>1</sup> Authors of this section: Malginov G. – Gaidar Institute for Economic Policy, Sternik G. – Moscow Association of Realtors on Analytics and Consulting, JSC Sternik’s Consulting.

<sup>2</sup> Sources of data: Committee of the Moscow Association of Realtors on Analysis and Consulting (on data of “MIEL”, “MIEL-New Construction), JSC “Sternik’s Consulting”, GK “Real-Property Bulletin”, JSC “Industria” (Vladivostok), as well as Online figure of price dynamics on the secondary market of Russian cities (URL: <http://realtymarket.ru/Publi-nii-grafik-cen-vtori-noi-nedvijimosti-gorodo/>).

<sup>3</sup> 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 36). M., The IEP. 2015, pp. 526-531), it does not include Rostov-on Don, Krasnodar, Orenburg, Cheboksary, Tver, small groups of cities (district centers) of Bashkortostan and Samara region but added Chelyabinsk, Vladivostok and Yaroslavl.

	2013	2014	2015				
Moscow	203.3	226.6	218.5	1.115	1.000	0.964	0.854
St. Petersburg	96.0	103.0	103.0	1.073	0.963	1.000	0.886
Vladivostok		95.0	96.8			1.019	0.903
Moscow Region	88.2	93.4	90.9	1.059	0.951	0.973	0.862
Surgut (Tyumen Region)	87.0	78.5	71.3	0.902	0.810	0.908	0.804
Yekaterinburg	72.8	76.2	70.7	1.047	0.940	0.928	0.828
Tyumen	65.7	63.8	58.9	0.971	0.872	0.923	0.818
Kazan	63.7	66.6	65.3	1.046	0.939	0.980	0.868
Novosibirsk	61.4	65.6	60.4	1.068	0.959	0.921	0.816
Krasnoyarsk	61.0	61.4	54.8	1.007	0.904	0.893	0.791
Irkutsk	59.7	60.9	57.9	1.020	0.916	0.951	0.842
Samara	58.5	64.6	62.6	1.104	0.991	0.969	0.858
Yaroslavl	57.7	57.3	53.6	0.993	0.891	0.935	0.829
Perm	54.7	52.6	52.7	0.962	0.863	1.002	0.888
Vladimir	52.7	55.1	52.7	1.046	0.939	0.956	0.847
Kemerovo	52.1	53.5	49.1	1.027	0.922	0.918	0.813
Tobolsk (Tyumen region)	51.1	49.2	44.3	0.963	0.864	0.900	0.797
Voronezh	48.8	52.0	45.8	1.066	0.957	0.881	0.780
Kirov	48.5	50.9	47.7	1.049	0.942	0.937	0.830
Barnaul	48.3	49.8	46.5	1.031	0.926	0.934	0.827
Smolensk	48.1	51.3	46.9	1.067	0.957	0.914	0.810
Omsk	47.4	48.7	46.7	1.027	0.922	0.959	0.849
Ryazan	45.8	48.0	45.8	1.048	0.941	0.954	0.845
Tolyatti (Samara region)	45.7	48.3	44.8	1.057	0.949	0.928	0.822
Chelyabinsk	43.0	47.0	41.6	1.093	0.981	0.885	0.784
Ulyanovsk	42.3	43.5	41.2	1.028	0.923	0.947	0.839
Pervouralsk (Sverdlovsk region)		42.9	38.6			0.900	0.797
Stavropol	35.5	39.0	37.6	1.099	0.986	0.964	0.854
Shakhty (Rostov region)	30.9	34.2	34.8	1.107	0.994	1.018	0.902

In Moscow, the secondary housing market saw a continuation of price rise through March 2015 (Rb 244,400 per sq. meter). Then under the influence of subsidized mortgage the demand moved to the primary housing market, by May prices somewhat fell (to Rb 235,000 per sq. meter), and stabilized at this level in summer. From autumn price reduction took on and the end of the year was below the level of December 2014 by 3.6% constituting Rb 218,500 per sq. meter.

On the secondary housing market of the Moscow region prices were growing through May (Rb 95,800 per sq. meter) and then were gradually falling to Rb 94,000 per sq. meter in August-September. This trend was observed later as a result of which at year-end the prices as in Moscow fell below the level of December 2014 by 2.7% to Rb 90,900 per sq. meter.

In St. Petersburg housing prices on the secondary market were growing through March (Rb 107,300 per sq. meter) and then by June fell to Rb 104,500 per sq. meter returning by the end of the year to the level of December 2014 (Rb 103,000 per sq. meter). Thus, the capital regions did not register housing price dynamics during the year. In the wake of significant changes in the scale of mortgage support and volumes of transactions with apartments, the sellers stubbornly maintained asking prices without significant changes,

In other regions, the situation was developing the same way. On the secondary housing market in the majority of sample cities during the first one-two months asking prices were growing and then were falling.

At year-end as a whole, housing price reduction took place in practically all cities except St. Petersburg, Perm, Vladivostok and Shakhty (Rostov region). In those cities insignificant

(less than 2%) growth of nominal prices was observed, which was within the framework of the general trend of growth in Q1 with further gradual reduction (in case of Vladivostok and Perm). The group of cities with less obvious decrease of prices (within 5%) besides Moscow and the Moscow region, were Kazan, Samara, Omsk, Vladimir, Ryazan, and Irkutsk. At the other end were Voronezh, Chelyabinsk, Krasnoyarsk, Tobolsk, and Pervouralsk where prices fell by 10–12%. In other cities price decrease constituted between 5-10%.

In the larger portion of the sample, growth of the nominal housing prices by the end of 2014 gave way to their decline in 2015. Somewhat aside, stand St Petersburg where after the growth in 2014 prices remained at a year earlier level and Perm where following price reduction posted in 2014 followed their symbolic growth. In Shakhty compared to 2014, price growth rates fell five-fold, which allows to speak about their stabilization.<sup>1</sup> Another exception were Yaroslavl and cities of the Tyumen region: in Tyumen and Tobolsk last year prices continued falling at a growing rate and in Surgut price decrease turned out to be comparable with 2014.

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, which constituted in 2015 12.9%) took place (IGS index).<sup>2</sup> In the largest portion of the sample, decline stayed within 11-20%. Lower (around 10%) is was solely in Vladivostok and Shakhty exceeding 20% in Pervouralsk, Tobolsk, Krasnoyarsk, Chelyabinsk, and Voronezh.

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

Table 13

Prices on the primary market of Russian cities in 2013–2015

City (Region)	Average unit asking price, thousand Rb per sq. meter			Price index in December 2014 against December 2013		Price index in December 2015 against December 2014	
	December 2013	December 2014	December 2015	nominal	real (IGS)	nominal	Real (IGS)
Moscow	215.5	216.0	182.6	1.002	0.900	0.845	0.749
St. Petersburg	90.5	98.0	100.4	1.083	0.972	1.024	0.907
Moscow Region	76.5	81.0	80.3	1.059	0.950	0.991	0.878
Yekaterinburg	60.8	65.5	66.4	1.077	0.967	1.014	0.898
Kazan	49.4	57.1	62.9	1.156	1.038	1.102	0.976
Samara	49.4	57.0	54.2	1.154	1.036	0.951	0.842
Tyumen	55.9	57.0	55.1	1.020	0.915	0.967	0.856
Rostov-on-Don		53.1	50.6			0.953	0.844
Yaroslavl	48.2	50.6	52.9	1.050	0.942	1.045	0.926
Ryazan	37.0	40.5	38.0	1.095	0.983	0.938	0.831
Ulyanovsk		38.0	38.0			1.000	0.886
Stavropol	30.4	34.5	34.8	1.135	1.019	1.009	0.893

In Moscow, in January 2015, on the primary market housing price growth continued due to reaction of the population on the ruble devaluation in December 2014. However, by March 2015 prices fell to Rb 203,400 per sq. meter (against Rb 216,900 per sq. meter in January) and

<sup>1</sup> Price stability in Shakhty registered during the year, most likely, is affected by the proximity of the Ukrainian conflict.

<sup>2</sup> Calculation of the IGS index is carried out on the basis of the following formula:  $IGS = I_{hp}/I_{cp}$ , where  $I_{hp}$  – housing price index in rubles;  $I_{cp}$  – consumer price index.

later with somewhat ruble strengthening and stability through August remained at the level of around Rb 200,000 per sq. meter. In autumn, prices resumed their decline and turned out to be by the end of the year (Rb 182,600 per sq. meter) below the level of December 2014 at 15.5%. According to different data, the amount of rebate on the primary housing market constituted in Russia in 2015 on average 10-15% (from 2-15% in summer and 5-25% in autumn). The share of apartments sold with a discount was estimated at 60-80%. Price negotiation index (ratio between average asking prices to average prices of transactions) stands at 1.07-1.10.

In the Moscow region on the primary housing market prices were growing through February (Rb 83,600 per sq. meter) and then by April fell to Rb 81,800 per sq. meter. Further, prices stabilized at Rb 82,000 per sq. meter, which was followed by price decline commencing from September. However, in contrast with Moscow, they hardly differed from the level of December 2014 by the end of the year (Rb 80,300 per sq. meter against Rb 81,000 per sq. meter, the difference constituted less than 1%).

The situation on the primary housing market in St. Petersburg was characterized by somewhat higher volatility. In January, prices went up to Rb 102,900 per sq. meter and then by June fell to Rb 98,800 per sq. meter. Followed unexpected growth pushed prices by October to the level exceeding the January level (Rb 103,800 per sq. meter). However, later, they began falling to Rb 100,400 per sq. meter at the end of the year, which nevertheless was above the level registered in December 2014 by 2.4%.

At year-end, in other cities changes in the average housing prices on the primary market were differently directed. Like in St. Petersburg prices moved up in Stavropol, Yekaterinburg, Yaroslavl, and Kazan, and in the latter by more than 10%. However, the growth rate was weaker than a year earlier. In Ulyanovsk, they remained unchanged. In Tyumen, Rostov-on-Don, Samara, and Ryazan price reduction took place but it was lower than in Moscow where its depth was the greatest (more than 15%).

Principal factors, which affected the level of price reduction on the Moscow primary housing market were external ones (drop in income, contraction of migration, decrease of investors activity) in principle are effective in other cities. However, Moscow faces the influence of other additional important internal factors.

One of them consists in the structural shift due to the change in the share of apartments supply inside Moscow in modern borders (Big Moscow) with existing difference in price level. For example, the share of supply in Moscow in former borders (Old Moscow) fell over the year from 75% to 68% (with price in December 2015 at Rb 242,700 per sq. meter) and the proportion of added territories (New Moscow) moved up from 25% to 32% (with price at Rb 103,100 per sq. meter). Calculations demonstrate that impact of this structural shift on the average price across Big Moscow constituted 4.8%.

Another shift was due to the change in the class of quality of commissioned housing: in December 2014 around 35% supply in Moscow as a whole was in the business-class segment and elite class (average price – Rb 307,300 per sq. meter), 65% - comfort and economy-class segment (average price – Rb 122,100 per sq. meter). In December 2015, the share of housing in prestige class changed slightly (37%), but average price fell to Rb 283,300 per sq. meter (or around 8%). The share of large-scale housing constituted 63% with price at Rb 116,400 per sq. meter. In other words, decrease amounted to less than 5%. These structural changes added 1.8% to the decline of the average price across Big Moscow.

In all cities indicators of real housing price (IGS index) fell compared to 2014, meanwhile, the value of contraction of this index was bigger than year earlier. In the smallest degree this trend was in Kazan, Yaroslavl, and St. Petersburg where reduction of real housing price did not

exceed 10%, although in 2014 in Kazan as in Samara and Stavropol IGS index demonstrated growth.

The data of *Table 14* 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 14*

**Correlation of prices on the secondary and primary housing markets  
in Russian cities in 2013–2015**

City (Region)	December 2013			December 2014			December 2015		
	Average unit asking price		(2)/(1), %	Average unit asking price		(2)/(1), %	Average unit asking price		(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. meters (2)	On the primary market. Thousand Rb /sq. meter (1)		On the secondary market, thousand Rb/sq. meters (2)	On the primary market. Thousand Rb /sq. meter (1)	
Moscow	203.3	215.5	94.3	226.6	216.0	104.9	218.5	182.6	119.7
St. Petersburg	96.0	90.5	106.1	103.0	98.0	105.1	103.0	100.4	102.6
Moscow Region	88.2	76.5	115.3	93.4	81.0	115.3	90.9	80.3	113.2
Yekaterinburg	72.8	60.8	119.7	76.2	65.5	116.3	70.7	66.4	106.5
Kazan	63.7	49.4	128.9	66.6	57.1	116.6	65.3	62.9	103.8
Samara	58.5	49.4	118.4	64.6	57.0	113.3	62.6	54.2	115.5
Tyumen	65.7	55.9	117.5	63.8	57.0	111.9	58.9	55.1	106.9
Ryazan	45.8	37.0	123.8	48.0	40.5	118.5	45.8	38.0	120.5
Stavropol	35.5	30.4	116.8	39.0	34.5	113.0	37.6	34.8	108.0

Earlier, an important exception was the capital of Russia. However, by the end of 2014, after joining to it of a portion of the territory of the Moscow Region the situation changed and in December 2015 prices on the secondary market in Moscow started to exceed those on the primary market by around 20%. Slightly higher prices were registered in Ryazan, and in localities near Moscow and Samara it constituted more than 13–15%. In Stavropol, Tyumen and Yekaterinburg higher prices of the secondary market averaged between 6.5 and 8.0%, and in St. Petersburg and Kazan, it constituted less than 3–4%.

In more than half of sample cities (St. Petersburg, Yekaterinburg, Kazan, Tyumen, and Stavropol) during 2013-2015 price convergence between primary and secondary housing prices was observed. At year-end 2015, localities near Moscow added. In Samara and Ryazan changes year-on-year had differently directed character. Only Moscow demonstrated exceeding price growth on the secondary market.

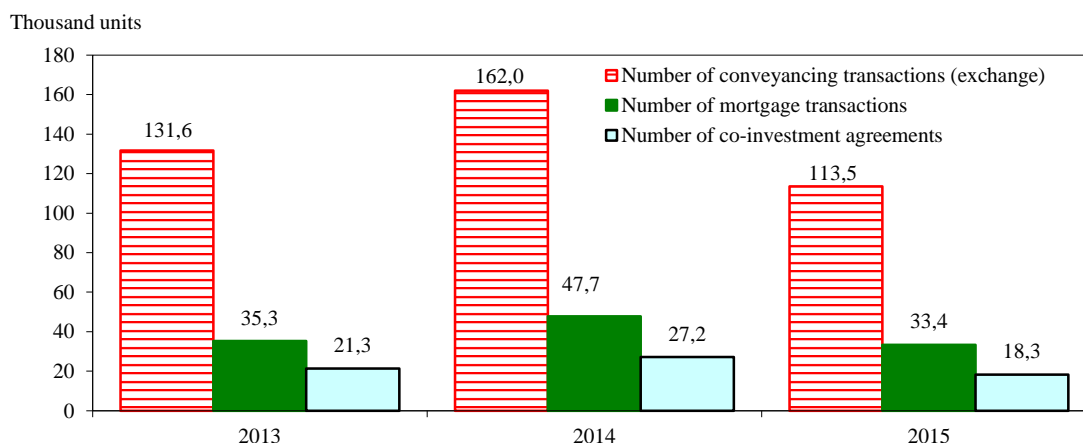
Thus, prices on primary and secondary housing market of Russian cities were falling but there was no housing price crash. On the whole, the housing market turned out to be the most stable segment of the economy, which speaks about a relative efficiency of anti-crisis measures adopted by the authorities and developers.

***Internal factors which determined price dynamics and activity on the market***

Following the slide of the mortgage transactions volume posted in January-February 2015 due to the key rate hike, which correspondingly led to high mortgage lending rates, measures

adopted by the government aimed at support of the building industry (March decision on subsidizing mortgage lending rate on the primary market)<sup>1</sup> resulted in the growth of the number of mortgage transactions, which prevented collapse of the housing construction industry. Hereafter, with the gradual decrease of the key rate mortgage rate was also falling. If in Q1 it averaged 14.5%, then during H1 – 13.9% and at year-end 2015 – 13.3% (in 2014 – 12.45%). On mortgage loans denominated in foreign currency the rate, on the contrary, moved up from 9.25% to 9.82%.<sup>2</sup> However, they accounted for less than 0.5% of the total loans originated, which demonstrates a rather limited importance of the issue with currency borrowers. According to estimates of AHML’s General Director, A. Plutnik, out of the total number of mortgage borrowers (3.5m people) there are solely 18,000 including 2,000 who are in financial straits. During the year, banks have restructured 30% of the currency mortgage portfolio.<sup>3</sup>

Despite the State Program of mortgage interest rates subsidization under which 210,000 mortgage loans were originated, the total amount of extended mortgage loans contracted in 2015 by 35% (Rb 1,143.6bn against Rb 1,753.3bn a year earlier).<sup>4</sup> Owing to a reduction in the volume of mortgage absorption and decline in solvency of the population on the whole, decrease in the volume of demonstrated demand in the country constituted according to experts’ estimates up to 40%. Correspondingly, there was a contraction in the volume of transactions on the secondary and primary residential housing markets. Their dynamics across Moscow is presented in *Fig. 8*.



*Fig. 8.* Number of registered transactions on Moscow housing market in 2013–2015

Source: Rosreestr.

In Moscow the number of mortgage transactions contracted from 4,500 posted in December 2014 to 1,700 registered in January 2015. Hereafter, growth was observed from 2,300-2,700 transactions registered in February-March to 3,500 by June and 4,100 by July. However, in H2 against the background of income contraction and unstable situation on the currency market

<sup>1</sup> Within the framework of the state program on preferential mortgage lending rate does not exceed 12.0%. It is applicable solely to the primary housing market. The Program was effective from March 1, 2015 through March 1, 2016 and then was extended through the end of 2016. In 2016, the Program will absorb Rb 16.5bn, and a number of parameters can be changed compared to the previous year.

<sup>2</sup> Socio-economic state of Russia. January 2016. Moscow, Rosstat, pp. 198–200.

<sup>3</sup> Tonus for construction. Big Moscow, 17.02 2016, № 6 (87), p. 6.

<sup>4</sup> Total amount of housing loans somewhat exceeds indicated mortgage volume denominated in rubles but it accounts for around 98% of the overall volume of housing lending.



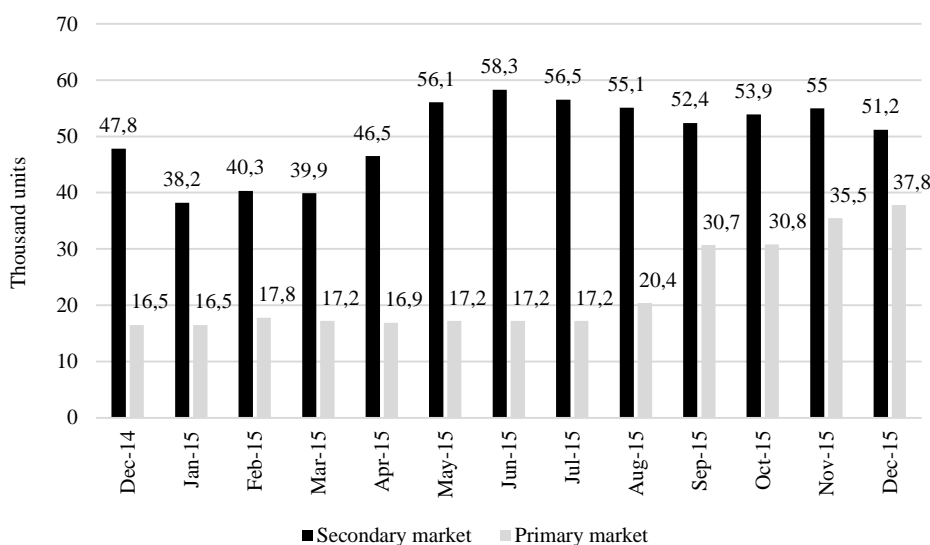
and in the financial sphere, growth of mortgage absorption stopped and merely 2,600-2,900 mortgage transactions were registered in a month. For a year as a whole, this indicator fell by 30.0% (from 47,700 to 33,400 loans).

Number of registered co-investment agreements in Moscow declined from 3,200 in December 2014 to 1,300-1,400 in February-March 2015. In April, this number moved up to 2,100 but further started falling and in August-November went back to 1,300-1,600 agreements per month. In December this indicator constituted only 1,143 registered co-investment agreements. Total number for the year in the capitol fell by nearly 1/3 – from 27,200 to 18,300 agreements.

On the secondary housing market the number of conveyancing (exchange) transactions fell from 16,900 in December 2014 to 5,900 in January 2015. Further on, obvious instability of monthly indicators was observed. If in March the number of transactions moved up to 13,000, then the number fell to 7,000 in May with a somewhat growth by July to 8,800 transactions. In August-September, this segment registered new reduction in the number of transactions to 7,400 and 7,700, respectively. However, in the last quarter of the year the value of this indicator went up to 9,300 transactions in October-November and to 15,000 in December. During the year as a whole, the number of registered deeds on the capitol secondary housing market decreased by 31.0% (from 162,000 to 113,500 registered conveyancing transactions (exchange))

Thus, compared to 2014, decrease in activity in principal segments of the Moscow housing market was approximately equal. Some special details pop up when we compare with the pre-crisis 2013. If activity on the secondary market and involvement in cost sharing construction has contracted by around 14-15%, then in relation to mortgage – solely by 5.4%.

Contraction of demand and absorption of housing resulted in growth in 2015 of the volume of a “hung” supply in the capitol region (*Fig. 9 and 10*).



*Fig. 9.* Supply volume of apartments on the Moscow housing market

Sources: GK MIEL; MIEL-Novostroiki.

The Moscow secondary market (*Fig. 9*) registered supply growth in April to 46,500 apartments against 38,000-40,000 posted in previous months. Starting from May, it did not move down below 51,000-52,000 apartments per month (minimums were registered in September

and December). Supply growth on the primary market happened in August to 20,400 apartments against 16,000-18,000 per month in the course of H1 as well as in July. In September-December, it moved up to 30,000-38,000 apartments per month.

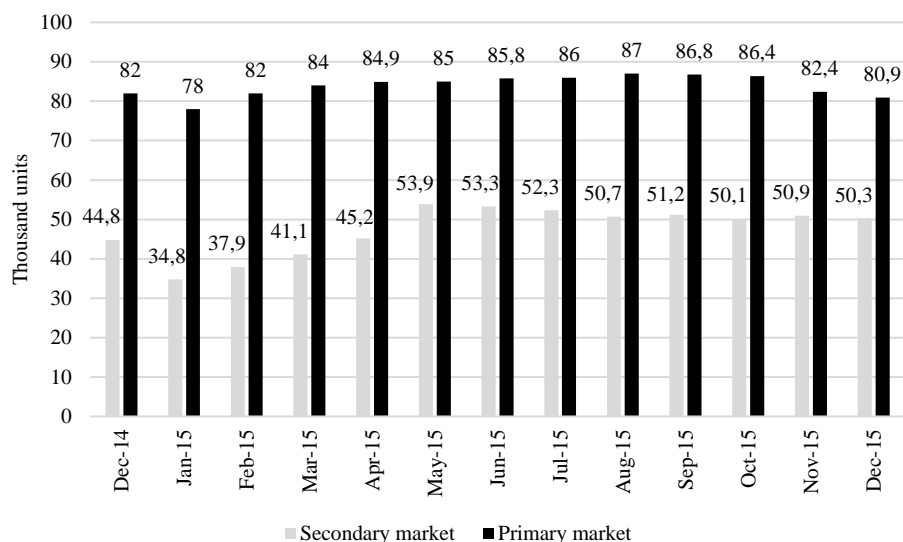


Fig. 10. Supply volume of apartments on the Moscow region housing market

Sources: GK MIEL; MIEL-Novostroiki.

On the Moscow region secondary housing market (Fig. 10) the volume of supply was moving up from 34,800 apartments in January to 53,000-54,000 apartments in May-June, hereafter staying at 50,000-52,000 apartments per month. On the primary market starting with Q2 the supply was more stable (85,000-86,000 apartments), which is explained by approximately the same rate of absorption and the new construction-supply. However, in November-December, it decreased to 82,000-81,000 apartments together with contraction of the number of new developing sights.

“Hung” supply was owing to a reduction of absorption rates together with fallen demand have led to price decrease on the market. While the developers were announcing various sales promotions, discounts, installment sale, buyers concentrated their demand on below budget apartments as a result of that transactions’ prices during spring-summer averaged 10-15% below the asking price. In the autumn developers finally moved beyond the policy of high asking prices and individual discounts to a general reduction of asking prices.

#### 6.3.4. Building, commissioning and supply of new housing<sup>1</sup>

In 2015, despite the impact of financial and economic crisis the housing construction industry managed to retain the volume of commissioning of new housing practically at the previous level. Generally in 2015, 1,169,400 apartments with the total floor space of 83.3m sq. meters were commissioned (Table 15).

Table 15

<sup>1</sup> Authors of this section: Malginov G. – Gaidar Institute for Economic Policy, Sternik G. – Moscow Association of Realtors on Analytics and Consulting, JSC Sternik’s Consulting.

## Commissioning of housing in Russia in 1999–2015

Year	Million sq. meters of housing	Growth rates, %	
		Against the previous year	Against 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	70.5	107.3	232.7
2014	84.2	119.4	277.9
2015	83.8	99.5	276.6

*Source:* The Russian Statistical Yearbook. 2007: Statistical collected volume/ The Rosstat M., 2007, p. 507; The Russian Statistical Yearbook. 2015: Statistical collected volume. Rosstat, Moscow, 2015, p. 435; On Housing Development in 2015, www.gks.ru and own calculations

In 2015, individual developers commissioned 264,000 residential buildings with the total floor space of 34.3m sq. meters which is 5.4% less than in 2014. For the first time in many years individual developers demonstrated inferior dynamics compared to the housing construction as a whole. This decreased its share in the total floor space of completed housing nationwide was equal to 40.9% meanwhile during previous five years it consistently exceeded 43.0%.

Positive dynamics of housing development was observed in Russia's most regions, including 2/3 of the territories where the aggregate volumes of commissioning of housing exceeded 1m sq. meters (*Table 16*).

*Table 16*

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

Region	Growth rates of housing commissioning, % to 2014
Leningrad region	130.0
Samara region	117.1
Moscow	115.8
Novosibirsk region	112.3
Dagestan	109.2
Krasnoyarsk Krai	108.5
Kaliningrad region	108.1
Belgorod region	105.8
Lipetsk region	105.2
Voronezh region	103.8
Rostov region	103.6
Perm Krai	103.5
Orenburg region	103.3
Tyumen Region (with autonomous regions)	103.2
Sverdlovsk region	102.5
Bashkortostan	101.5
Tatarstan	100.0
Krasnodar Krai	97.1
Stavropol Krai	94.0
St Petersburg	92.9
Kemerovo region	91.3
Moscow region	85.4
Chelyabinsk region	85.4
Nizhny Novgorod region	79.1

Saratov region	75.0
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Source: On Housing Development in 2015 URL: www.gks.ru.

As seen from *Table 16*, the dynamics of commissioning of housing which was largely above the average nationwide (over 5%) was observed in Leningrad, Samara, and Novosibirsk regions, Moscow, Dagestan, Krasnoyarsk Krai, Kaliningrad, Belgorod, and Lipetsk regions. Seven regions posted positive dynamics of housing commissioning but with lower rates. At the same time, there was a drop in the volumes of commissioning of housing in 8 regions including Moscow, Chelyabinsk, Nizhny Novgorod, and Saratov regions where it fell by 15-25.

Despite a deep fall, the Moscow region retained its leading position among Russian regions as regards the volume of housing commissioning in absolute terms (around 8.5m sq. meters). Moscow, on the contrary, registered growth of commissioning of housing in about the same proportions the Moscow region registered decline (15%). The unit weight of the capital region in the overall volume of housing development in Russia amounted to 14.7% of which the Moscow region accounted for a larger portion (10.1%), while the share of Moscow proper was equal to 4.6% (around 3.9m sq. meters). At the same time, for the third year in a row the Old Moscow observed a decrease in the volumes of commissioning after a year ban on issuing permissions for the housing construction due to change of city's authorities (to around 1.3m sq. meters or by 17%).

It is to be noted for comparison that in St Petersburg the depth of contraction (over 7%) of the volumes of the housing construction (to 3m sq. meters) turned out to be half of those registered in the localities near Moscow. The Leningrad region retains its leadership on the rates of housing commissioning among all regions of the country with absolute values of this indicator exceeding 1m sq. meters (30%). Among the five regions that are leaders in housing commissioning are Krasnodar Krai (4.6m sq. meters), and Tyumen region with autonomous districts (3.3m sq. meters).

At year-end 2015, on the whole one can acknowledge that in 2015 the housing construction industry managed to avoid decrease. Together with preferences on mortgages, the industry received support from the inertia production cycle, which consisted in the realization of already previously undertaken building sights in the era of favorable business climate. However, high annual result<sup>1</sup> was ensured only thanks to the results for H1 and already starting from June monthly volume of housing commissioning began falling in absolute terms compared to 2014 indices.

Furthermore, as can be well seen from *Table 8*, with retaining volume of housing commissioned across the country as a whole, last year contrary to 2014 the situation with the housing construction revealed noticeable regional specific character. In 2016-2018, in the wake of the crisis not only regions but Moscow as well faces serious reduction of the volumes of the housing construction by one third. According to data released by Moskomstroyinvest, the capital market has registered a decrease by 30% of applications for obtaining urban development plans land plots from investors.

Even more contradictory is the situation in the Moscow region. On the one hand, the Moscow region for several years retained its leading position among all regions of the country as regards the volume of commissioned of housing as well as regards resettlement of slum dwellings and

<sup>1</sup> As was noted in the previous Annual Report (see: *Malginov G., Sternik G. Prices on the Housing Market. Russian Economy in 2014. Trends and Outlooks. Issue 36. Moscow, IEP, 2015. p. 524*). 2014 saw significantly exceeded over the late Soviet period (1988-1989) indicators. In 2015 amid actual retention of this result, there was approximate achievement of indices for late 1980s and on the number of commissioned apartments owing to increased construction of economy class housing, increased share of one-room apartments and studios.

dilapidated housing. Despite the crisis, the developers as on the territory of the New Moscow announce new housing projects.

On the other hand, there is an obvious underdevelopment of transport, communal, and social infrastructure that are highly pressured. Proliferate protest sentiments against urban infill, high-rise development, and unfounded mass development, which makes regional authorities introduce local bans on housing development (for example, in Balashikha, Korolev, and Khimki). At the same time, amid decline of demand the profitability of the housing development is falling and the developers experience multiple financial problems. According to G. Elianyushkina, deputy head of the government of the Moscow region, construction works on 67 housing complexes have been completely or partially halted.<sup>1</sup> That is why, we can expect further reduction of supply volumes and continued fall in absorption of housing.

The impact of this factor on the primary market of the capitol region has led to a decrease of the volume of attracted investors' funds, which together with a contraction of bank lending to the developers has created for them considerable difficulties and place some of them on the brink of bankruptcy. Special attention was given to the situation around the developer SY-155, which resulted not only in the worse outcome of the construction industry performance in entire Moscow region but required attention from the federal authorities for its resolution. Courts consider many lawsuits against the developer filed by a number of banks (Sberbank, Rosbank, and Rossiiskiy capital). The developer has become a victim of both a crisis and wrongly chosen financial model oriented on the constant growth of the housing market. Bank Rossiiskiy capital took over responsibilities for settling obligations before investors of the developer. Regarding the results of the all-Russia meeting on completion of construction sights of SY-155, as of year-end 16,000 out of 30,000 families must receive apartments from this developer (in 14 regions).<sup>2</sup>

Most likely, the issue of hoodwinked investors has a nationwide character. According to the RF Office of the Procurator General, the developers virtually everywhere fail to observe terms for the delivery of apartments according to the cost-sharing contracts. Only 29 regions do not have problems with housing, which is being built on the law on cost sharing construction. During nine months of 2015, the number of participants in cost-sharing construction who turned to the law enforcement agencies (537 persons) and the number of criminal investigations (362) went up by more than 70% against the same period of the previous year.<sup>3</sup>

Thus, the housing market in Russia in 2015 was in recession. Contrary to the complicated macroeconomic situation, there was no significant decline of main indicators (asking prices on the secondary and primary markets, construction volumes and commissioned housing, absorption volumes and mortgage), which does not exclude further buildup of complications this year.

#### 6.3.5. Forecast of the residential housing development in the capitol region<sup>4</sup>

The forecast of the capitol housing market is closely linked with the prospects of the Russian economy as a whole. Computed in June 2014 for the use in mathematical model of the housing market performance long-term expert macroeconomic forecast for 2015 had the following parameters (*Fig. 11*).

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<sup>1</sup> *Berezina E.* What is to be done with construction outrage. MK. 4.03–10.03.2016, № 45 (243). p. 12.

<sup>2</sup> URL: [www.minsroyrf](http://www.minsroyrf), 15 February 2016.

<sup>3</sup> Rossiiskaya Gazeta. 25 November 2015.

<sup>4</sup> Authors of this section: Malginov G. – Gaidar Institute for Economic Policy, Sternik G. – Moscow Association of Realtors on Analytics and Consulting, JSC Sternik's Consulting.

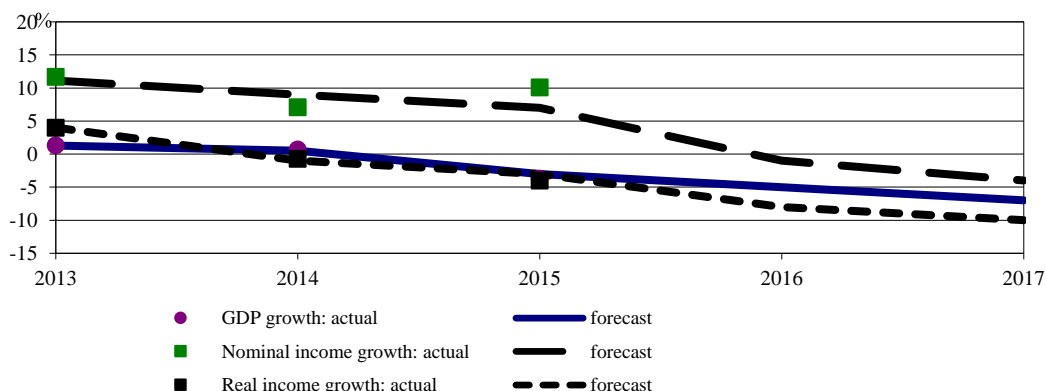


Fig. 11. Long-term expert forecast of RF macroeconomic dynamics as of June 2014

Sources: forecast as of June 2014 – JSC Sterniks Consulting, actual data for 2013 and 2014 – Rosstat 2015 – RF VED estimate.

In comparison with the real data, it becomes evident that for 2014 the practically coincided with forecast data, which allowed not to revise model calculations for the next year. As of year-end 2015, forecast proved to be excessively optimistic: actual GDP reduction constituted 3.7% (instead of 3.0% according to forecast), growth of the nominal income of population – 10.2% (instead of 8.0%), and real income decrease – 4.0% (instead of 3.0%).

Regarding 2016 forecast, one can state a whole number of different assessments, which spread in values can be determined by the impact of the energy resources market (Table 17).

Table 17

#### Forecast of macroeconomic parameters for 2016

Source	Oil price, USD./bbl.	Exchange rate, Rb./USD	GDP growth, %
RF MED, November 2015	50	60–65	+1.0
Morgan Stanley			-0.8
A. Abramov (HSE, RANEPa, K. Adrianov (ISPN RAS), Ya. Mirkin (IMEMO RAS)	40–47	70–77	-1.0
Fitch, Bloomberg, Goldman Sachs	20–30	110–120	-3.0
RF MED, January 2016	30–40	60–70	-3.0
Forecast JSC Sternik Consulting June 2014	35–40	80–90	-5.0

Originally, in autumn two scenarios of the development of the Russian economy were feasible. First, pessimistic: continuation and deepening of the recession. Second – optimistic: following currency and financial crisis as of year-end 2014 and economic recession in 2015, recovery commences. The RF Ministry viewed the latter for Economy as the main one even after continuation of the oil price fall and abandoning three-year budget planning. However, actual dynamics of macroeconomic and financial indices in late last year forced authorities to abandon optimistic scenario.

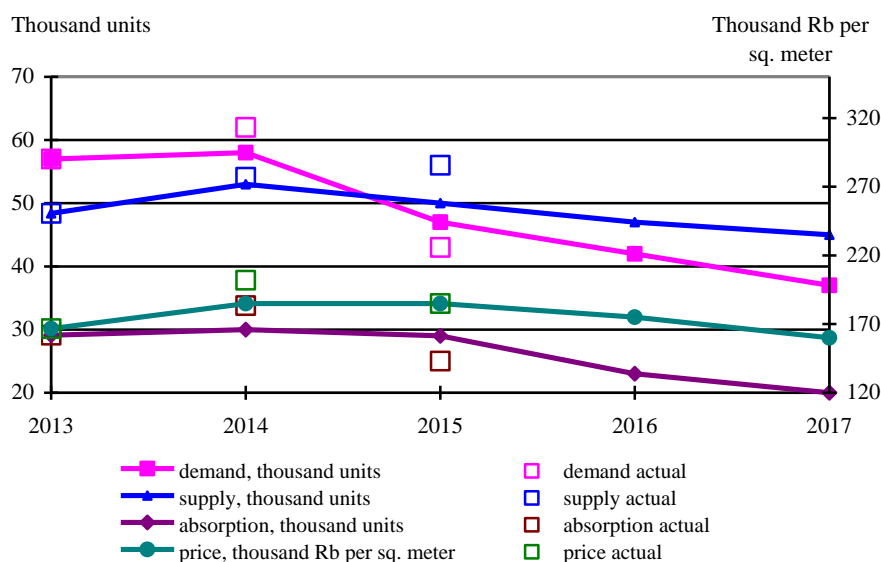
According to Gaidar Institute experts, data on the Russian economy development during 2015 coupled with current trends on the world energy markets present grounds to revise for the worse feasible scenarios of economic development in 2016-2017. For example, current scenario with average annual oil price in 2016 of \$35 per barrel is the base one, and the oil price at \$50 per barrel (included in the federal budget for 2016) seems optimistic. Modeling of the main

macroeconomic indicators in 2016-2017 within chosen scenarios lead to conclusion of unavoidable recession during period under review. Transition to growth is feasible solely in scenario with stable oil price above \$50-55 per barrel.<sup>1</sup>

Based on the above, significance of the macroeconomic forecasts as of June 2014 remains. Main parameters of this forecast are: GDP contraction by 5%, reduction of the nominal income of population by 1%, and the fall of the real income by 8% (with average annual oil price at \$35-40 per barrel, and ruble exchange rate at 80-90 per USD).

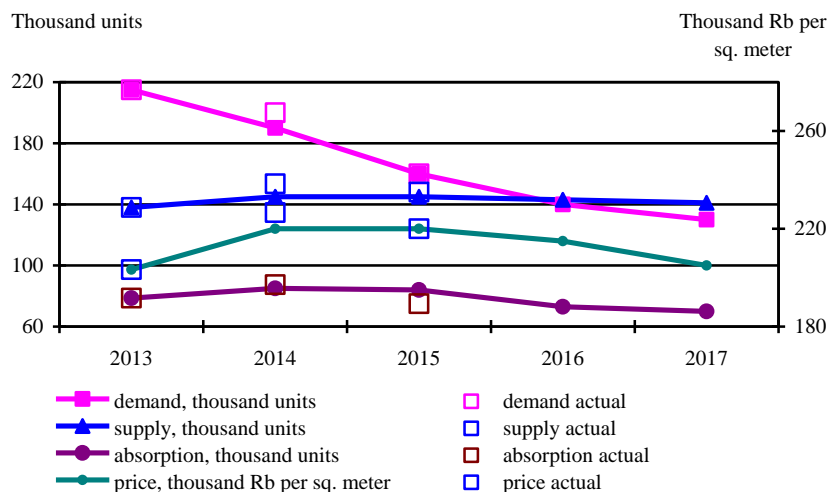
Calculated in June 2014 forecast of the Moscow housing market for 2015 in relation to the primary market (*Fig. 12, a*) proved to be overestimated regarding absorption indicators (by 17%), equal actual data on price (decline by 9-10% against actual data of December 2014), but underestimated the supply volume (by 12%). In 2016, further price reduction by 3-4% was projected. Forecast for the secondary market (*Fig. 12, b*) closely coincided with the assessment of main indicators (demand, supply, and price), except lower estimate of absorption (by 12%).

### a) Primary market



### b) Secondary market

<sup>1</sup> Drobyshevsky S., Petrenko V., Turuntseva M., Khromov M. Forecast 2016–2017: recession remains. OMEO. 2016. № 1(19).



*Fig. 12.* Forecast of demand, supply, absorption of apartments and price dynamics on primary and secondary markets of Moscow

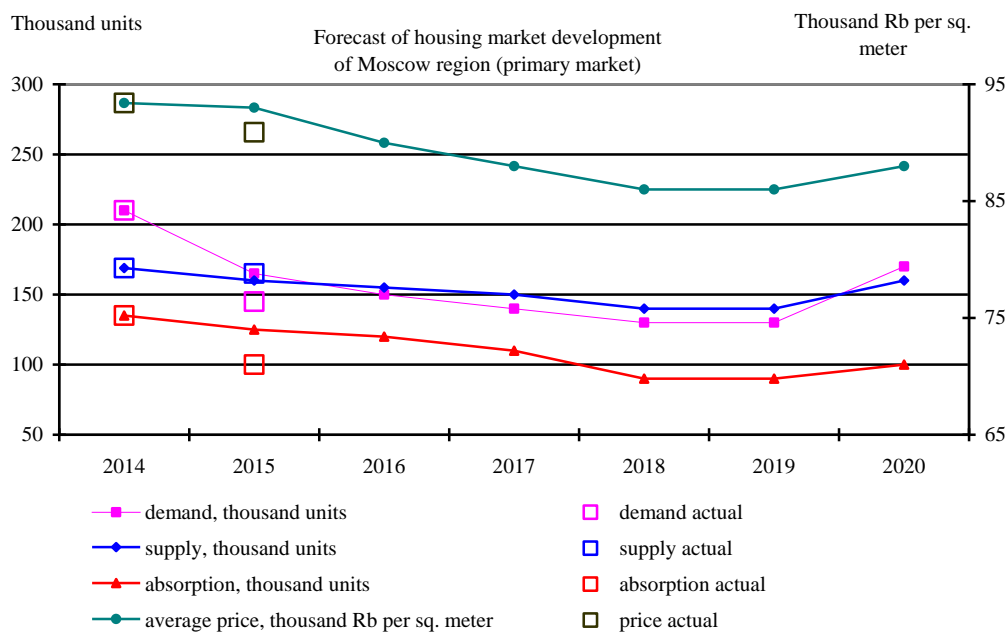
*Source:* JSC Sternik Consulting.

Forecast of the main parameters of the Moscow housing market of June 2014 seems justifiable for 2016. Further decrease of demand and prices on both markets by 4-5% with reduction of supply below demand on the primary market and its retention on the secondary one.

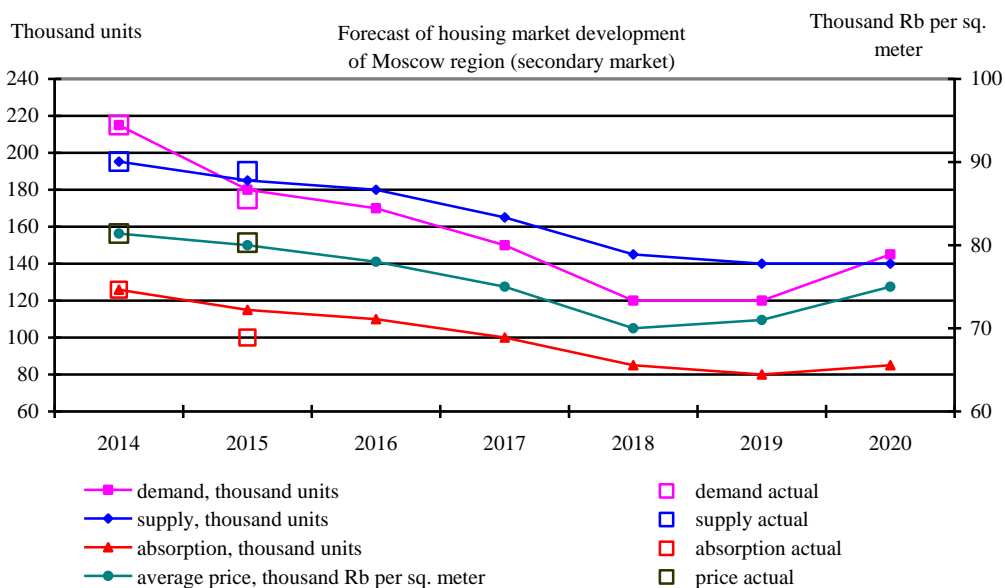
Computed in March 2015, forecast of the Moscow housing market development regarding the primary market (*Fig. 13, a*) proved to be overestimated in relation to demand and absorption and underestimated regarding supply. Price projection practically coincided with actual data (reduction by 1.3%). Forecast for the secondary market (*Fig. 13, b*) for 2015 somewhat overestimated demand and absorption, supply as well as happened to be above actual data on price (by 2%). For 2016, further decline of demand, supply, absorption, and price by 2-3% is projected.

#### a) Primary market





**b) Secondary market**



*Fig. 13. Forecast of demand, supply, absorption of apartments and price dynamics on primary and secondary markets of Moscow region*

Source: JSC Sternik Consulting.

In 2016, significance of the March 2015 forecast remains. Both on the primary and secondary markets further decline of demand, supply, absorption and price is projected by 2-3%.

Expert assessments of the market participants contradict model calculations. For example, A. Nazarov, Chairman of the board of directors of group of companies Granel, expects a contraction in the building industry by 10-15%.<sup>1</sup> Head of the RF Ministry of Building, Mikhail Men, estimates the building industry outlook as complicated one due to contraction of the consumer demand. Possibilities of the government to support the industry are limited due to expected problems with pumping up the budget where subsidized mortgage creates long-term liabilities for the whole life of such loans. In this context, a lot depends on the ability of the developers to self-adjust to the market and cater for the reasonable profit.

Projected continuation of the recession on the housing market of Russian cities does not signify the market collapse, at least in 2016. The housing market demonstrated resilience to unfavorable effect of macroeconomic and political difficulties due to both its lower level of globalization and timely support on the part of the government.

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<sup>1</sup> Tonus for Building. Big Moscow. February, 17, № 6 (87) p. 6.