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The review provides a detailed analysis of main trends in Russian economy in 2016. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and budget spheres; financial markets; 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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5.6.3. Dynamics of prices on residential real estate

In 2016, main indicators of the housing market performed inconsistently reflecting the same dynamics performance of major macroeconomic indexes, which determine operating conditions for the real estate market.

In 2015, deferred demand had an impact on Moscow, but in 2016 absorption of residential property by the market¹ improved not only compared with disastrous 2015 but also even against 2014. Other cities outlined upward trend in demand and merger in certain segments of the market. Asking price on housing still demonstrates a downward trend in the majority of Russian cities but at a slower pace. The number of cities with stable prices is growing.

Main indexes of price dynamics on the secondary market of Russian cities are presented in *Table 17*. The data is released by the market experts who collect, verify, and process data according to the unified methodology recommended by the Russian Guild of Realtors.²

The sample includes 30 cities and 1 region (Moscow region with averaged across towns data), including 24 cities, which are centers of RF subjects with the total population of around 44 million.³

If we take population index as a criterion, the sample will represent:

- Moscow with over 12.3m inhabitants;
- Districts near Moscow (total urban population around 6.0 million inhabitants) and St. Petersburg (over 5.2 million inhabitants) – totaling to around 11.2 million inhabitants;
- 10 cities with over 1 million of inhabitants each (besides two capitals); Novosibirsk, Ekaterinburg, Nizhny Novgorod, Kazan, Chelyabinsk, Omsk, Samara, Krasnoyarsk, Perm, and Voronezh – totaling to around 12.25 million inhabitants;
- 9 cities with 500,000 to 1 million inhabitants each: Tyumen, Togliatti, Barnaul, Irkutsk, Ulyanovsk, Vladivostok, Yaroslavl, Kemerovo, and Ryazan – totaling to over 5.6 million inhabitants;
- 6 cities with 200,000 to 500,000 inhabitants each: Kirov, Stavropol, Vladimir, Surgut, Smolensk, and Shakhty – totaling to around 2.2 million inhabitants;
- 3 cities with less than 200,000 inhabitants each: Syzran, Pervouralsk, and Tobolsk – totaling to around 0.4 million inhabitants.

Table 17

Prices on the secondary housing market in Russian cities in 2014–2016

City (region)	Median unit asking price, RUB thousands per square meter	Price index in December 2015 to December 2014	Price index in December 2016 to December 2015
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¹ Absorption volumes are measured by the number of purchase and sale transactions together with contracts of exchange concluded on the secondary market (taking into account the number of apartments and rooms) as well as by the number co-investment agreements on residential property.

² Data on the secondary market is released by companies indicated in the Public schedule of price dynamics on the secondary market in Russia's cities (<http://realtymarket.ru/Publi-nii-grafik-cen-vtori-noi-nedvijimosti-gorodo/>), on the primary market – given in the note to *Table 18*.

³ Compared to the sample used for the analysis of price situation on the secondary market carried out in the Russian Economy Outlook for 2015 (see: G. Malginov, G. Sternik. Price Dynamics of Housing Property. Russian Economy in 2015. Trends and Outlooks (Issue 36). Moscow, IEP. 2015, pp. 426–431). This sample includes Nizhny Novgorod and Syzran (Samara region).

	December 2014	December 2015	December 2016	Nominal	Real (IGS)	Nominal	Real (IGS)
Moscow	226.6	218.5	212.0	0.964	0.854	0.970	0.920
Sankt-Petersburg	103.0	103.0	106.0	1.000	0.886	1.029	0.976
Vladivostok	95.0	96.8	93.8	1.019	0.903	0.969	0.919
Moscow region	93.4	90.9	81.9	0.973	0.862	0.900	0.855
Surgut (Tyumen region)	78.5	71.3	69.0	0.908	0.804	0.968	0.918
Ekaterinburg	76.2	70.7	68.1	0.928	0.822	0.963	0.914
Nizhny Novgorod	68.4	66.4	64.9	0.971	0.860	0.977	0.927
Kazan	66.6	65.3	68.4	0.980	0.868	1.047	0.994
Novosibirsk	65.6	60.4	58.4	0.921	0.816	0.967	0.917
Samara	64.6	62.6	62.1	0.969	0.858	0.992	0.941
Tyumen	63.8	58.9	59.3	0.923	0.818	1.007	0.955
Krasnoyarsk	61.4	54.8	51.3	0.893	0.791	0.936	0.888
Irkutsk	60.9	57.9	52.0	0.951	0.842	0.898	0.852
Yaroslavl	57.3	53.6	51.3	0.935	0.829	0.957	0.908
Vladimir	55.1	52.7	51.1	0.956	0.847	0.970	0.920
Kemerovo	53.5	49.1	45.7	0.918	0.813	0.931	0.883
Perm	52.6	52.7	49.8	1.002	0.887	0.945	0.897
Voronezh	52.0	45.8	44.4	0.881	0.780	0.969	0.920
Smolensk	51.3	46.9	43.4	0.914	0.810	0.925	0.878
Kirov	50.9	47.7	44.1	0.937	0.830	0.925	0.878
Barnaul	49.8	46.5	44.0	0.934	0.827	0.946	0.898
Tobolsk (Tyumen region)	49.2	44.3	42.6	0.900	0.797	0.962	0.913
Omsk	48.7	46.7	44.3	0.959	0.849	0.949	0.900
Togliatti (Samara region)	48.3	44.8	41.2	0.928	0.822	0.920	0.873
Ryazan	48.0	45.8	44.2	0.954	0.845	0.965	0.916
Chelyabinsk	47.0	41.6	42.7	0.885	0.784	1.026	0.973
Ulyanovsk	43.5	41.2	39.6	0.947	0.839	0.961	0.912
Pervouralsk (Sverdlovsk region)	42.9	38.6	36.8	0.900	0.797	0.953	0.904
Syzran (Samara region)	40.8	42.4	39.0	1.039	0.920	0.920	0.873
Stavropol	39.0	37.6	38.9	0.964	0.854	1.035	0.982
Shakhty (Rostov region)	34.2	34.8	34.6	1.018	0.902	0.994	0.943

The Moscow secondary market posted downward price trend, which commenced in autumn 2015. That was followed by stabilization, which resulted in prices below the December 2015 level by 3.0% by the year-end constituting RUB 212,000 per square meter.

The Moscow region secondary market saw continuation of the price decline commenced since early summer 2015. At year-end, prices as in Moscow nosedived below the December 2015 level - to RUB 81,900 per square meter. However, depth of the fall was much bigger (10%).

Throughout 2016, St. Petersburg saw gradual price increase, which in December amounted to RUB 106,000 per square meter, which exceeded the December 2016 index by 2.9%.

The majority of other cities outlined price stabilization or slowdown of their downward trend in H2 2016 following price decline commenced in H1 2015. Some cities registered an upward trend.

Nevertheless, at year-end the majority of cities registered price decline, notably Vladivostok, Perm, Syzran (Samara region), and Shakhty (Rostov region) where downward price trend replaced an upward trend or price stability of 2015, and in districts near Moscow, Irkutsk, Kirov, Omsk, and Togliatti downward price trend turned out to be deeper than in the previous year.

However, Kazan, Stavropol, St. Petersburg, and Chelyabinsk saw a positive price dynamics (growth by 2.5–5%). In three cities (Tyumen, Samara, and Shakhty), prices varied at the December 2015 level. Districts around Moscow and Irkutsk were at the other end, they registered price decline by 10%.

In the main part of the sample, one can mark 2 large groups of cities depending on the range of the price fall. By 2–5% prices fell in Nizhny Novgorod, Moscow, Vladimir, Voronezh, Vladivostok, Surgut, Novosibirsk, Ryazan, Ekaterinburg, Tobolsk (Tyumen region), Ulyanovsk, and Pervouralsk (Sverdlovsk region). More noticeable price decline (by 5–8%) was registered in Omsk, Barnaul, Perm, Krasnoyarsk, Kemerovo, Smolensk, Kirov, Togliatti, and Syzran.

This being said, all cities registered decline of the real housing cost (Index of IGS).¹ Roughly half of the sample stayed in the range of 5–10%. Smaller decline (to 5%) was registered in Kazan, Stavropol, St. Petersburg, Chelyabinsk, and Tyumen. Decline in the range of 10-15% was posted in Barnaul, Perm, Krasnoyarsk, Kemerovo, Smolensk, Kirov, Togliatti, Syzran, districts around Moscow, and Irkutsk. However, we can note that almost across the board (minus districts near Moscow and Syzran), the decline of real housing cost was less than in 2015.

There is data on price in the primary market across 17 cities and Moscow region (Table 18).

Across the sample, the primary housing market registered differently directed change in the dynamics of the median housing asking prices in 2016.

Moderate price growth was observed in Moscow during the first months of the year, which gave way to constant price decline commenced from May. At the period-end for December 2016, despite moderate pre-New Year growth (to RUB 176,700 per square meter), they stayed below last year indicator by 3.2%.

The Moscow region primary housing market saw an obvious price nosedive in Q4 2015, which in 2016 demonstrated an upward trend through May, which later turned to a downward trend. In December 2016, housing prices hit RUB 81,900 square meter exceeding the last year level by 2%. Furthermore, the same prices on the primary and the secondary markets was unusual for the districts near Moscow. Meanwhile, in Moscow, the secondary market prices exceeded the primary market prices by 20% and it was in December 2015.

Table 18

Prices on the Primary Housing Market in Russian Cities in 2014–2016

City (region)	Median unit asking price, thousand of rubles per square meter			Price index in December 2015 to December 2014		Price index in December 2016 to December 2015	
				Nominal	Real (IGS)	Nominal	Real (IGS)
	December 2014	December 2015	December 2016				
Moscow	216.0	182.6	176.7	0.845	0.749	0.968	0.918
St. Petersburg	98.0	100.4	101.7	1.024	0.907	1.013	0.961
Moscow region	81.0	80.3	81.9	0.991	0.878	1.020	0.968
Ekaterinburg	65.5	66.4	63.1	1.014	0.898	0.950	0.901
Novosibirsk	65.5	60.4	58.8	0.922	0.817	0.974	0.924
Surgut (Tyumen region)	64.0	60.2	61.0	0.941	0.833	1.013	0.961
Ufa	58.4	57.0	58.3	0.976	0.864	1.023	0.970
Kazan	57.1	62.9	66.7	1.102	0.976	1.060	1.006
Samara	57.0	54.2	53.3	0.951	0.842	0.983	0.933
Tyumen	57.0	55.1	53.4	0.967	0.856	0.969	0.919
Rostov-on-Don	53.1	50.6	51.3	0.953	0.844	1.014	0.962
Yaroslavl	50.6	52.9	49.8	1.045	0.926	0.941	0.893
Tobolsk (Tyumen region)	44.7	46.0	46.3	1.029	0.911	1.007	0.955
Omsk	43.0	42.8	40.5	0.995	0.881	0.946	0.898

¹ IGS index is calculated by applying the following formula: $IGS = I_{up} / I_{cp}$, where I_{up} is housing price index in rubles, I_{cp} is consumer price index.

Kemerovo	42.5	42.0	40.7	0.988	0.875	0.969	0.919
Ryazan	40.5	38.0	38.5	0.938	0.831	1.013	0.961
Ulyanovsk	38.0	36.4	36.2	0.958	0.848	0.995	0.944
Stavropol	34.5	34.8	35.9	1.009	0.893	1.032	0.979

Sources: Moscow and Moscow region – Moscow Association of Realtors Committee on analysis and consulting (according to MIEL Group, MIEL ‘Novostroiki’, JSC Sterniks Consulting, St Petersburg – Real Estate Bulletin, Ekaterinburg – JSC Realter Information Center, Novosibirsk – RID Analytics, Surgut and Tobolsk – FRK ‘Etazhi’, Rostov-on-Don – EMT Consulting, Yaroslavl – JSC ‘Metro-Otsenka’, Omsk – JSC ‘OMEKS’, Kemerovo – JSC ‘Sibgrad-development’, Ryazan – Press and information Agency, Ulyanovsk – JSC ‘Real Estate Center’, Stavropol – JSC ‘Ilekta Center’.

In H1 2016, in St. Petersburg prices varied around 100,000 per square meter and demonstrated moderate sustainable upward trend amounting in December RUB 101,700 per square meter up 1.3% against December 2015.

Capital of the North together with districts near Moscow comprised a group of cities with asking prices on the primary market in December 2016 above those registered in December 2015. Kazan ranked first in the group (growth by 6%). The group also included Stavropol, Ufa, Rostov-on-Don, Surgut, and Ryazan (growth by 1–4%). Kazan and St. Petersburg register an upward price trend for the second consecutive year, but at a slower pace against 2015. Prices in Tobolsk and Ulyanovsk differed little from the level of the previous year.

The other half of the sample (Samara, Novosibirsk, Tyumen, Kemerovo, Moscow, Ekaterinburg, Omsk, and Yaroslavl) demonstrated a downward price trend. Steeper decline was registered in Omsk and Yaroslavl by more than 5%.

Nearly all cities posted a downward trend on real housing price (IGS index) compared to 2015. However, the value of contraction turned out to be less than a year earlier. Yaroslavl made an exception. This city together with Omsk posted a decline of 10% in 2016. To a lesser extent this trend was observed in Stavropol, Ufa, districts near Moscow, Rostov-on-Don, St. Petersburg, and Ryazan where decline of the real housing price did not exceed 4%, and in Kazan it even remained flat.

On the whole, in 2016, asking prices posted on the primary and secondary housing markets in the Russian cities posted a downward trend. However, there was a trend to their stabilization and in some cities – to growth.

5.6.4. Housing market of the capital region: main factors which determined price dynamics and activity on the market

Falling demand and absorption of housing in 2015 resulted in growth of the amount of “hung” in the price lists supply. Realtors and real estate developers took several months to realize new realities and moved from the policy of high asking prices and individual concessions especially in case of new housing construction to a general reduction of asking prices.

“Hung” supply due to a reduction of absorption pace coupled with lost demand have resulted in a price decline on the market. This was owing to the domination of the comfort class projects on the new housing construction market in 2015–2016, which after the change in the supply structure and correspondingly the reduction of the weighted average asking price across the board in the market (which regarding comfort class was lower against economy class as the total price of economy class apartments is lower due to smaller floor space).

As a result, average asking prices declined by late 2016 compared to peak values of the last two years in Moscow’s primary housing market by 18.5% (against January 2015) on the secondary market – by 13.3% (against March 2015). The Moscow region’s primary market saw

price reduction by 2% (against February 2015), and the secondary market – by 14.5% (against May 2015).

During last 4–6 months, Moscow’s secondary housing market saw price stabilization and the primary market registered the price reduction pace showered (the so-called ‘bottom’ was hit). According to various data, in 2015, Moscow’s primary housing market showed a discount rate of 2–15% in the summer and 5–25% in the autumn (on average 10-15%). The share of apartments sold at a discount was estimated at 60–80%. Thus, the coefficient of price negotiation (ratio of average asking prices to average transaction prices) equaled 1.07–1.10. According to the data released by Corporation ‘Incom-Nedvizhimost’, the share of transactions at a discount exceeded 80%. The coefficient of price negotiation is estimated by the experts at 1.10.

The Moscow region’s housing market showed mixed development. The primary market support by the subsidized mortgage interest rates preserved stability and even attempted to grow. However, from the summer of 2016 price posted a downward trend owing to the outflow of buyers to Moscow. The secondary market lost its clients and significantly cut prices. It only stabilized by the autumn of 2016. Meanwhile, prices were practically equal on both markets. In terms of price dynamics on the secondary market, the outcomes of 2016 were determined besides the general supply glut by the change of its structure across belts of remoteness from the capital (the share of supply in the most expensive Moscow vicinity shrank)

Describing the situation on the capital market in 2015–16 in the wake of the macroeconomic crisis, one can speak about the following dynamics of supply of the housing market.

Thousand pieces

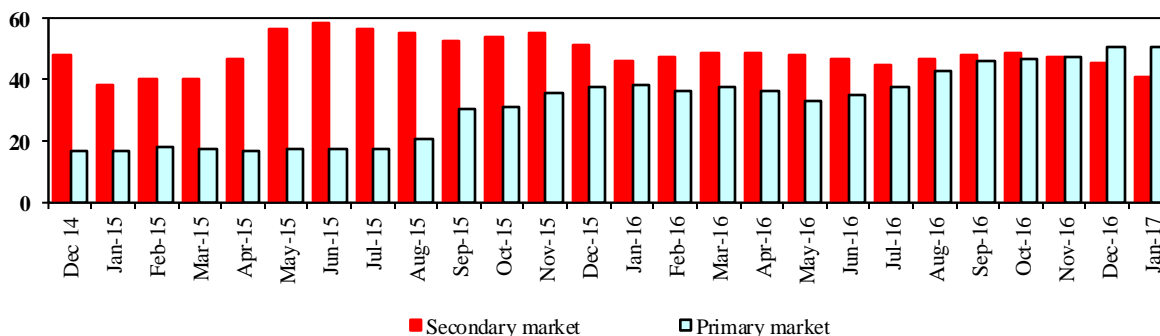


Fig. 41. Apartments supply in Moscow housing market

Sources: GK ‘MIEL’, ‘MIEL-Novostroiki’.

Moscow’s secondary housing market (Fig. 41) saw an upward supply trend commencing from April 2015 and since May through year-end supply steadily exceeded 51,000–52,000 apartments per month and in certain months the supply was over 55,000–56,000 apartments. In January-August 2016, the secondary market supply somewhat contracted (roughly to the level of April 2015). With some upward supply trend in H2, it never exceeded 49,000 apartments per month. As a result, contraction of supply posted in 2016 reflecting the growth of apartment absorption resulted in price stabilization. The primary market saw supply growth, which commenced in August 2015 (from 17–18,000 to 30–38,000 apartments per month). The supply

stayed at this level until July 2016. In H2 it increased to 43–47,000 (in December – peak of 50,700) owing to new projects coming to the market despite growth of apartment absorption.

The Moscow region secondary housing market (*Fig. 42*) saw an upward supply trend from 34,000 in January 2015 to 53–54,000 in May-June and stayed at the level of 51–55,000 apartments per month. In 2016, the supply dropped to 46–48,000 apartments per month. The primary market reflecting the peak supply in 2015 amounting to 82–87,000 apartments per month (minus first and last month), saw in 2016 stable decline of supply from 70–72,000 in January-February to 63–64,000 in Q4.

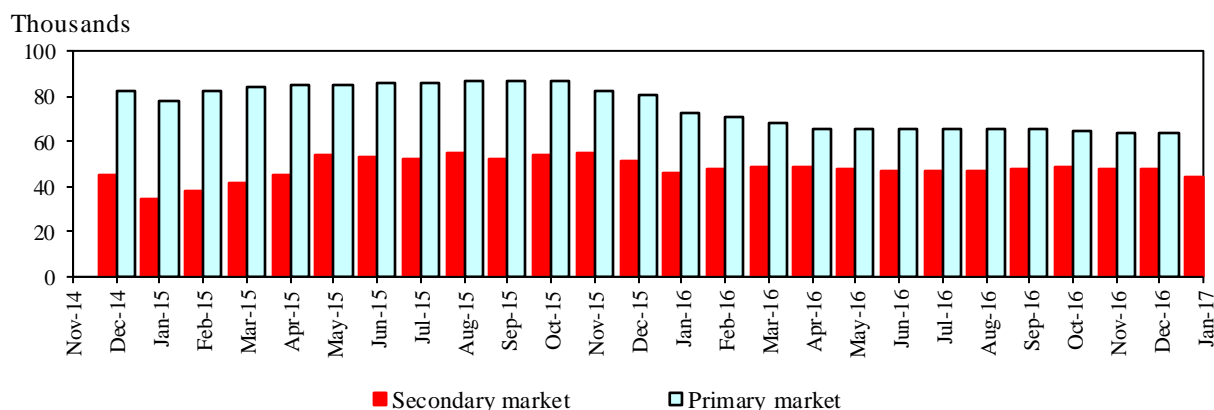


Fig. 42. Supply of apartments in Moscow region housing market

Sources: GK ‘MIEL’, ‘MIEL-Novostroiki’.

Now let us analyze the activity level in the primary and secondary housing markets reflecting on dynamics of main types of deeds.

In the country as a whole in 2016, absorption of residential property in the primary and secondary markets in the aftermath the market meltdown in the previous year roughly remained at the 2015 level in the context of registration of purchase deeds and agreements of participation in shared construction.

The metropolitan area features were the following.

First of all, it should be noted that 2016 was marked in the capital by a sharp (roughly by 82%) growth of registered agreements of participation in shared construction. The number of registered agreements of participation in shared construction hit 35,600 against 19,600 in 2016 exceeding the 2014 level by 1.5 times (23,900 against 21,300 in 2013).

In Q1 2016, reflecting the reduction of residential property absorption in H2 2015 this segment of the market’s heated activity was due to a short-term factor – expectation of cancelation of interest rates subsidization for newly constructed building mortgage loans, which led to a sharp growth of absorption volume. Hereafter, stabilization of economic situation emerged. The buyers strategy again changed from saving to consumer one. The deferred demand engulfed the market, which resulted in peak absorption recorded in Q2.

Further on, this factor remained influential. However, according to experts, the migration factor became paramount reflecting increased number of non-residents inflow due to price reduction in Moscow’s primary housing market. As a result, agreements of participation in shared construction hit new peaks in Q2 and Q3 coupled with growth rates against the sale periods of 2015.

According to data released by real estate agency 'Bon Ton', the proportion of regional buyers has returned to the pre-crisis level already in Q3. According to estimates of the same agency, the Moscow housing demand structure across the combined housing market is divided between Moscovites (65.5%), non-residents – 34.5% including buyers from the Moscow region with 15.6%, and inhabitants from various regions of Russia with 18.5%. According to data released by 'MIEL-Novostroiki' at year-end 2016, the proportion of Moscovites in the structure of transactions conducted on the primary market amounted to 70%. Non-resident buyers took 30% of which 17% came from districts near Moscow and 13% for buyers from other Russian regions.

At the same time, significant growth of the number of agreements of participation in shared construction in Moscow in 2016 was marked by general factors: transition of housing demand from the secondary market to the new housing development market. This was due to the state program on interest rates subsidization and emergence of a large number of apartment from mass segment attractive in price due to small floor area compared to the secondary market.

The Moscow region demonstrated different from Moscow dynamics of registration of agreements of participation in shared construction.

In the aftermath of a rather solid growth posted in Q1 2016 compared to disastrous Q1 of the previous year (down by 12.6%), the number of registered agreements of participation in shared construction somewhat decreased in Q2 (by 7%) and reversed to growth in Q3 (by 4.5%). Q4 posted further reduction by more than 12% instead of projected growth. The factor of demand transition from districts near Moscow to the city of Moscow recorded in the new housing development market was getting strength. The share of the capital in the total number of registered agreements of participation in shared construction of apartment buildings across metropolitan area (Moscow and districts near Moscow combined) throughout 2015–2016 constantly grew from 16% in Q1 2015 (around 17% in 2015 as a whole) to over 35% in Q4 2016 (over 27% for 2016 as a whole).

In the end, total number of registered agreements of participation in shared construction in the Moscow region decreased by 1.4% to 94,800 against 96,100 in 2015. At the same time, according to the data released by the company 'Est-a-tet', in terms of place of residence, a relative parity was observed between different groups of buyers in the structure of buyers in the primary market: 35% – from Moscow, 34% – from Russian regions, and 31% - from districts near Moscow.

Moscow's secondary housing market in 2016 saw an upward dynamics regarding registered titles for purchase/sale agreements as a whole. Their number went up by 11% to 126,000 compared to 113,500 in 2015.

Year 2016 started with a decline in absorption of apartments in Q1 due to demand transition to the primary housing market in expectation of cancellation of mortgage interest rate subsidization (by analogy with the program launch in Q2 2015). In two quarters that followed the volume of purchase went up significantly reflecting general macroeconomic stabilization and brought about compromises between buyers and sellers on the price.

Moscow's secondary housing market feature in 2016 resided in an unrepresentative demand distribution, which was contrary to seasonal factor. Traditionally the summer period was considered a weak season on the housing market and the autumn, on the contrary, brings revival. However, last year housing demand in June and July was rather strong, meanwhile in September and October buyers took time to conclude transactions. The question is that many potential buyers were waiting for the summer period hoping to purchase residential property with maximum discount. Expectations of a potential housing price growth in the autumn motivated

many people some of them to enter the market ahead of time, i.e. in the summer. In Q3 and Q4 2016, the volume of absorption grew not so significantly against last year at a waning pace due to the demand outflow to the primary housing market where prices by that time dropped considerably.

In 2016, the Moscow region absorption volume on the secondary housing market reflecting the number of registered purchase/sale agreements of residential facilities (167,800 units) practically remained at the 2015 level (168,900 units). Per quarter dynamics overall were similar to that of the capital. That was determined by a reduction of transactions number in Q1 due to transition of buyers to the primary housing market in expectation of termination of mortgage interest rates subsidization with somewhat increased activity posted in the last quarter.

Extension of the state program on mortgage interest rates subsidization played a big role in supporting the market. In the framework of the program, mortgages were issued at the rate not more than 12%. Meanwhile non-subsidized mortgages were extended at rates over 14–15% in early 2015.

The Bank of Russia cut the key rate twice over the year (by 0.5 percentage point in June and in September 2016), which put a downward pressure on mortgage rate.

Throughout last year, there was a gradual alignment of mortgage rates on the primary and secondary markets. The secondary housing market offered rates from 11.9% in the market segment, which corresponded the early 2014 level. The primary housing market enjoying the backing of state support program offered rates from 10.9%. Despite the fact that rates on mortgages extended for purchase of residential buildings under construction were below those extended for purchase of the commissioned residential buildings, at year-end 2016 mortgage lending for purchasing residential buildings under construction against the security of the rights under the co-investment agreements came to around 39% of the total amount of extended mortgage loans denominated in rubles (1/3 in 2015, and 35% in 2014).¹ Practically all these mortgages were originated within the state subsidization program. Mortgage lending was biased towards the secondary market.

Last year, in the aftermath of a sharp drop of mortgage lending in 2015, Moscow boasted of mortgage growth by one third in terms of the number of mortgage loans origination hitting the record 2014 level. Meanwhile, its growth occurred at an accelerating per quarter pace with somewhat slowdown reported in the final Q4. Throughout 2016, Moscow boasted of 43,900 mortgage loans (33,080 in 2015, 43,200 in 2014).

Districts near Moscow also reported growth of mortgage lending at year-end 2016 but solely by 4.3% (206,400 against 197,800 a year earlier). In addition, unlike the capital, from Q2 its pace was decreasing and in Q4 the number of issued mortgages fell by 18% against the same period of 2015.

Thus, absorption volumes recorded on the Moscow primary housing market (registration of co-investment agreements) peaked in 2016 against 2015. The secondary housing market posted a moderate growth (*Fig. 43*). The Moscow region, as the country as a whole, reported dynamics in these segments, which demonstrated similar volumes of absorption of residential property on the primary and secondary housing markets to those of 2015. Data on mortgage loans extension growth in Moscow in Q3-4 2016 and decrease of this indicator in districts near

¹ www.cbr.ru, ahml.ru. дом.рф.

Moscow reflect relation to absorption of housing on the primary and secondary housing markets.

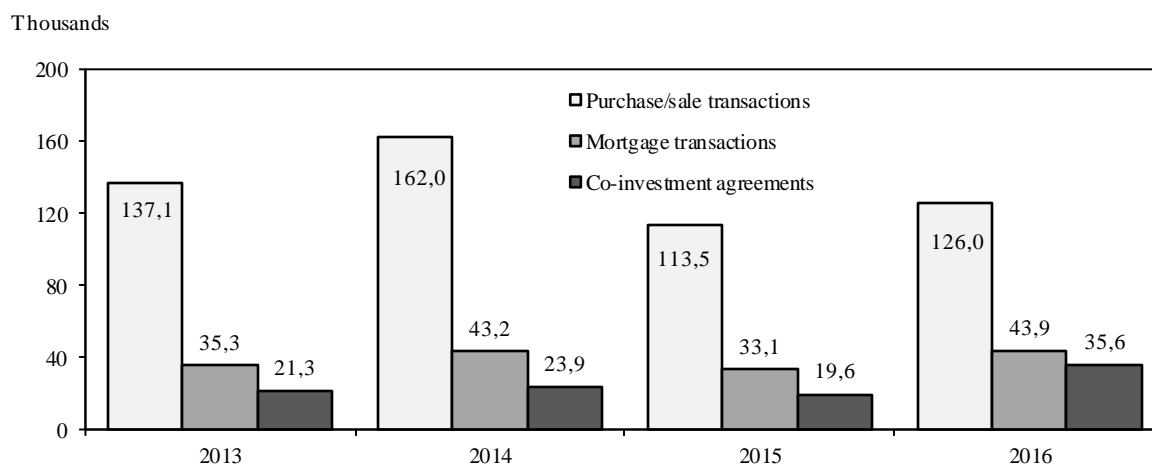


Fig. 43. Number of registered transactions on Moscow housing market in 2013–2016

Source: Rosreestr.

5.6.5. Construction, commissioning and supply of new housing

Crisis developments were observed in the housing construction sector in 2016. According to preliminary data, 1,156,500 apartments with the total floor area of 79.8 m square meters were commissioned down 6.5% than a year earlier (Table 19).

Table 19

The Commissioning of Residential Housing in Russia in 1999–2016

Year	Total floor area, in millions of square meters	Growth rates, %	
		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	70.5	107.3	232.7
2014	84.2	119.4	277.9
2015	85.3	101.3	281.5
2016	79.8	93.5	263.4

Sources: Rosstat, own calculations.

In 2016, individual builders commissioned 245,100 houses with total floor area of 31.6 m square meters down 10.2% against 2015. For the second consecutive year individual housing

construction registered inferior dynamics against housing construction as a whole. As a result, its share in the overall area of completed residential housing units in Russia as a whole amounted to 39.6% (41.2% in 2015), meanwhile in 2010–2014 it steadily exceeded 43%.

The positive dynamics of housing construction was observed in less than half of Russia's regions, including only 2/5 of territories where total volumes of housing commissioning exceeded 1 million square meters.

Table 20

**Dynamics of residential housing commissioning in Russian regions in 2016
(ranked by commissioning rate)**

Region 1	Housing commissioning rates, as percentage of 2015 2
Saratov region	113.5
Chechnya	110.2
Kemerovo region	108.8
Voronezh region	103.3
Krasnoyarsk Krai	103.2
St. Petersburg	102.8
Lipetsk region	102.0
Dagestan	101.9
Nizhniy Novgorod region	101.0
Bashkortostan	100.3
Tatarstan	100.0
Kaliningrad region	99.4
Krasnodar Krai	98.1
Rostov region	95.2

Cont'd

1	2
Leningrad region	93.5
Moscow region	91.7
Perm Krai	90.4
Belgorod region	86.8
Moscow	85.8
Novosibirsk region	85.4
Sverdlovsk region	85.1
Samara region	84.8
Stavropol Krai	81.7
Tyumen region (with autonomous districts)	76.8
Chelyabinsk region	73.6

Source: Rosstat.

As suggested in Table 20, a dynamics of housing commissioning considerably above the RF average (more than 3%) was registered in Saratov, Kemerovo, Voronezh regions, Chechnya and Krasnoyarsk Krai. In 5 regions an upward trend of housing commissioning was observed but with lower rates (to 3%). At the same time, decrease in housing commissioning volumes was recorded in 14 regions including Moscow, Belgorod, Novosibirsk, Sverdlovsk, Samara, Tyumen, Chelyabinsk regions, and Stavropol Krai where it constituted more than 13–25%.

Moscow region has retained its first-place position among Russian regions in terms of the absolute volume of housing commissioning (more than 8.8 million square meters) despite a deeper recession than in the country as a whole (8.3%). The city of Moscow with 3.4 m of square meters saw a steeper reduction (14.2%) in the volumes of housing commissioning than districts near Moscow. St. Petersburg boasted increase in housing commissioning by 2.8% to over 3.1 million square meters. The list of five top regions also included Krasnodar Krai (around 4.5 m sq. m.) and Bashkortostan (2.7 m sq. m.). The share of capital region in the overall volume

of housing construction in the country amounted to 15.3%, of which the major part accounts for Moscow region (11.1%), and the share of proper Moscow – 4.2%. Total proportion of the capital region declined compared to 2014–2015 (15.8–15.9%), but remained larger than during two pre-crisis years (2012–2013) in the aftermath of Moscow borders shift.

The outcomes of 2016 point to the fact that the housing construction sector failed to avoid recession. Its value not only exceeded small growth recorded at year-end 2015,¹ but resulted in a deeper recession than that in 2014. The depth of the downturn is comparable with indexes recorded in crisis 2009, but absolute commissioning volumes by far exceed then pre-crisis maximum of 2008 and indexes of 2011–2013. Quarterly dynamics did not record straightforward values. Housing commissioning volumes recorded during first two quarters of 2016 gave way to 2015 indexes, but surpassed 2014 indexes. In Q3, they, on the contrary, were higher than a year earlier, but lower than in 2014. However, the outcomes of Q4 bear an obvious negative pattern giving way to indexes of 2014 and 2015, which creates corresponding preconditions for the future.

Additional issues make matters worse for the developers. For the second consecutive year, the developers' profitability, which is close to negative values, is falling reflecting the reduction of sales volumes and prices.

Paramount problem consists in high debt load and growing amounts required for construction by roughly 8–10%.

Prior to crisis, developers were engaged in building kind of pyramid scheme by investing funds obtained from buyers of one residential building into the development of other projects. However, now some developers have to draw up a loan in order to complete construction of those buildings where all apartments have been already sold. Precisely at this stage developers face problems: where loans exceed 50% of the cost of the residential building, the bank issues a loan collateralized with unfinished construction at the rate of 0.5. In other words, the bank has as a collateral all unsold square meters. This raises the risk of default when the price of mortgaged apartments goes down.

According to 'Metrium Group', in H1 2016, nearly 60% of launched projects were not commissioned on time. Commissioning of 30 projects consisting of 52 residential buildings and apartment complexes, which were to be commissioned, was deferred to a later date. According to Head of marketing and sales department of 'Lider Group', D. Panteleimonov, Moscow saw slowing down of construction pace by 20–25%. That is why, residential building completion extended deadlines will be normal for 2017. He noted that prior to crisis construction of a solid-cast building took two years to complete, at present it takes 2.5 years.

At present, in the aftermath of termination of state program on interest rates subsidization the residential construction is entering a phase of development with lower inflation with limited demand when the market factors to a greater extent will be experiencing the impact of new regulatory mechanisms emerging recently. State support of the sector is evolving from across the board to targeted assistance restricted to financing of infrastructure and participation in certain projects, for example, within announced project of rehousing of residents of obsolete housing (five-storey apartment blocks not subject to rehabbing) in Moscow.

¹ In the previous outlook, (see G. Malginov, G. Sternik. Price dynamics on residential property. Russian Economy in 2015. Trends and Outlooks (issue 36) Moscow, IEP. 2016, p. 434) preliminary data released by Rosstat at end-2015 was used, which attested to retention of housing commissioning at the 2014 level (99.5%). However, according to update data 2015 boasted of weak growth (1.3%).

5.6.6. Institutional novations for real estate market

In 2015–2016, the authorities were active in reforming rules of the game on the real estate market. In the context of deteriorating situation on the market, the federal center stopped requiring from the regional authorities and heads of government agencies mandatory growth of reporting indexes, first of all, volume of housing commissioning, allowing their decline.

Principal directions of normative-legislative base reform were:

- reorganization of the housing construction financing system;
- change in the real estate registration system;
- changes in the evaluation system, including strengthening the state role in cadastral appraisal of real estate;
- amendments in taxation of purchase-sale transactions of real estate;
- changes in notarial certification on certain types of transactions.

Establishment of a single institution for the development of the housing sphere via JSC ‘Agency for Housing Mortgage Lending’ (AHML) became the main organizational and managerial novation. It was done on the basis of the Federal law of July 13, 2015 No 225-FZ “On Promoting Development and Raising Effectiveness of Housing Sphere Management and On Introducing Amendments into Certain Legislative Acts of the Russian Federation”. All shares of AHML belong to the Government of Russia and their transfer, pledge, and other administration can be implemented only on the basis of the federal legislation.

Primary target of the single institution for the development of the housing sphere is promotion of housing construction (including construction of economy class housing, rented houses) with the help of mechanisms envisaged by the Federal Law No 161-FZ of July 24, 2008, “On Promoting Housing Construction.” Thus, AHML took over responsibilities of the Federal Fund for Promoting Housing Construction liquidated on September 1, 2016.

However, reorganization of the *financing system of housing construction* was the main aspect of reform.

Regulatory authority first tried to abolish completely shared-equity construction right of developers to attract funds from citizens, which amounted to 70-90% of necessary investment funds and its replacement with bank loans (project-tied lending). However, the building community managed to explain to the Construction Ministry of Russia that this would only destroy the construction sector. The problem is that building contractor practically are unable to get a bank loan: it is unprofitable for banks and developers. Developers are predominantly are high-risk borrowers due to their unstable financial situation. Incomplete construction sites are usually their collateral, which minimize risks. However, these sites have low liquidity rate and consequently have low evaluations. Taking into account these facts, banks have to create large reserves against potential losses on loans, which leads to more expensive borrowing and makes it economically senseless for both parties.

By contrast, regulatory authority chose another way less painful for developers via amendment in the Law on participation in co-investment construction No 214-FZ. It was also subject to the opposition by the construction lobby. However, it was practically implemented. Recently, the Russian government was preoccupied with the issue of hoodwinked investors and as a result strengthened its control over shared-equity construction of residential buildings. A number of important and urgent measures have been taken aimed at strengthening tougher approach towards dishonest developers.

At first, by amendments effected from October 1, 2015, tougher requirements were introduced towards insurance companies providing third-party liability for developers.

According to the amendments, these insurance companies must have: (1) licence to perform voluntary property insurance and (2) boast of own funds no less than RUB 1 bn (previously RUB 400m) with charter capital of no less than RUB 120 m. In addition, these insurance companies must be free of a prescriptive order of the Bank of Russia regarding violation of requirements to ensure financial sustainability and capacity to meet its liabilities (previously there was a more general wording about financial sustainability envisaged by law during recent 6 months). By these amendments small insurance companies, which lacked sufficient funds were cut off from potential participation in developers insurance who attract funds from individual co-investors.

Following these requirements towards insurance companies, the Criminal Code of the Russian Federation was extended by article 200.3 “Attraction of Funds from Citizens in Violation of Requirements of the Law of the Russia Federation on Participation in Shared Construction of Apartment Blocks and (or) other Real Property.” This article makes it an offence for attraction of funds done in violation of Law No 214-FZ, whereas previously dishonest developers escaped with a warning or fine.

Later Federal Law No 304-FZ of July 3, 2016, was adopted “On Introducing Amendments in the Federal Law ‘On Participation in Shared Construction of Blocks of Flats and other Real Estate Property and On Introducing Amendments into Some Legislative Acts of the Russian Federation’ and certain legislative acts of the Russian Federation.” These amendments entered into force on January 2017 and aimed at finally settle relations between client and developer and cut off all dishonest developers.

In particular, Russia will have unified register of developers attracting funds from citizens on the basis of co-investment contracts in shared-equity construction of blocks of flats and other real estate property. All register information must be open to public and uploaded in internet. The Law also determined additional requirements towards to the minimum size of the charter capital of these developers, which should be in the range of RUB 2.5 to 1.5bn depending on the area of all shared-equity construction belonging to developer and other related to it legal entities.

Updated law is also designed to ensure information transparency of developers attracting funds from citizens. For example, from now on the developers must release on their official web sites all necessary documentation and information related to houses under construction including co-investment contracts and photos from construction sites.

In addition to extended list of required information open to everybody and increased size of developers’ charter capital a special compensation fund was established aimed at additional protection of co-investors. It is formed from mandatory contributions (payments) made by developers attracting funds from citizens. The size of contributions can not exceed 1% of planned construction cost of a block of flats and (or) other real estate property indicated in a project declaration of the developer. The state compensation fund of shared-equity construction established under AHML was to receive developers’ contributions from January-February 2017. In the event developers fail to perform their obligation, the fund will compensate citizens their incurred losses and complete housing construction. The fund can accumulate RUB 30–35bn.

However, all these novations do not apply to housing facilities of shared-equity construction where co-investment contracts were signed prior to January 1, 2017.

The law is clearly biased towards protection of individual co-investors. Deposit of these funds on escrow accounts¹ will prevent unlawful diversion of these funds. In the event of developers' bankruptcy, funds will return to their owners in full with the interest. However, escrow account is credited solely on condition when developer receives project-ties financing by crediting institution. This practice will become widespread owing to the fact that banks will be interested in extending relatively cheap credits to builders because they themselves will be attracting less expensive funds, which, in their turn, must be allocated somewhere.

Thus, there emerges a real mechanism for more proactive bank crediting of the construction industry. At present, bank crediting is very limited. However, from the developers' point of view, this arrangement has an obvious fault: developers lose a chance for directly at no cost attract funds from co-investors. Control over their attraction according to the law on participation in shared-equity construction has been extended to the attraction of citizens' funds for building societies.

Change in *real estate registration system* is due to effective from January 1, 2017 of the Federal Law No 218-FZ of July 13, 2015 "On State Registration of Real Estate Property." The former Federal Law No 122-FZ of July 21, 1997 "On State Registration of Real Estate Property and Transactions with It" became invalid from January 1, 2017 (according to Law No 361-FZ of July 3, 2016).

Until quite recently, real estate property was registered in Unified state register of the real estate property. A land plot under each construction facility was registered in State cadaster of real estate property. There were two real estate property bases and two documents for real estate property. In 2017, a new unified information base - Unified State Register of the Real Estate Property - will be in operation and will keep all information about construction facilities. According to the new law, the state cadaster account of real estate property and state registration of real estate rights became a unified procedure. However, there was a collision due to the fact that the new registration system is not perfect (completion dates were extended by half year).

New Law envisages reduction of the list of documents required for the state registration of rights. For example, legal entities will not need to submit charter documents. According to an important novation, Certificate of registration of real estate property will be replaced by an extract from Unified State Register of the Real Estate Property. Now the registrar will bear personal responsibility and will have to compensate the applicant all incurred losses in full from the RF budget.

In the field of valuation activities, it is Federal Law No 237-FZ of July 3. 2016 on State Cadastral Valuation which came into effect on January 1, 2017. The state cadastral valuation includes procedures (1) for taking decisions on carrying out thereof for the purposes provided for by the legislation of the Russian Federation, including taxation based on market and other data related to economic parameters of utilization of a real property unit, (2) determining the cadastral value and (3) approving of the results of cadastral valuation.

State cadastral valuation is carried out by decision of the state executive authority of a constituent entity of the Russian Federation (region) (hereinafter, the authorized body of a constituent entity of the Russian Federation), which entrusts a budget-funded entity founded by the region with an authority to carry out cadastral valuation. Such an entity is not in a position

¹ Escrow Account - is a special savings account where funds can be disbursed only on certain liabilities. It is opened for temporary accumulation of funds to be disbursed on target. With respect to shared-equity construction, this instrument envisages transfer of co-investors' funds as work progresses and developer's report is submitted to bank.

to enter into agreements on carrying out evaluation as a performer in compliance with the legislation of the Russian Federation on valuation activities, while its employees who are directly engaged in determining the cadastral value are not allowed to determine the market value for the purpose of contestation of the cadastral value.

The budget-funded entity is responsible for activities related to determination of the cadastral value. Losses which may arise due to violations related to determination of the cadastral value are compensated in full at the expense of the entity proper with a subsidiary responsibility of the subject of the Russian Federation in respect of obligations related to indemnification of such losses providing insufficiency of the entity's property in cases provided for by the civil legislation.

The cadastral value is determined in accordance with the guidelines for state cadastral valuation to be carried out by the budget-funded entity. That entity has no right to engage other persons, but its own employees to carry out jobs and (or) services related directly to determination of the cadastral value. The final document prepared on the basis of valuation outputs is a report. The authorized body of the subject of the Russian Federation approves the outputs of the report by endorsing a relevant document on the results of determination of the cadastral value.

The results can be disputed in court or a commission established by the authorized body of the subject of the Russian Federation by legal entities and individuals should their rights or obligations be concerned and by state and local authorities if a property unit is in a state or municipal ownership. Preliminary application to the commission is not required for legal recourse.

At the same time, Federal Law No 360-FZ of July 3, 2016 on Amendment of Individual Statutory Acts of the Russian Federation was approved to introduce a moratorium on modification of the cadastral value in charging of the land fee (a percentage of the cadastral value) in all its possible forms. However, Federal Law No 401-FZ of November 30, 2016 on Amendment of Part Two and Part Three of the Tax Code of the Russian Federation and Individual Statutory Acts of the Russian Federation permits regions to introduce or cancel the moratorium on modification of the cadastral value until 2020. Introduction of the moratorium will not be obligatory, but the decision on imposition thereof is to be taken by the supreme executive authority of the subject of the Russian Federation.

The Moscow authorities responded promptly to that decision and refused to review applications for revision of the old valuation results and prepared changes to be introduced into the property cadastral valuation as of the end of 2016. Consequently, the total tax amount has increased by 3.6% despite the fact that the real property has been depreciating from 2014.

With respect to valuation activities proper, it was established by amendments approved by Federal Law No 172-FZ of June 2, 2016 to the profile law of 1998 that the appraiser can carry out valuation in lines specified in the certificate of competence. A qualifying exam in valuation to be carried out by the body authorized by the Government of the Russian Federation for certifying the level of qualification of appraisers was introduced.

Requirements as regards mandatory valuation in case of assignment on a free use basis of property owned by the Russian Federation, subjects of the Russian Federation or municipal entities to the authorities of the Russian Federation, subjects of the Russian Federation or municipal entities, state, municipal and unitary enterprises or state and municipal entities are excluded from the legislation.

The rights and obligations of the customer of valuation are determined and provisions concerning the expertise of reports on valuation are specified. In particular, it is established that the expertise of valuation reports is carried out voluntarily on the basis of a contract between the customer of the expertise and the self-regulating entity (SRE) of appraisers.

The authorities of the valuation activity council under the authorized federal body carrying out statutory regulation in that field include approval of valuation guidelines developed for promotion of provisions of the approved federal valuation standards, except for those, which set requirements to determination of cadastral value.

A member of the SRE appraisers can voluntarily suspend the right to carry out valuation activities on the basis of a personal application, on grounds and in accordance with the procedure set by that entity's in-house documents and may not insure his/her responsibility for the period of his/her right to carry out valuation activities. It is to be noted that in determining the compliance of the SRE of appraisers with the requirement that that entity's total number of members is to be at least 300 individuals it is envisaged to account for only those appraisers whose right to carry out valuation activities is not suspended. In addition, it is established that membership of the individual in the SRE of appraisers cannot be suspended if the person in question is under investigation and application of disciplinary measures is being considered.

Important changes took place as *regards taxation of property when it is bought or sold*.

First, as early as 2014 year-end the Tax Code of the Russian Federation was supplemented with Article 217.1 on the specifics of taxation of individuals' incomes from sale of real property (it is applied to property units which were bought from the beginning of 2016).

The most important norms in that article are the following:

- The minimum period of property ownership needed for a subsequent tax-free sale is 3 years for property units received in ownership through succession by inheritance or on the basis of a gift deed from an individual recognized as a family member and (or) next of kin of that taxpayer in accordance with the Family Code of the Russian Federation as a result of privatization of property and assignment of property under a life estate agreement and 5 years in other cases.
- if the taxpayer's incomes from sale of the real property unit are less than the cadastral value of that unit as of January 1 of the year in which state registration of assignment of ownership rights to the property unit took place multiplied by a decreasing coefficient of 0.7, for taxation purposes the taxpayer's incomes from sale of that property unit are made equal to that value (that is, 70% of the cadastral value).

The above two novelties are aimed at replenishment of the budget, but they increase a burden on individuals who were not earlier limited by deadlines set to sale of real property without implications in terms of taxation of the received incomes and could understate the value of their property.

In addition, as per Article 220.3.1 of the Tax Code of the Russian Federation in buying housing in ownership, individuals have the right to claim a property-related tax deduction in the amount of actual expenditures made on such a purchase, but no more than RUB 2m. The tax authorities published explanations that if such housing is bought by spouses it is considered a joint property. Consequently, each of the spouses has the right to receive a property-related tax deduction (Letter No.BC-3-11/813@ of February 29, 2016 on Property-Related Tax Deduction).

The deduction will be calculated on the basis of the value of expenditures of each spouse. The expenditures need to be certified by payment documents. Also, the expenditures can be

determined on the basis of the spouses' statement on distribution of their expenditures on purchasing of the real property unit. It is to be noted that the maximum amount of the deduction may amount to no more than RUB 2m per each spouse who has the right to a property-related tax deduction regardless of the fact in whose name the ownership rights to that property were registered.

The Law No 391-FZ of December 29, 2015 on Amendment of Individual Statutory Acts of the Russian Federation established *mandatory notary certification for some types of deals*. They include deals with shares in the joint ownership rights, including those on land and real property purchase and sale deals where the owner is a minor or partially incapacitated person. The norm in question which is important to the real-estate market is justified by the need to protect the rights of owners of apartments from "apartment raids" in selling of micro shares and step up protection of vulnerable categories of people.

In fact, a mala fide purchaser may buy an insignificant share in an apartment (for example 1/30) to get the right to live there and then creates unbearable living conditions to make other co-owners to sell their shares at prices below the market ones. Another option may consist in making other co-owners of the apartment to buy the share of the mala-fide purchaser at a price, which is above the market one. The notary certifies the deal if the owner of the share has duly notified other co-owners of the future sale of its share. According to Article 250.1 of the Civil Code of the Russian Federation, owners of apartments have the right to preferential purchasing of the share in common property.

In the realtors' community, there is a skeptical approach to this novelty because it duplicates functions of the registration chamber, which is obligated to carry out expertise on compliance of deals on sale of shares with the requirements of Article 250 of the Civil Code of the Russian Federation. In case of a sale of the share after a month-long period set by the law with proper notification of co-owners of the future sale made as per Article 250.2 of the Civil Code of the Russian Federation, a notary certification of a sale and purchase agreement cannot protect owners from "apartment raids". Notary certification of a sale of real property owned by a minor is assessed in a similar way.

As in case of deals with shares in common property, notaries are again in the money because deals on sale of apartments where minors are owners are nearly always alternative ones, that is, apart from certification of the deal proper all the deals in the "chain" need to be notary certified. From the beginning of 2017, these norms were included in Law No 218-FZ of July 13, 2015 on State Registration of Real Property. In addition, notaries' bonus consists in mandatory notary certification of the spouses' consent to disposal of property, the titles to which are subject to state registration, that is, the real estate and the agreement on division of their common property; the above requirements are provided for by amendments to the Family Code of the Russian Federation.

Large-scale work on reforming of the legislative and regulatory base of the real estate market - those efforts were necessary and feasible during the crisis - will contribute to higher responsibility of market players, including state regulating authorities, prevention of social tensions due to developers' failure to meet their obligations to equity building participants, promotion of responsibility of real property owners and more fair taxation. However, the possible influence of all these measures on the real property market dynamics is limited by a short-term prospect.

Generally, residential property markets of Russian cities have passed through the critical stage of the crisis and are close to stabilization. However, the sluggish crisis is far from being over.

5.6.7. The forecast of development of the Moscow residential property market till 2020

For modelling and forecasting development of the residential property market, the initial data of the baseline version of the government forecast for three years were used. According to this forecast, from 2017 the Russian economy will start going upwards at moderate, but growing rates (GDP growth will range from less than 1% to 2%) with prices of oil standing at USD 40 a barrel and the ruble/dollar exchange rate, at 60–65 RUB/USD. These parameters correlate with most forecasts of Russian researchers.¹ The same data were used in our model of the Moscow residential property market forecast.

A number of factors which emerged at the turn of 2016–2017 can have an additional positive effect on the financial and economic situation in the country as regards growth in budget revenues, investments and other. The agreement between the OPEC and Russia (and some other countries which are not members of the organization) on reduction of volumes of oil production opens up the prospect of getting rid of excess supply on the energy market and has already contributed to growth in oil prices to USD 50–55 a barrel. Political processes in the US and Europe may facilitate lifting of sanctions against Russia. However, the main problems prevailing in the Russian economy are of domestic and institutional nature and they are far from being resolved.

As regards the main driver of the real estate market, after a 10% drop in households' real incomes in the past few years they have stabilized this year and will start to grow in 2018. However, after the presidential elections a number of unpopular measures aimed at promoting economic growth rates, but having an adverse effect on households' income growth is expected to be introduced. Taking into account this factor, the judgmental forecast of the rates of decline of households' real disposable income by 4.0% and 3.0% in 2017 and 2018 and beyond, respectively, was approved. With the rate of inflation forecasted by the Central Bank of the Russian Federation at 5.0% in 2016 and 4% later on taken into account, growth in households' nominal income will amount to less than 1% in 2017–2020. The above indicators were used as the initial data in calculating the real estate market forecast.

Below is given the forecast of average unit prices of real property on the primary and secondary markets of Moscow and the Moscow Region.

As regards the primary Moscow market, on the basis of the monthly data in the period from December 2013 till December 2016 it can be stated that actual prices at the end of 2015 and 2016 coincided with those of the forecast of June 2014. The calculation showed that in subsequent years the average market price would be going down at a moderate rate of 3–5% a year.

The drivers of the above situation are trends in dynamics of supply and demand formed in 2014–2016. An upsurge in prices late in 2014 caused by a macroeconomic shock was later

¹ For example, the conservative version of the forecast in: V. Averkiev, S. Drobyshevsky M. Turuntseva and M. Khromov. *The Beginning of Cyclic Growth. The Macroeconomic Forecast for 2017-2018. Monitoring of Russia's Economic Outlook. Trends and Challenges of Socio-Economic Development.* No. 1(39). January 2017, pp. 5–12.

replaced by a decline thereof due to the effect of such a fundamental factor as falling households' incomes.

Market supply during the 2014 construction boom was growing, but from the beginning of 2015 amid speculative demand, it became exhausted. Simultaneously, due to the crisis, which had just begun developers stopped commissioning new property units in the market and the volume of supply decreased. From summer 2015, by virtue of a decrease in sales the unsold supply volume started to grow and late in 2016 amounted to the record-high values.

In 2014, the volume of demand exceeded that of supply due to changes in the economic and political situation and depreciation of the ruble late in 2014 and early in 2015. Later, during 2015 demand was falling, but in 2016 it started to grow rapidly and by the year-end amounted to the record-high values because amid macroeconomic stabilization in the market the pent-up demand occurred. However, the volume of demand is still lower than that of supply. Market prices which grew much late in 2014 started to decline later on when the supply surpassed the demand and kept falling in 2016.

The calculation has shown that with a forecasted decrease in households' incomes till 2020 the volumes of demand and absorption will fall 3–5% a year. The volume of supply will decrease 10–15% a year, but remains higher than the volume of demand. The volume of supply is formed on the basis of the accrued unsold supply, plus the volume of new supply (which is approximately equal to the volume of new commercial development) and minus the volume of absorption. Volumes of building and commissioning of new housing are expected to decrease because development yields less income amid falling absorption volumes and prices. With the above taken into account, prices will be going down 3–5% a year (*Fig. 44*).

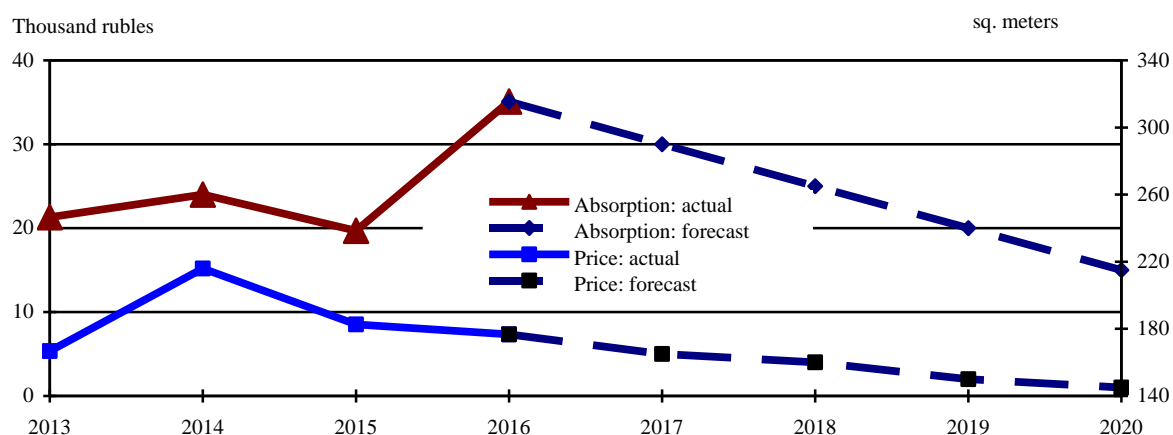


Fig. 44. Forecast of the annual absorption volume and dynamics of prices as of the year-end (December) on the Moscow primary real estate market

Source: the actual data supplied by the Rosreestr and the Analytical Committee of the Moscow Association of Realtors, while the forecast data, by the OOO Sterniks Consulting.

On the secondary market, after an upsurge early in 2015 the price dynamics was affected by such a fundamental factor as households' falling incomes, and the actual data of December 2015 and 2016 were the same as in the forecast of June 2014.

The volume of housing supply which increased in 2014 amid appreciating prices kept growing in 2015–2016 due to a decrease in the volume of absorption. The volume of demand

was mainly below the volume of supply. A reversal took place only in December 2016 and so far it is unclear whether this trend is going to change. In general, prices were going down.

The forecasts of the average monthly volume of demand and supply, the total annual volume of absorption and monthly prices in December 2016 on the Moscow secondary housing market show that after the collapse of demand in 2015 it kept falling and remained below the supply. Such a situation will definitely lead both to a decrease in the volume of absorption and falling prices in future. The forecast of June 2016 shows that prices are going down 8–9% a year in future (Fig. 45).

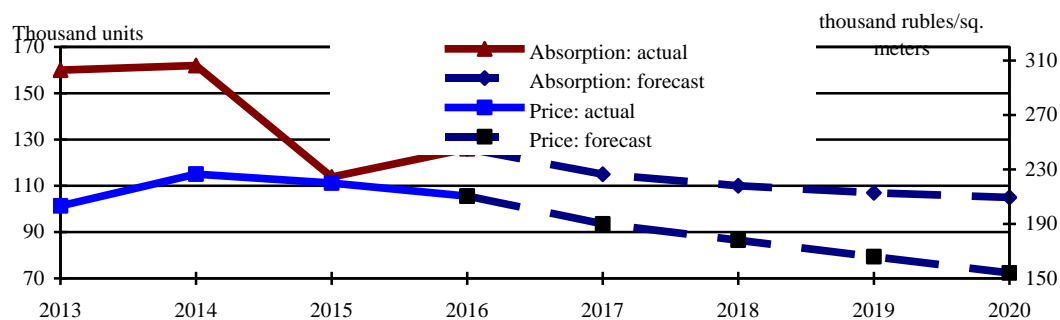


Fig. 45. Forecast of the annual absorption volume and price dynamics as of the year-end (December) on the Moscow secondary real estate market

Source: the actual data supplied by the Rosreestr and the Analytical Committee of the Moscow Association of Realtors, while the forecast data, by the OOO Sterniks Consulting

On the primary residential property market of the Moscow Region, in 2016 the absorption volume turned out to be below the forecast by 9.5% and according to the forecast it is going to decrease at the rate of 4–5% a year in future. In December, the price turned out to be higher than in the forecast (by 5.0%), but in future it is expected to fall 3–4% a year (Fig. 46).

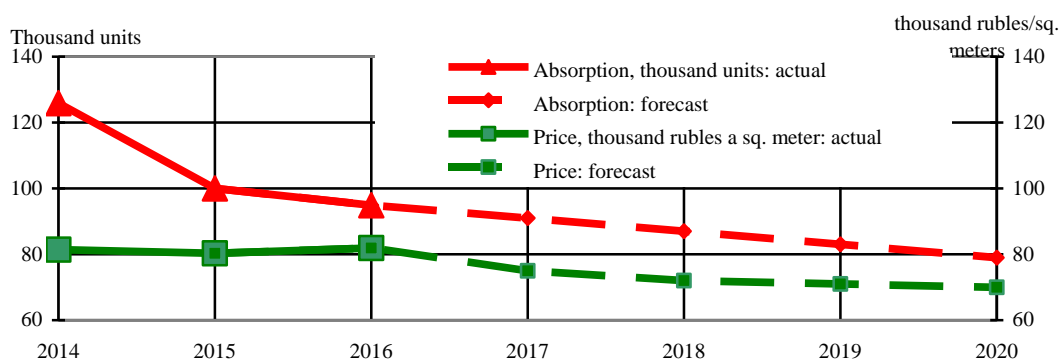


Fig. 46. Forecast of the annual absorption volume and price dynamics as of the year-end (December) on the primary real estate market of the Moscow region

Source: the actual data supplied by the Rosreestr and the Analytical Committee of the Moscow Association of Realtors, while the forecast data, by the OOO Sterniks Consulting

On the secondary residential property market of the Moscow Region, in 2016 the absorption volume turned out to be slightly below the forecast (1.2%) and it is expected to be decreasing

at the rate of 4–5% a year according to the forecast. The price in December was below the forecast (2.4%), but it is expected to go down 3–4% a year in future (Fig. 47).

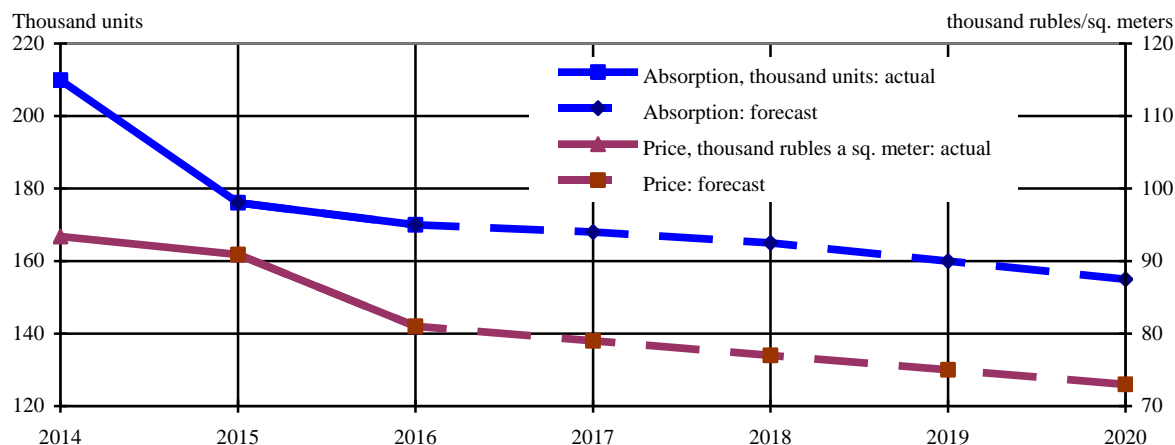


Fig. 47. Forecast of the annual absorption volume and price dynamics as of the year-end (December) on the secondary housing market of the Moscow Region

Source: the actual data supplied by the Rosreestr and the Analytical Committee of the Moscow Association of Realtors, while the forecast data, by the OOO Sterniks Consulting

So, a recession on the residential property market of the Moscow Region with main indicators decreasing, but without a substantial drop is expected until 2020 included. In other cities, more substantial rates of decrease in absorption volumes, prices, building volumes and commissioning volumes, as well as sustainable development and even small growth of the main indicators of the residential property market can be expected.

Certainly, there are risks of deviation of the market dynamics from the forecast.

Housing prices may increase reflecting the growth of the oil prices, lifting of sanctions, households' higher incomes, abandonment of inflation targeting and substantial easing of the monetary policy. In case of a collapse of oil prices and appreciation of the dollar exchange rate, a new wave of the crisis with depreciation of real estate prices may take place in the market.

