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## TRENDS AND OUTLOOKS

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R95 **RUSSIAN ECONOMY IN 2017. TRENDS AND OUTLOOKS** / [Alexander Abramov etc.; Doctor of sciences (economics) Sergey Sinelnikov-Murylev (editor-in-chief), Doctor of sciences (economics) Alexander Radygin]; Gaidar Institute for Economic Policy. – Moscow: Gaidar Institute Publishers, 2018. – 544 p. – ISBN 978-5-93255-530-9.

The review "Russian economy in 2017. Trends and outlooks" has been published by the Gaidar Institute since 1991. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social services; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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## 5.6. The housing market in Russia's cities in 2017[1]

The actual development pattern displayed by the Russian economy in 2017 only in part answered the expectations voiced by the expert community in late 2016. First of all, last year there was no sustainable recovery at the macroeconomic level. Although the year-end GDP growth rate amounted to 1.5 percent, it still demonstrated rather strong volatility of its index over the course of the year. However, the professional participants of the real estate market, as well as Russian businesses in general, usually look not at GDP or industrial output indices, but at the exchange rate of the national currency, the movement of wages and salaries, and consumer demand, because the latter better describe the existing risks, while the movement pattern of GDP serves only as a background indicator.

A much more significant factor determining the situation in the real estate market is the movement pattern, in nominal and real terms, of personal disposable income. According to *Rosstat* data, that index has been on the wane in annual terms for four straight years (with the exception of January 2017, when a one-time benefit was paid to pensioners). Meanwhile, the decline in 2017 (1.7 percent) was several times less deep than in 2016 (5.8 percent). From May 2017 onwards, the slowdown trend displayed by the decline rate became obvious, in contrast to the situation in 2015–2016, and this was a good macroeconomic signal for the real estate market, although still a very weak one.

The consumer inflation in Russia, having shrunk more than by half relative to 2016, hit its record high of the entire period since the onset of market reforms. In response to the more favorable situation in the foreign market (relative to 2016) associated with rising export prices of oil, the RF Central Bank could reduce its key rate. Over the course of 2017, the key rate was reduced six times, to the level of 7.75 percent per annum, thus pushing down the interest rates on bank loans. The overall volume of housing mortgage loans in 2017 increased more than 37 percent to RUB 2,021.4 billion, thus plunging below its previous record low of 2014 (RUB 1,753 billion).[2] The average weighted interest rate on housing mortgage loans issued from the year-beginning amounted to 10.64 percent (in 2016 – 12.48 percent).

The record-high growth in the volume and relative share of housing mortgage loans in the total volume of consumer loans in response to the plunge of inflation, the RF Central Bank's key rate, and the interest rates on housing mortgage loans, occurred alongside the continuing downward movement of per capita personal income. Hence the universally observed halt in the downward movement of prices, which gave way to stagnation (stabilization at the bottom point of the cycle).

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[1] This section is written by Georgy Malginov, the Gaidar Institute, RANEPA and Sergey Sternik, Financial Institute under the RF Government, JSC Sternik's Consulting.

[2] The total amount of all issued housing loans is somewhat higher than the total mount of ruble-denominated housing mortgage loans cited here, but they take up more than 99 percent of the total housing lending market.

### 5.6.1. The behavior of housing market prices

The main indices describing the movement patterns of prices in the secondary housing market across Russia's cities are shown in *Table 12*[1].

The study sample consists of 27 cities and one region (Moscow Oblast, for which by-town average data were collected), including 21 capitals of RF subjects, with total population of more than 43 million.[2]

If this index is to be applied as a classification criterion, the sample appears as follows:

– the city of Moscow (approximately 12.4 million);

– Moscow Oblast (total urban population of approximately 6.1 million) and the city of St. Petersburg (approximately 5.3 million) (approximately 11.35 million in total);

– 10 cities with the population of more than 1 million (other than Moscow and St. Petersburg) (Novosibirsk, Yekaterinburg, Nizhny Novgorod, Kazan, Chelyabinsk, Omsk, Samara, Krasnoyarsk, Perm, Voronezh) (more than 12.25 million in total);

– 9 cities with the population between 500,000 and 1 million (Tyumen, Togliatti, Barnaul, Ulyanovsk, Irkutsk, Yaroslavl, Vladivostok, Kemerovo, Ryazan) (approximately 5,650 million in total);

– 3 cities with the population between 200,000 and 500,000 (Stavropol, Surgut, Shakhty) (more than 1.0 million in total);

– 3 cities with the population of less than 200,000 (Syzran, Pervouralsk, Tobolsk) (approximately 0.4 million in total).

In Moscow's secondary market, after the price index surge in late 2014, it continued its upward movement until March 2015. Thereafter, it began to decline, and then stabilized from June 2016 onwards. Relative to the December price level, its plunge in 2016 amounted to 3 percent. Over the course of 2017, prices remained practically stable, and their index for December (RUB 210,200 per m²) was only 0.8 percent below its December 2016 level. Relative to December 2015, the price index lost 3.8 percent, and relative to March 2015 (its pre-crisis record high) – 14 percent.

*Table 12*

**Prices on the secondary housing market in Russian cities in 2015–2017**

| City (region) | Average per unit supply price, thousands of rubles per m² | | | Price index in December 2016 relative to December 2015 | | Price index in December 2017 relative to December 2016 | |
|---|---|---|---|---|---|---|---|
| | December 2015 | December 2016 | December 2017 | in nominal terms | in real terms (IGS[3]) | in nominal terms | in real terms (IGS) |
| Moscow | 218.5 | 212.0 | 210.2 | 0.970 | 0.920 | 0.992 | 0.968 |
| St. Petersburg | 103.0 | 106.0 | 107.4 | 1.029 | 0.976 | 1.013 | 0.988 |

[1] The sources of secondary market data are the companies included in the Public Graph of Secondary Realty Market Prices Dynamics in Russia's Cities (http://realtymarket.ru/Publi-nii-grafik-cen-vtori-noi-nedvijimosti-gorodo/); the sources of primary market data are listed in the Note to *Table 13*.
Data processing and interpretation was done in accordance with the guidelines described in G. M. Sternik, S. G. Sternik. Real Estate Market Analysis for Professionals: Monograph. Moscow, Ekonomika, 2009.

[2] Unlike the sample used for analyzing the price situation on the secondary market in the previous annual review (see G. Malginov, G. Sternik., S. Sternik. Dynamics of prices on residential real estate. // *Russian Economy in 2016. Trends and Outlooks* (Issue 38). Gaidar Institute, Moscow. 2017, pp. 286-290), it does not include Kirov, Vladimir and Smolensk.

[3] The IGS index was calculated by applying the formula IGS=HPI/CPI, where HPI is the housing price index in rubles, and CPI is the consumer price index.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Vladivostok | 96.8 | 93.8 | 95.9 | 0.969 | 0.919 | 1.022 | 0.997 |
| Moscow Oblast | 90.9 | 81.9 | 81.0 | 0.900 | 0.855 | 0.989 | 0.965 |
| Surgut (Tyumen Oblast) | 71.3 | 69.0 | 69.8 | 0.968 | 0.918 | 1.012 | 0.987 |
| Yekaterinburg | 70.7 | 68.1 | 67.3 | 0.963 | 0.914 | 0.988 | 0.964 |
| Nizhny Novgorod | 68.4 | 64.9 | 62.3 | 0.949 | 0.900 | 0.960 | 0.937 |
| Kazan | 65.3 | 68.4 | 68.9 | 1.047 | 0.994 | 1.007 | 0.982 |
| Samara | 62.6 | 62.1 | 59.6 | 0.992 | 0.941 | 0.960 | 0.937 |
| Novosibirsk | 60.4 | 58.4 | *58.5* | 0.967 | 0.917 | 1.002 | 0.978 |
| Tyumen | 58.9 | 59.3 | 59.3 | 1.007 | 0.955 | 1.000 | 0.976 |
| Irkutsk | 57.9 | 52.0 | 56.4 | 0.898 | 0.852 | 1.085 | 1.059 |
| Krasnoyarsk | 54.8 | 51.3 | 52.6 | 0.936 | 0.888 | 1.025 | 1.000 |
| Yaroslavl | 53.6 | 51.3 | 48.6 | 0.957 | 0.908 | 0.947 | 0.924 |
| Perm | 52.7 | 49.8 | 49.3 | 0.945 | 0.897 | 0.990 | 0.966 |
| Kemerovo | 49.1 | 45.7 | 44.3 | 0.931 | 0.883 | 0.969 | 0.946 |
| Omsk | 46.7 | 44.3 | 43.2 | 0.949 | 0.900 | 0.975 | 0.951 |
| Barnaul | 46.5 | 44.0 | 44.0 | 0.946 | 0.898 | 1.000 | 0.976 |
| Voronezh | 45.8 | 44.4 | 43.6 | 0.969 | 0.920 | 0.982 | 0.958 |
| Ryazan | 45.8 | 44.2 | 43.7 | 0.965 | 0.916 | 0.989 | 0.965 |
| Togliatti (Samara Oblast) | 44.8 | 41.2 | 39.3 | 0.920 | 0.873 | 0.954 | 0.931 |
| Tobolsk (Tyumen Oblast) | 44.3 | 42.6 | 49.3 | 0.962 | 0.912 | 1.157 | 1.129 |
| Syzran (Samara Oblast) | 42.4 | 39.0 | 36.7 | 0.920 | 0.873 | 0.941 | 0.918 |
| Chelyabinsk | 41.6 | 42.7 | 43.2 | 1.026 | 0.974 | 1.012 | 0.987 |
| Ulyanovsk | 41,2 | 39.6 | 38.7 | 0.961 | 0.912 | 0.977 | 0.953 |
| Pervouralsk (Sverdlovsk Oblast) | 38.6 | 36.8 | 36.1 | 0.953 | 0.904 | 0.981 | 0.957 |
| Stavropol | 37.6 | 38.9 | 39.5 | 1.035 | 0.982 | 1.015 | 0.990 |
| Shakhty (Rostov Oblast) | 34.8 | 34.6 | 33.8 | 0.994 | 0.943 | 0.977 | 0.953 |

Meanwhile, the prices in the territory within the previously established city borders (Old Moscow), following their lengthy decline began to increase once again from spring 2017 onwards, and after a slight decline during the last few months of that year, amounted in December to RUB 212,600 per m², which roughly corresponds to their level in late 2016. In New Moscow, prices were on decline throughout the major part of the year and then stabilized in Q4, amounting to RUB 109,200 per m² in December.

In autumn 2015 – spring 2016, the leading indicator of prices, which reflects the price expectations of sellers (the median unit asking price of a resale (newly offered) housing property, in Moscow's total secondary market and in the city territory within its former borders was below the total/median supply price, and then by November 2016 these two indices became approximately equal. Over the period from December 2016 through March 2017, the mean unit asking price of new (newly offered) supply was above the total supply price, and then in the interval from April through December it once again plunged below the total supply price. Meanwhile, prices in the secondary market during the first period declined, during the second period were relatively stable, during the third period were on the rise, and during the fourth period there emerged a general trend towards decreasing prices. The movement patterns of the total supply price and the new supply price in the secondary markets of both New Moscow and Moscow Oblast were demonstrating similar regularities. Over May-June 2017, these prices both in New Moscow and Moscow Oblast were at the same level, which is indicative of price stability over the subsequent periods.

In Moscow Oblast's secondary market, prices became stabilized, after a long decline, at RUB 81,000 per m² in December 2017. Over the previous year, they lost 1.1 percent, and relative to December 2015 – 11 percent.

In St. Petersburg, the housing prices on the secondary market, on the contrary, began to demonstrate an upward trend, rising in December 2017 to RUB 107,400 per m². Their growth over that year relative to December amounted to 1.3 percent.

In the other cities, the secondary market prices over the period 2015–2016 and until mid-2017 were mostly on the wane. In H2 2017, there was a general trend towards stabilization, and in several cities there was an onset of price growth.

As seen by their year-end indices, prices increased in Tobolsk (by 15.7 percent), Irkutsk (by 8.5 percent), Krasnoyarsk (by 2.5 percent), Vladivostok (by 2.2 percent), Stavropol (by 1.5 percent), Chelyabinsk and Surgut (by 1.2 percent each). In Kazan, Novosibirsk, Tyumen, Perm, Barnaul, as in the city of Moscow, prices varied in the interval of +/-1 percent. At the same time, about a half of all the cities included in our sample demonstrated a decline in prices. Thus, prices lost 4–6 percent in Nizhny Novgorod, Samara, Togliatti, Yaroslavl, and Syzran; 1–3 percent in Moscow Oblast, Ryazan, Yekaterinburg, Voronezh, Pervouralsk, Ulyanovsk, Shakhty, Omsk, and Kemerovo.

Meanwhile, almost all the cities demonstrated a decline in housing prices (IGS index) in real terms (when cleared of inflation in the consumer market). The few exceptions were Tobolsk (growth by 12.9 percent), Irkutsk (growth by 5.9 percent), and Krasnoyarsk, where housing prices in real terms stayed at their year-end 2016 level. Among the other cities, we may point out Kemerovo, Nizhny Novgorod, Samara, Yaroslavl, Togliatti, and Syzran, where housing prices lost more than 5–7 percent. At the same time, practically everywhere (except in Kazan and Samara) the drop in housing prices in real terms was less deep than in 2016.

Data on primary housing market prices are available for 12 cities and Moscow Oblast (*Table 13*).

In Moscow's primary housing market, after a surge in supply prices in late 2014, the beginning of the next year saw their continuing growth as a form of the population's response to the ruble's depreciation. This growth later on gave way to a long period of predominantly downward movement of housing market prices. In 2017, they displayed some slight fluctuations, amounting in December to RUB 179,900 per m²; in contrast to the situation in the secondary market, this price index value represents a rise (by 1.8 percent) relative to December 2016. However, relative to December 2015, the price index dropped by 1.5 percent, and relative to January 2015 (the pre-crisis record high) – by 17.1 percent.

*Table 13*

**Prices on the primary housing market in Russian cities in 2015–2017**

| City (region) | Mean unit asking price, thousands of rubles per m² | | | Price index in December 2016 relative to December 2015 | | Price index in December 2017 relative to December 2016 | |
|---|---|---|---|---|---|---|---|
| | December 2015 | December 2016 | December 2017 | in nominal terms | in real terms (IGS) | in nominal terms | in real terms (IGS) |
| Moscow | 182.6 | 176.7 | 179.9 | 0.968 | 0.918 | 1.018 | 0.993 |
| St. Petersburg | 100.4 | 101.7 | 100.6 | 1.013 | 0.961 | 0.989 | 0.965 |
| Moscow Oblast | *80.3* | 81.9 | 85.1 | 1.020 | 0.968 | 1.039 | 1.014 |
| Kazan | 62.9 | 66.7 | 69.1 | 1.060 | 1.006 | 1.036 | 1.011 |
| Novosibirsk | 60.4 | 58.8 | 59.9 | 0.974 | 0.924 | 1.019 | 0.994 |
| Tyumen | 55,1 | 53,4 | 56,6 | 0,969 | 0,919 | 1,060 | 1,034 |
| Surgut (Tyumen Oblast) | 55.1 | 53.4 | 56.6 | 0.969 | 0.919 | 1.060 | 1.034 |
| Samara | 54.2 | 53.3 | 46.3 | 0.983 | 0.933 | 0.869 | 0.847 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Yaroslav | 52.9 | 49.8 | 50.6 | 0.941 | 0.893 | 1.016 | 0.991 |
| Rostov-on-Don | 50.6 | 51.3 | 52.0 | 1.014 | 0.962 | 1.014 | 0.989 |
| Tobolsk (Tyumen Oblast) | 46.0 | 46.3 | 49.3 | 1.007 | 0.955 | 1.065 | 1.039 |
| Kemerovo | 42.0 | 40.7 | 39.6 | 0.969 | 0.919 | 0.973 | 0.949 |
| Stavropol | 34.8 | 35.9 | 36.3 | 1.032 | 0.979 | 1.011 | 0.986 |

*Source:* for Moscow and Moscow Oblast – Moscow Association of Realtors Committee on Analysis and Consulting (data released by Miel Group, Miel 'Novostroiki'; JSC Sterniks Consulting); for the city of St. Petersburg – Group of Companies 'Real Estate Bulletin'; for Kazan – www.tatre.ru; for Novosibirsk – RID Analytics; for Surgut and Tobolsk – Federal Real Estate Agency 'Etazhi'; for Tyumen – UPConsAllt, Federal Real Estate Agency 'Etazhi'; for Samara – Samara Oblast's Housing and Mortgage Fund (SOHMF); for Yaroslavl – LLC 'Metro-Otsenka'; for Rostov-on-Don – EMT Consulting; for Kemerovo – LLC 'Sibgrad-development'; and for Stavropol – LLC 'Small Enterprises Development Center 'Ilekta'.

Meanwhile, in 2017, housing prices within the city's former borders (Old Moscow) for a major part of the year were on the decline, but then over the year's last few months increased to RUB 196,200 per m² in December, thus practically returning to the same level as in late 2016. In New Moscow, after a slight drop that continued until the end of spring, prices became stabilized from August-September onwards, and in December amounted to RUB 98,400 per m² in the primary market.

In Moscow Oblast, after a slight surge in May 2016, the primary market prices moved close to the level of prices in the secondary market and then continued their downward movement, followed by stabilization from autumn 2016. From March 2017, they displayed a slight growth, and thus the primary market prices moved ahead of those in the secondary market, their level in December 2017 (RUB 85,100 per m²) being 3.9 percent above their previous year's level.

Beside the city of Moscow and Moscow Oblast, growth of prices in the primary market could be observed in the majority of other Russian cities. The corresponding price growth indices in Kazan and Surgut (3.6 percent) were close to those in Moscow Oblast, and those observed in Novosibirsk (1.9 percent) – close to those in the city of Moscow, Yaroslavl, Rostov-on-Don, and Stavropol, where they varied between 1.1 and 1.6 percent. The leaders, however, were Tobolsk and Tyumen (6–6.5 percent). At the other end of the spectrum was Samara, where prices over that year lost 13.1 percent; and Kemerovo and St. Petersburg, where their plunge was far less dramatic (by 2.7 percent and 1.1 percent respectively).

The housing price index in real terms (IGS index) increased relative to 2016 in Tobolsk and Tyumen (by 3–4 percent); and in Kazan, Moscow Oblast and Surgut (by 1–1.5 percent). However, in the majority of cities in our sample prices declined, but almost everywhere their plunge was less deep than a year earlier. One exception was Samara, where in 2017, the housing price index in real terms lost more than 15 percent.

Thus, while in 2016 the supply prices in the secondary and primary housing markets across Russia's cities mainly continued to decrease, in 2017 they displayed a trend towards stabilization, and in some cities – even towards growth.

### 5.6.2. The housing market in and around Russia's capital: the main factors determining the behavior of prices and market activity

Since the price situation in the market is determined by the interplay of demand and supply, it is necessary to analyze the movement patterns of both these factors.

The shrinking demand for housing products and the market absorption rate in 2015 translated into an increasing market supply at stalled prices in the territory in and around the city of Moscow (*Fig. 35* and *36*).

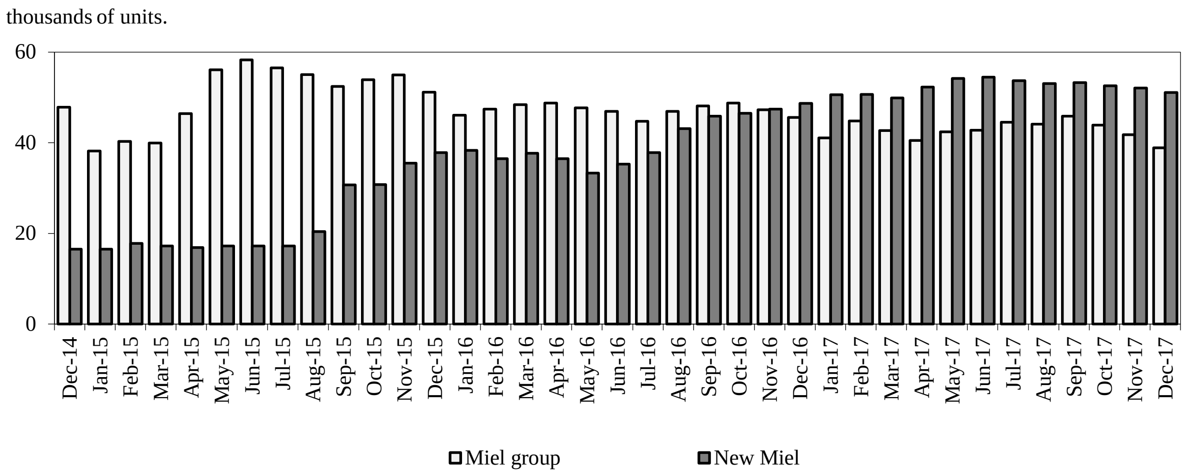


*Fig. 35*. The volume of apartment supply in the city of Moscow's housing market in 2015–2017

*Source*: Miel Group, New Miel.

In the secondary segment of Moscow's housing market, supply growth started in April-May and continued until the year-end of 2015 (from 38,000–40,000 to 51,000–58,000 apartments per month). In 2016, the supply volume somewhat shrank, during some periods (year-beginning and year-end, and also the summer months) coming close to the level of April 2015. The stalling supply caused by a notable drop in the market absorption rate, coupled with the dwindling demand, pushed down the market prices, and in 2016, the shrinking supply resulting from the increased absorption rate led to stabilization of the price trend.

In Q1 2017, the average monthly supply volume (approximately 43,000 apartments) plunged below the April 2015 level. In April 2017, it dived even deeper (to 40,500). Because of the low demand, many apartments put up for sale were removed from the market. Then, towards the end of Q2, there was a return to the year-beginning indices (42,400 apartments in May, and 42,800 apartments in June). In Q3, the supply volume increased further (44,500 in July; 44,100 in August; 45,900 in September). However, later on this trend failed to strengthen, and in Q4 2017, supply was steadily on the wane (43,900 in October; 41,800 November; 38,900 in December).

This downward trend is indicative of the sellers' expectation of a significant growth in housing prices at some point in the future; i.e., at present the owners consider the prices of their apartments to be underrated by the market. Such expectations are based solely on recent experiences, and they take no account of the possibility of a long-term market stagnation, or even a 'tectonic' downward shift of the market prices forever, as a result of changes in the national economy's overall structure, when square meters of residential real estate, together with barrels of oil, can no longer be used as speculative instruments to generate super-profits.

In Moscow's primary market, the supply volume surged from August 2015 onwards (from 17,000–18,000 to 30,000–38,000 apartments per month), in H2 2016 it increased to 43,000–47,000 apartments per month, and in December – to 48,700.

Over H1 2017, the supply volume was still on the rise. While in Q1 2017 its average monthly index was 50,400, in June it increased to 54,500. This happened as a result of the placement on the market of some new housing complexes (buildings) completed in the course of the projects launched during the 'fat' years, although the number of new projects dwindled, and the market absorption rate increased. However, that surge was followed by a gradual decline, due to the increasing market absorption rate at year-end. The volume of supply in Q4 2017 (52,600 in October; 52,100 in November; 51,100 in December) was below the average monthly index of Q3 (more than 53,000), but still notably above the corresponding index for 2016.

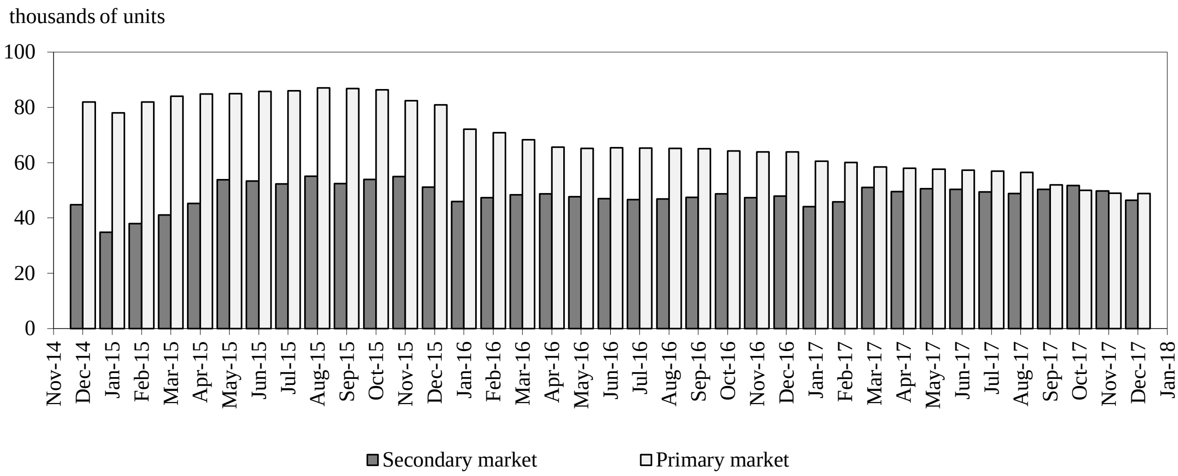


*Fig. 36*. The volume of apartment supply in Moscow Oblast's housing market in 2015–2017

*Source*: Miel Group, NewMiel

In Moscow Oblast, the volume of supply in the secondary market increased from 34,800 apartments in January 2015 to 53,000–54,000 apartments in May-June, and until the year-end stayed at the level of 51,000–55,000 apartments per month. In 2016, this index shrank to 46,000–49,000 apartments per month. Over January-February 2017, the volume of supply declined further to 44,000–45,000 apartments per month, but then once again began to grow, to 50,600 apartments in May, and after a slight drop in the summer rose to 51,800 apartments in October. During the last few months of 2017, the volume of supply shrank to 46,400 apartments in December, which is slightly above the corresponding year-beginning index.

In the primary market of Moscow Oblast, the volume of supply was gradually increasing over the major part of the year 2015 (from 78,000 to about 87,000 apartments per month in August-September), and then that growth gave way to decline (to 63,900 apartments in December 2016). In 2017, the shrinkage of supply volume continued, and in December it amounted to 48,800 apartments per month. This movement pattern can be explained by the gradual decline in the number of new housing construction projects alongside the slightly shrinking market absorption rate.

Thus, over the period 2015–2016, the supply of apartments in the city of Moscow and Moscow Oblast increased significantly, thus creating conditions, in face of the shrinking demand, for a plunge of housing market prices. Over the last few months of 2017, the primary market supply in the city of Moscow began to shrink. In Moscow Oblast over last year, the primary market supply was on the wane due to the shrinking number of new construction projects. Towards the year-end, the secondary market supply also began to shrink both in the city of Moscow and in Moscow Oblast, as the sellers were nursing their expectations of a new price surge.

Having analyzed the supply indices, we are now going to follow the movement patterns of the housing market absorption rate and housing mortgage indices, which serve as the main quantitative parameters of the current status and prospective trend in the housing market on the demand side.

In the primary market for construction projects and housing units put up for sale, in view of the institutional conditions typical of the year 2017, the principal market absorption indicator, as before, was the number of registered shared construction participation agreements (SCPA), its total index for Russia being 699,500, which is roughly equal to the previous year's index.[1]

Meanwhile, the annual volume of housing mortgage loans earmarked for shared construction projects according to data released by the Bank of Russia, was RUB 661.2 billion, which is 15.9 percent above the corresponding index for 2016 (RUB 570.7 billion), and the monthly volume of housing mortgage loans in December 2017 (RUB 85.0 billion) increased by 18.4 percent relative to December 2016 (RUB 71.8 billion), thus rising 13.6 percent above the record high of February 2016 (RUB 74.8 billion). In this connection it is necessary to note that, in spite of this significant growth, the relative share of housing mortgage loans earmarked for shared construction projects in the total volume of issued housing mortgage loans amounted, in 2017, to approximately 1/3, thus returning to its 2015 level (vs. approximately 39 percent in 2016).

The Top 10 regions, ranked by their number of registered SCPAs as of year-end 2017, were Moscow Oblast, the city of Moscow, the city of St. Petersburg, Krasnodar Krai, Leningrad Oblast Oblast, Novosibirsk Oblast, Rostov Oblast, the Republic of Bashkortostan, the Republic of Tatarstan, and Krasnoyarsk Krai. Taken together, these accounted for approximately 59 percent of the total number of concluded contracts. Relative to 2016, this index increased in 7 regions and declined in 3 regions (Krasnodar Krai, Leningrad Oblast, and Novosibirsk Oblast). The best movement pattern of the number of SCPAs relative to the same period of the previous year (including the contracts for apartments and non-residential premises situated in multi-unit residential buildings) was observed in the city of Moscow where, according to data released by the Federal Service for State Registration, Cadastre and Cartography (*Rosreestr*), over the 12-month period of 2017, the number of concluded agreements soared by 45.9 percent; meanwhile, in Moscow Oblast, the indisputable leader in terms of the number of concluded agreements in absolute terms, the growth index (2.7 percent) was lowest for this particular group of regions.

Let us now take a closer look at the movement pattern of the number of deals in the housing markets of the city of Moscow and Moscow Oblast.

After a notable plunge in the number of registrations of SCPAs in 2015, the market absorption rate demonstrated growth revival as early as Q1 2016: the falling prices in Moscow's primary market and the onset of macroeconomic stabilization triggered the return on the market of postponed demand, among other things, through the spillover of buyers from Moscow Oblast's market (*Fig. 37*).

[1] These indices include not only the number of apartment purchase agreements, but also those for the purchase and sale of non-residential premises situated in multi-unit residential buildings.

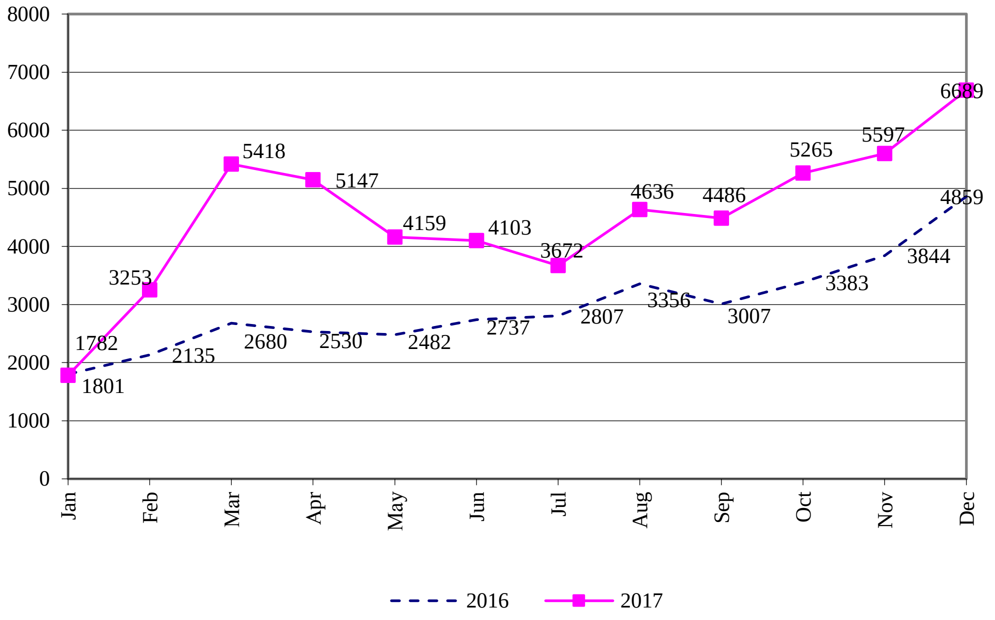


*Fig. 37*. The rate of registration of SCPAs of apartment houses in the city of Moscow in 2016–2017

*Source*: *Rosreestr* Administration for the city of Moscow.

In Q1 and Q2 2017, in response to the rising global oil prices, the ruble's strengthening, the declining inflation rate, and a decrease in the personal income decline rate, the number of shared construction participation agreement registered in the primary market increased to 10,500 and 13,400 respectively, rising relative to the corresponding periods of the previous year by 58 percent and 73 percent respectively. In Q3 (12,800 SCPAs) and Q4 (17,600 SCPAs), the growth indices amounted to 39.5 percent and 45.2 percent, which represents a notable decline relative to the corresponding periods of the previous year. On the whole in 2017, a total of 54,207 shared construction participation agreements were registered in Moscow, which represents a more than 1.5-times rise relative to 2016 (35,621 SCPAs). If we look at monthly indices, there occurred a notable leap in March, which then gave way to a slight drop. When at the end of the summer the upward trend reappeared, the number of registered SCPAs rose above the March index only during the year's last two months. In December 2017, the *Rosreestr* Administration for the city of Moscow registered 6,689 shared construction participation agreements, which represented an increase by 37.7 percent relative to December 2016.

That trend was caused by the drop in the personal income decline rate, the slow-down of inflation, and the decrease in interest rates on housing mortgage loans (HML), the factors that weaken the inclination to save and boost the desire to consume. Besides, for the last year or two, in response to the toughening of norms stipulated in the law on shared construction activity (214-FZ), the developer companies are no longer eager to deal with housing construction cooperatives in the framework of preliminary contracts for property sale. Instead, they are switching to shared construction participation agreements. In addition, they sharply shortened the period between the signing of a SCPA and its registration with *Rosreestr*; as a result, the number of registered SCPAs notably increased. However, in response to the increasing share of apartments being sold after a given housing unit has been put in operation (not under a SCPA, but under a purchase and sale contract), the number of registered SCPAs is not declining.

Some notable growth was also observed in Moscow's housing mortgage lending market. In 2017, the *Rosreestr* Administration for the city of Moscow registered a total of 54,402 housing mortgage deals, which is 24.2 percent above the corresponding index for 2016 (43,876) (*Fig. 38*).

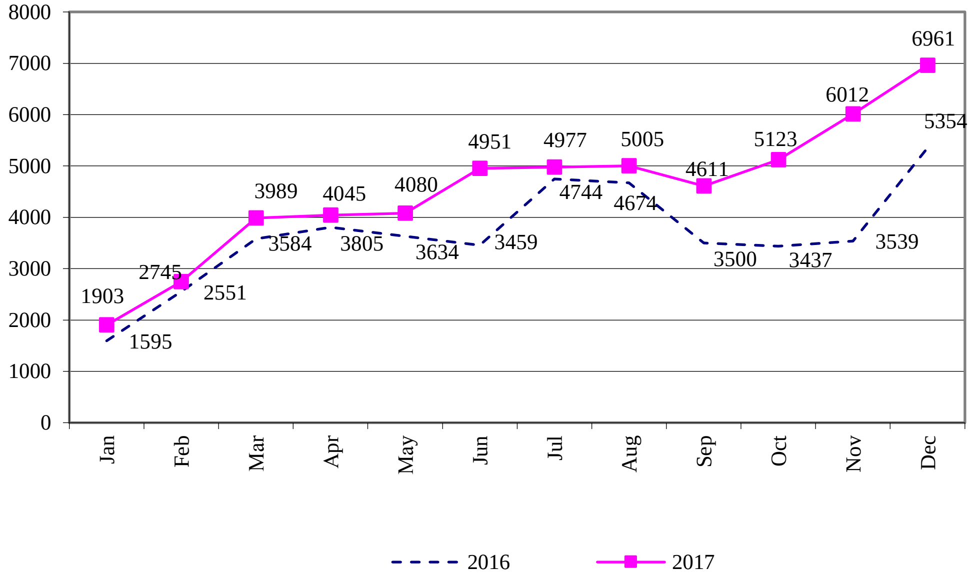


*Fig. 38*. The movement pattern of the number of registered housing mortgage deals in Moscow in 2016–2017

*Source*: *Rosreestr* Administration for the city of Moscow.

The quarterly movement pattern of was as follows. In Q1 and Q3 2017, the growth indices relative to the corresponding periods of 2016 were lowest (11.7 percent and 13 percent respectively); in Q2, the growth index was as high as 20 percent. The year end was traditionally marked by a surge in buyer activity. In Q4 2017, the growth index was highest (46.8 percent), being comparable with the growth index of registered SCPAs over the same period. In December, a total of 6,961 housing mortgage contracts were registered, which represents growth by 15.8 percent relative to November 2017, and by 30 percent relative to December 2016.

It was in December 2017 that, for the first time over the entire period of functioning of the *Rosreestr* Administration for the city of Moscow, the number of registered shared construction participation agreements and the number of housing mortgage loans issued during one month simultaneously rose above 6,000 each. And according to the year-end results of 2017, the total number of registered SCPAs and that of housing mortgage deals in the housing market were roughly equal.

Obviously, the recovery processes in Moscow's housing market are sustained primarily by the growing interest of buyers in new housing units. Alongside the favorable economic situation, the attractiveness of the housing market's primary segment was boosted, in 2017, also by the new provisions introduced in legislation in order to protect the buyers of residential properties and to reduce the volume of bureaucratic procedures involved in the registration of a title to property. Thus, over the course of one year, the *Rosreestr* Administration for the city of Moscow, by taking a number of systemic administrative decisions, managed to cut the number of suspensions associated with entries in the cadastre records and registration of title to property nearly 4-fold, which represents another record high of the entire period of existence of the registration system in Moscow.

At the same time, Moscow's secondary housing market, in spite of the shorter registration procedures, was demonstrating a controversial movement pattern of purchase and sale (or exchange) deals, which markedly deviated from the movement patterns of the primary market indices.

As seen by the year-end results of 2017, the total index of titles to property registered in Moscow on the basis of apartment purchase and sale (or exchange) contracts amounted to 123,894, vs.126,045 in 2016 and 113,769 in 2015; in other words, the volume of deals involving apartments in Moscow's secondary market demonstrated a relative stability.

In H1 2017, the market absorption rate hit its record low of the last 3 years: in Q1, it amounted to 23,500, and in Q2, to 31,200, which is 16.7 percent and 9.6 percent below the corresponding indices for 2016. In Q3, the absorption rate in Moscow's secondary market was 29,800 deals, which is 5.7 percent above the corresponding index for the same period of the previous year. In Q4, it rose to 39,400, having jumped 12 percent relative to Q4 2016. At the same time, there was a plunge by 6 percent in December relative to December 2016, and the year-end total index (decline by 1.7 percent) is indicative of a rapid outflow of buyers to the primary market. The reasons for that outflow are the reduced interest rates on housing mortgage loans and the stabilization of demand in the secondary market.

The movement pattern of the number of registered shared construction participation agreements in Moscow Oblast significantly differed from that in the city of Moscow: from late 2015, there has been a steady quarter-on-quarter decline of the market absorption rate in the primary market in response to shrinking household incomes and buyer outflow to the cheapening primary market of the city of Moscow.

In Q1 2017, the absorption rate in the primary market plunged, relative to the same period of the previous year, to 21,800 SCPAs (or by 13.3 percent). A reversal of that trend became visible in Q2 and Q3: the market absorption rate increased to 22,700 and 23,800 contracts respectively, which represents growth by 8.1 percent and 2.4 percent respectively. Experts have explained this fact by the altering structure of supply in favor of the cheaper and more liquid apartments situated in the medium-distance and long-distance districts of Moscow Oblast. However, in Q4, the number of registered SCPAs once again shrank to 22,800, which is 4.2 percent less than the corresponding index for 2016. As a result, the market absorption rate for 2017 amounted to 91,100 SCPAs.

When this index is set against the number of SCPAs registered in Moscow (54,200), the following proportional distribution of the market absorption rate across the primary markets of Moscow and Moscow Oblast becomes obvious: in 2017, as a year earlier, a greater part (62.7 percent) was taken by Moscow Oblast. However, the city of Moscow’s share (37.3 percent) increased by approximately 10 percentage points relative to 2016 (27.7 percent), thus demonstrating a reorientation of the buyer flow towards the relatively cheapening market (with due regard for the quality and location factors).

In Moscow Oblast's secondary market, the number of registered housing property deals has been on decline for a third straight year (beginning from Q1 2015), the year-end index for 2017 amounting to 49,392 units, which represents a decline by 1/5 relative to 2016.

Thus, the year 2017 saw a continuing hectic growth of the absorption rate (demand) in Moscow's primary market, which happened against the backdrop of rising oil prices, the declining USD-to-ruble exchange rate and inflation rate, and stabilization of household incomes. These factors determined the elevation of the psychologically acceptable apartment price threshold in the primary market, the lowering interest rates on HMLs, and the increasing relative share of housing mortgage agreements in the total volume of housing deals. The supplementary factors were the institutional innovations associated with the expected abolition of shared construction participation agreements and, consequently, of the possibility to buy an apartment at a discount in an early phase of a housing construction project, as well as the uncertain macroeconomic expectations for the period after the 2018 presidential election. Therefore there is a high probability of a 'rebound', in mid-2018, from the already achieved level. The effects of these factors in the secondary market of the city of Moscow and the primary market of Moscow Oblast were more subdued, and so the shrinkage of the market absorption rate was halted.

### 5.6.3. The construction, commissioning, and market supply of new housing units

Over the course of 2017, the total volume of housing stock put into operation amounted to 79.2 million m², which is 1.2 less than in 2016; so, the scale of decline in the housing construction sector was five times lower than a year earlier (*Table 14*).

The decline pattern in the housing construction sector over the past two years resembled the situation in 2009–2010, when during the second year it continued in a receding, inertia-driven mode. In this sense, the year-end results of 2017 are comparable with those of 2010. Meanwhile, when taken in absolute terms, the volume of housing stock put into operation is much higher than both the pre-crisis record high of 2008 and the indices observed in 2011–2013, while at the same time is lower than the level of 2014. Its quarterly movement pattern is indicative of a positive trend. The volumes of housing stock put into operation in Q1 and Q2 2017 were below the corresponding indices for 2016. In Q3, on the contrary, these indices surged above both the previous year's indices and those for 2015. The period-end results of Q4 demonstrated continual growth relative to 2016, while when taken in absolute terms, the volume of housing stock put into operation came close to its 2015 index.

*Table 14*

**The rate of commissioning of residential buildings across Russia in 1999–2017**

| Year | Total area, millions of square meters | Growth rate, percent | |
|---|---|---|---|
| | | relative to previous year | relative to 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 | 80.2 | 94.0 | 264.7 |
| 2017 | 79.2 | 98.8 | 261.4 |

*Source: Rosstat*; own calculations.

More than half of that index was taken up by multi-apartment residential buildings, the total volume of such properties put into operation over January-December 2017 amounting to 45.9 million m², which represents a decline by 5.3 percent, or by 2.5 million m², relative to 2016.

The issue of failure, by some developer companies, to fulfill their obligations has remained vital. Thus, according to data entered in the Single Register of Developer Companies (SRDC)[1], each of the developer companies on the Top 10 list moved the project completion deadline for at least one of its residential buildings put into operation in 2017. In approximately 74 percent of cases, the residential complexes completed and put into operation by the market leaders have a history of postponed deadlines. The deviation from the planned deadlines is usually up to 3 months, which so far has not resulted in a failure to meet the deadlines, stipulated in the contracts with participants in shared construction projects, for the formalization of their titles to the completed apartments.

In 2017, developer companies put into operation a total of 241,100 one-family homes with total area of 32.7 million m², which is 2.8 percent more than in 2016, when the movement pattern of the corresponding index for one-family homes was worse than that of the total index for the housing construction sector. The relative share of the former, in terms of total area, in Russia's total index of completed housing construction projects amounted to 41.6 percent, which roughly corresponds to its 2015 level, although over the period 2010–2014 it had been stably above 43 percent.

One of the reasons for the plunge, in 2017, of the volume of current housing construction projects across Russia was the insufficiently strict control of the implementation of the government support programs, the main focus of those programs being on infrastructure financing.

Thus, the Collegium of the RF Accounts Chamber reviewed the results of the audit of the RF Ministry of Construction, Housing and Utilities in the part of implementation, in 2016–2017, of its priority projects, and revealed some implementation failures associated with the priority project *Housing Mortgage and Housing Lease*, its main goal being that of increasing the volume of housing properties put into operation over the period 2017–2020 by 20.4 million m² through attracting financing from extrabudgetary sources.

The project is implemented in the framework of co-financing, from the federal budget, of massive-scale housing construction projects and envisages the creation of appropriate social and transport infrastructure as established in the subprogram titled *Promotion of the Housing Construction Development Programs of Subjects of the Russian Federation* of the Federal Target Program *Housing* for 2015–2020. The allocated subsidies are spent on the construction of social infrastructure entities, the construction or reconstruction of motor roads in the new residential micro-districts; besides, they are earmarked for covering the interest on loans taken in order to fund the creation of engineering infrastructure on the land plots designated for economy-class residential development projects.

As was noted at the Collegium's meeting, the participation of the regions in the implementation of both the subprogram and in the associated projects is mainly declarative (in

[1] https://erzrf.ru.

2016, these were participated by 18 regions, in 2017 – by 33 regions). The cash execution of expenditure earmarked for subsidies in the subprogram framework amounted in 2016 to RUB 4.2 billion, in 2017 – to RUB 19.6 billion, while the implementation, in per annum terms, of the relevant budget allocations for both years amounted to approximately 96 percent.

Positive movement patterns in the housing construction sector were observed in more than half of all the regions, including most of those territories where the total volume of housing stock put into operation was in excess of 1 million m² (*Table 15*).

*Table 15*

**The commissioning of residential housing in Russia's regions 2017 (ranked in descending order)**

| Region | Housing stock put in operation, percent relative to 2016 |
|---|---|
| Leningrad Oblast | 120.7 |
| St. Petersburg | 113.5 |
| Chelyabinsk Oblast | 106.7 |
| Republic of Dagestan | 104.2 |
| Krasnodar Krai | 103.7 |
| Nizhny Novgorod Oblast | 102.3 |
| Perm Krai | 102.3 |
| Rostov Oblast | 101.8 |
| Moscow | 101.0 |
| Sverdlovsk Oblast | 101.0 |
| Voronezh Oblast | 100.6 |
| Lipetsk Oblast | 100.5 |
| Republic of Tatarstan | 100.1 |
| Chechen Republic | 99.9 |
| Moscow Oblast | 98.7 |
| Belgorod Oblast | 96.3 |
| Saratov Oblast | 93.5 |
| Samara Oblast | 93.2 |
| Tyumen Oblast (with autonomous districts) | 92.6 |
| Republic of Bashkortostan | 91.2 |
| Novosibirsk Oblast | 77.9 |
| Krasnoyarsk Krai | 75.9 |

*Source:* On Housing Construction in 2017 (in Russian), www.gks.ru.

As follows from *Table 15*, the index of the total volume of housing stock put into operation, which considerably exceeded Russia's average (more than by 3 percent), was noted in Leningrad Oblast, Chelyabinsk Oblast, the city of St. Petersburg, the Republic of Dagestan, and Krasnodar Krai. Another 8 regions demonstrated positive movement patterns of that index, but its actual value was lower (under 3 percent). At the same time, shrinking volumes of housing stock put into operation were seen in 9 regions, including Saratov Oblast, Samara Oblast, Tyumen Oblast, Novosibirsk Oblast, the Republic of Bashkortostan, and Krasnoyarsk Krai, where the plunge of that index amounted to 6–25 percent.

Moscow Oblast demonstrated a decline that was less deep than the corresponding Russia's average (1.3 percent), and so it retained its leading position among Russian regions by the total volume of housing stock put into operation in absolute terms (approximately 8.8 million m²). In the city of Moscow, after a deep plunge in 2016, there occurred a slight growth (1 percent); however, by its total volume of housing stock put into operation in absolute terms, which was slightly above 3.4 million m², it still fell behind the city of St. Petersburg (more than 3.5 million m²). St. Petersburg, together with Leningrad Oblast (more than 2.6 million m² in the latter), became leaders by that index (13.5 percent and 20.7 percent respectively), the latter joining the top five regions alongside Krasnodar Krai (approximately 4.7 million m²).

The relative share of the city of Moscow and Moscow Oblast in the volume of completed housing construction projects in the total economy was 15.5 percent, of which the greater part was taken up by Moscow Oblast (11.2 percent), and the city of Moscow accounted for 4.3 percent. In the overall structure of newly completed housing construction projects, the relative share of residential complexes situated in the territories that were recently included in the city borders shrank very noticeably (from 1.7 to 1.0 million m²). Consequently, the relative share of New Moscow amounted to less than 30 percent vs. approximately one half in 2016. The aggregate relative share of the entire region in and around Russia's capital (including Moscow Oblast) remained at its 2016 level, which is somewhat less than in 2014–2015, but more than in the pre-crisis years (2012–2013) after the change of Moscow's administrative borders.

In 2017, Moscow continued to demonstrate its housing construction market consolidation. As reported by Realty.Vesti.ru, almost half of the total volume of housing stock put into operation was taken up by the construction projects completed by five companies. According to data released by the Mayor of Moscow's office, these were PIK Group, MR Group, the Administration for Civilian Construction (a treasury enterprise relying on budget financing), GK Absolut, and LSR Group. It is not surprising that, in spite of the modest movement pattern demonstrated by the market at large, practically all the leaders of Moscow's housing construction sector demonstrated, in their previous year's reports, high growth rates and two-digit growth rate of proceeds.

Some idea as to the future prospects of the housing construction sector can be derived from an analysis of the ongoing construction projects, based on the difference between two opposite vectors – the volume of newly launched construction projects and the volume of housing stock put into operation. Over the past two years, the former was on the decline, but the rate of decline displayed by the latter was even faster, and so the resulting index of current construction project volume was on the rise until mid-2017.

After the current construction index hit its record high in September 2017 (120.0 million m²), the volume of housing stock put into operation began to increase over the year's last few months, while that of newly launched construction projects, and consequently the total housing construction sector index, began to decline. According to data presented in the SRDC's report *Housing Construction by Professional Developers*,[1] in December 2017 the volume of current construction projects shrunk at once by 2.8 percent, or by 3.3 million m². As of December 2017, developer companies were engaged in construction a total of 14.500 multi-apartment residential buildings with a total floor area of 115.8 million m². A year earlier, the volume of current construction projects was 111.0 million м². The bulk of these ongoing construction projects implemented by developer companies is taken up by multi-apartment residential buildings.

In December, the developer companies operating in the Russian Federation were erecting a total of 5,074 residential complexes, each of these possibly consisting of several residential buildings (or parts of buildings) in 82 regions. At the same time, as before, more than half of all housing construction projects are being implemented in only six regions. The highest housing construction volume is registered in Moscow Oblast (13.4 percent of the total area of residential units). Second comes the city of Moscow (10.8 percent), followed by the city of St. Petersburg (10.5 percent). Next, with a wide gap, come Krasnodar Krai (7.1 percent), Leningrad Oblast (5.6 percent), and Novosibirsk Oblast (3.0 percent).

In response to the decline in the rate of inflation, the situation with lending available to big developer companies is notably improving. Director of the Credit Products and Processes Department of Sberbank Sergey Bessonov, in his interview with the Kommersant Newspaper, said

[1] https://erzrf.ru.

that the total volume of loans issued to corporate customers operating in the sector of commercial and residential real estate development was RUB 1.6 trillion. Out of this sum, 15 percent (RUB 245 billion) is taken up by housing construction loans (approximately 500 residential development projects).[1] In the event of a massive-scale switchover to project-based financing, Sberbank expected growth by approximately 1.5 times relative to the year-end index for 2017, which points to the bank's preparedness to issue loans to developer companies in the amount of up to RUB 370 billion, this being the total volume of its one-time loan portfolio.

However, that amount is 13.5 times less than the actual amount of financing needed by the housing construction sector in order to meet the goal, set by the RF President, of the annual volume of housing stock put into operation amounting to 110–120 million $m^2$. Its achievement will require loans to the value of not less than RUB 5 trillion, according to the statement made by Head of the National Association of Developer Companies (NOZA) Leonid Kazinets at the meeting of the Council for Strategic Development and Priority Projects, which took place on December 20, 2017.

Last year saw the continuation of reform, launched in 2015–2016,[2] of the ***system of share construction projects in the housing construction sector*** by introducing significant alterations to the original provisions of the Federal Law No 214-FZ.

The main alterations were introduced by Federal Law 'On the Public Legal Company for the Protection of Rights of Citizens – Participants in Share Construction Projects In Case of Insolvency (Bankruptcy) of Developer Companies, and on the Introduction of Alterations in Some Legislative Acts of the Russian Federation' No 218-FZ dated July 29, 2017.[3]

Firstly, high qualification requirements to a developer company were introduced. It is established that this can be an economic society, it, or its core company, or any of the subsidiaries of its core company, having experience (not less than 3 years) of participating in the construction (or creation) of multi-unit residential buildings with total area of not less than 10,000 $m^2$, and having permits, received in the procedure established by legislation on urban development activity, for putting into operation such multi-unit residential buildings in the capacity of a developer company, and (or) technical customer, and (or) general contractor in accordance with a building construction contract. While the previously established requirements to the grounds for gaining access to land plots are preserved, these are augmented by the requirement to the company name, which must contain the words 'specialized developer company'.

Secondly, the right to attract the monies of participants in shared construction projects has been made subject to several tough restrictions.

The construction (or creation) of multi-unit residential buildings and (or) other real estate properties specified in the project documentation is done within the limits set by one construction permit. A developer company is not allowed to simultaneously implement the construction (or creation) of multi-unit residential buildings and (or) other real estate properties on the basis of several construction permits.

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[1] Kommersant Review No 239, December 22, 2017.

[2] For more details, see *Russian Economy in 2016. Trends and Outlooks* (Issue 38). Gaidar Institute, Moscow, 2017, pp. 299–301.

[3] In addition, by separately adopted laws, the notion of *economy-class housing* was replaced by standard housing, and the provisions stipulated in the law on share construction schemes extended to apply to the relations associated with the attraction of personal financial resources of citizens and legal entities for the purpose of share funding of the construction of multi-unit residential buildings and (or) other real estate properties, and arising in connection with the renovation of the housing stock of the city of Moscow.

The other newly introduced compulsory requirements are the existence of project documentation and a positive expert estimation of the project documentation; requirements to the amount of own equity of the developer company (not less than 10 percent of the planned cost of the construction (or creation) of multi-unit residential buildings and (or) other real estate properties specified in the project declaration); requirements to the availability of money (not less than 10 percent of the construction project cost) in the bank accounts of the developer company opened with an authorized bank;[1] the obligations of the developer company unrelated to the attraction of monies from the participants in a shared construction project or to the construction project (not more than 1 percent of the construction project cost), the absence of obligations associated with various types of loans, with the exception of targeted loans, associated with the attraction of monies from the participants in a share construction project and the construction (or creation) of multi-unit residential buildings and (or) other real estate properties covered by one construction permit; the issuance or release of securities, with the exception of shares; the absence of obligations to secure the fulfillment of obligations assumed by third parties; a ban on the use of property owned by the developer company to secure those obligations, and to secure the fulfillment, by the developer company, of its own obligations unrelated to the attraction of monies from the participants in a shared construction project and to the aforesaid construction project.

The right to attract monies from the participants in a shared construction project is also limited by the requirement that the mandatory payments (contributions) to the compensation fund created at the expense of those participants, and also secured by property acquired by way of investing the aforesaid monies, should be effectuated prior to the State registration of the shared construction contract whereby the transfer of residential premises is envisaged.

The annual accounting (financial) reports of the developer company should be submitted for a mandatory audit and disclosed together with the auditor's resolution not later than 120 calendar days after the end of each reporting year. The intermediate accounting (financial) reports are to be prepared by the developer company for Q1, H1, and first nine months of each year, and to be disclosed not later than 5 calendar days after the end of the relevant intermediate reporting period.

Thirdly, a set of tough restrictions is applied to the managerial bodies of a developer company and its participants with regard to their criminal record (if any), disqualification, involvement in insolvency (bankruptcy) procedures, participation in capital.

Fourthly, the use of monies by a developer company is regulated (20 permitted expenditure items are specified, limits are established for the permitted amount of spending, the permitted amount of advance payments is specified, a list of banned commercial operations is introduced, etc.).

In order to properly perform in accordance with the law, the developer company, the technical client, and the general contractor operating under contracts concluded with the developer company, are obliged to open a bank account with one authorized bank and to settle only through that account; in this connection, the developer company is allowed to have only one settlements account in accordance with the procedure regulating its operations.

Fifthly, the regime of protecting the interests of participants in shared construction projects has been altered.

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[1] A bank created in accordance with RF legislation and included by the Bank of Russia in the list of banks answering the criteria established by the RF Government. The Bank of Russia, on a monthly basis, publishes the updated list on its official website.

The functions associated with the creation of a shared construction compensation fund secured by mandatory payments (contributions) transferred by developer companies are performed by the public legal company 'Fund for the Protection of Rights of Citizens – Participants in Shared Construction Projects' set up in accordance with Federal Law No 218-FZ[1] by way of reorganizing the non-profit organization (NPO) with the same company name, founded by the RF Government through the RF Ministry of Construction.

At its request, developer companies are obliged, within ten days from the date of receiving the request, to submit to the Fund their accounting (financial) reports and the documents (information) verifying their data. The compensation to the citizens participating in shared construction projects under contract whereby the transfer of residential premises is envisaged is paid in accordance with the aforesaid law.

Besides, the Single Housing Construction Information System was created, which functions on the basis of programming products, technical tools and information technologies ensuring the collection, processing, storage, access to, placement and use of information on housing construction projects, as well as other information pertaining to housing construction. The System is operated by the single development institution functioning in the housing sector, i.e. the Agency for Housing Mortgage Lending (AHML).

It is necessary to note that the package amendments to Federal Law No 214 regulating the participation in shared construction projects obviously aims at strengthening the regulation of the activities of developer companies by elaborating on the legislative details. At the same time, they vividly illustrate the existing issues and lack of stability in that sphere.

The previously established share construction participant protection scheme through the special compensation fund, initially created on the basis of the AHML, had existed for only about a year. In addition to the organizational legal alterations, the amount of a developer company's contribution to the compensation fund has been increased to 1.2 percent of the contract price established by agreement between all the participants in a shared construction project in the contract whereby the transfer of residential premises is envisaged. Previously, the amount of contribution could not exceed 1 percent of the planned cost of the construction (or creation) of a multi-unit residential building and (or) other real estate property entity specified in the developer company's project declaration.

The requirements, introduced only recently, in 2016, whereby the minimum amount of the charter capital of a developer company was to be calculated relative to the maximum total area of all property entities being created in the framework of share construction projects by the developer company and related legal entities, were abolished. The norms stipulating the obligations under surety agreements with banks and the insurance of the civil responsibility of a developer company were likewise abolished.

On December 21, 2017, the Chairman of the RF Government approved the Plan of measures designed to replace, over a three-year period, the monies of individuals attracted by way of financing the construction of multi-apartment residential buildings and other real estate entities, by bank loans and other forms of financing. The roadmap envisages a two-phase transition to escrow accounts.[2]

[1] Its creation was envisaged in the RF Government’s Decree No 1231, dated 7 October 2017, which approved the Provision on its supervisory board, the Procedure for the appointment of its Director-General, and the Charter of this organization.

[2] 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 for specific purposes. As far as shared construction projects

During the transition phase (from July 1, 2018 through June 30, 2019), the contracts with participants in shared construction projects must rely on the already traditional scheme that envisages the use of individuals' monies by developer companies directly, the individual participants being protected both by the mechanism envisaged in the law on shared construction (as amended as of the latest date), and by the new mechanism based on escrow accounts and (or) special settlements accounts designed to service the contracts concluded in the framework of share construction projects, the expected relative share of such contracts amounting to approximately 30 percent of the total number of registered contract existing at the period-end of Q2 2019.

The final phase (from July 1, 2019 through December 31, 2020) will involve the switchover of all the contracts concluded with the participants in shared construction projects aiming at erecting multi-unit residential buildings, where the contract with the first participant has been concluded after July 1, 2019, to the mechanism based on escrow accounts and (or) special settlements accounts designed to service the contracts concluded in the framework of shared construction projects, the expected relative share of such contracts amounting to not less than 95 percent of the total number of registered contracts existing at the period-end of Q4 2020 .[1]

According to some expert estimations, the changes in the housing construction financing system will inevitably bring down the volume of new housing stock being put into operation.

In the opinion of M. Litinetskaya (‘Metrium Group’), by far not all the developer companies will be able to satisfy the requirements set by banks. The amendments to legislation were introduced in order to remove from the sector all unreliable market players. The 'purge' will in the main target small developer companies and impose constraints on the entry of new developers on the market. The transition to project-based financing will become yet another undertaking of the authorities which, in the long run, will leave the sector at the disposal of a few dozens of big players, and not thousands of players, as in the present situation. Under such conditions, the volume of new housing stock being put into operation will shrink for a certain period of time, but this temporary negative effect will be overcome by the construction industry. However, the risk of low developer activity will still be there, because now the financing of the entire sector will be directly dependent on the situation in the national economy and the monetary policy of the regulator. The ruble's depreciation and a surge in interest rates on loans may bring to a halt all the new projects.[2]

President of the Institute for Urban Economics N. Kosareva noted that the institutional structure of the market is changing. Therefore the volume of housing construction projects may shrink by 10–20 percent, and the full transition from share construction projects to project-based financing will take no less than five years.[3]

### 5.6.4. The forecast for Moscow's housing market for 2018

A retrospective verification of the forecasted price index movement pattern in Moscow's housing market (plotted in June 2014) by setting it against the actual data revealed that, in December 2014 and early 2015, due to the macroeconomic shock and the surge of demand, housing prices in the secondary and primary markets rose 15–16 percent above their forecasted

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are concerned, this instrument envisages transfer of co-investors’ funds as work progresses and the developer’s report is submitted to the bank.

See also *Russian Economy in 2016. Trends and Outlooks* (Issue 38). Gaidar Institute, Moscow, 2017, p. 299.

[1] http://government.ru/news/30734, December 25, 2017

[2] https://erzrf.ru/news/, December 12, 2017.

[3] https://erzrf.ru/news/, October 28, 2017.

values (*Fig. 39*). Over the period of December 2015 and the year 2016, the actual and plotted prices were practically identical. For 2017, it was forecasted that prices would decline by 2–3 percent in the secondary market, and by 3–5 percent in the primary market. The actual data demonstrated a plunge by only 0.8 percent in the secondary market and a rise by 1.8 percent in the primary market. The deviation from the forecasted values was 1–2 percent in the secondary market and 5–7 percent in the primary market.

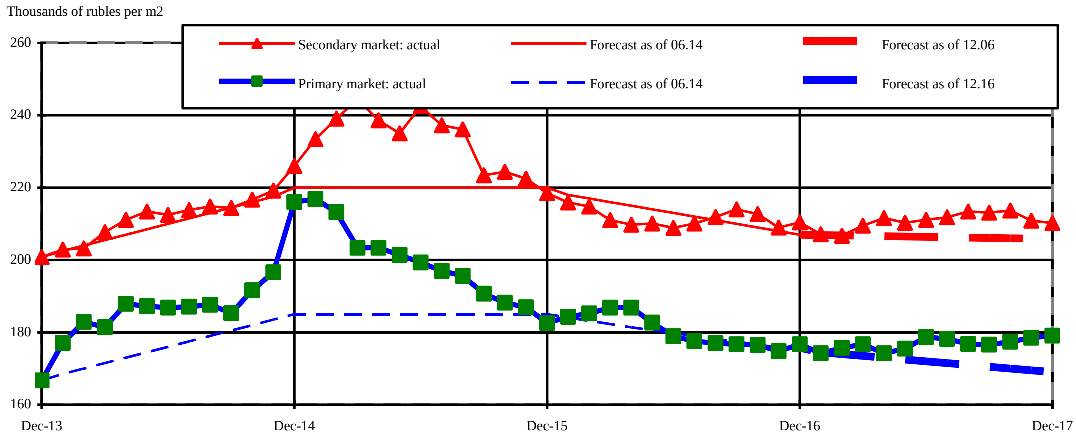


*Fig. 39.* A comparison of the movement patterns of actual and forecasted prices in Moscow's housing market in 2013–2017

*Source*: for data: Analytical Committee, Moscow Realtor Association; for forecasts: LLC Sterniks Consulting

Thus, the forecast for 2017 calculated relative to price of oil at USD 40 per barrel (decline of prices by 3–5 percent) turned out to be too pessimistic, because in H2 the prices became stabilized. It is noteworthy that there was a consensus with regard to the subsequent downward trend displayed by housing prices, although the majority of Moscow experts predicted that prices would fall by 10–20 percent.

In 2017, supply growth in Moscow's primary housing market (in response to the significantly increased market absorption rate) halted and gave way to decline, while effective demand continued its upward movement, thus pushing the demand/supply ratio to positive zone, which resulted in market stabilization and heralded a renewal of price growth. Similar regularities were also observed in the secondary market.

The stabilization of prices in the housing markets of Moscow and other cities throughout Russia occurred in spite of the continuing shrinkage of real disposable household income. The main driver behind the transition from recession to stabilization at the bottom point of the market development cycle (stagnation) was growth of the volume of housing mortgage loans associated with the rising prices of energy carriers, lowering key rate of the RF Central Bank, and plunging interest rates on housing mortgage loans.

Thus, over the period 2016–2017, against the backdrop of general stabilization and even an onset of growth in the Russian economy, it was still displaying some negative phenomena. At the same time, the crisis peak (when household income in nominal terms plunged for the first time) was already a thing of the past, but the prospects for recovery, from the point of view of the effects on the real estate market, are still controversial: real incomes are still far from their 2013 baseline level, and their growth is unsustainable.

The monetary authorities are gradually easing their monetary policy. However, even after the key rate was twice reduced by the RF Central Bank over the course of Q1 2018 (to 7.25 percent), it is still far above the inflation rate. The regulator's conservative approach can largely be explained by the high inflation expectations of the Russian people. This has to do both with the continuing slide of household incomes in real terms and with the imperfections of the RF Central Bank's information policy.

In 2018, we can expect multi-vectored effects of the following factors influencing the price movement patterns.

The world's leading experts predict that oil prices and the USD exchange rate will demonstrate relatively stable fluctuations in the intervals of 60–65 USD per barrel and RUB 60–65 per USD. Russia's GDP growth is expected to be slightly higher than in the previouse year – 1.7–2.0 percent.

The official forecasts do not promise a rapid economic growth, the most probable index being at the level of 2–3 percent. The basic and target scenarios of the RF Ministry of Economic Development envisage that in 2018, GDP will gain approximately 2.1–2.2 percent, as it was expected on the basis of the year-end results of the previous year, and then its growth rate may rise above 2.5–3 percent (only if the target scenario becomes a reality). The conservative scenario predicts the annual growth rate below 1 percent, and its rise towards 1.5 percent by 2020.

In the Gaidar Institute's *Monitoring of Russia's Economic Outlook* it is suggested that the Russian economy is returning to a cyclical growth pattern (approximately 1.5–2 percent per annum). The possibility to accelerate the growth rate is linked to structural reforms, including the budget maneuver, which consists in increasing the expenditures on education, healthcare and infrastructure and cutting unproductive expenditures.[1]

Last year, the predicted growth of real disposable household income failed to occur, but this year this may become possible due to the minimum wage coming closer to the subsistence level, and the increased pensions and other benefits after the end of the presidential electoral cycle. Besides, demand can be boosted, and price decline prevented, by the new program of subsidizing the interest rates on housing mortgage loans (up to 6 percent) for some population groups.

At the same time, in conditions of the mounting pressure created by the economic sanctions, the government may begin to implement some unpopular measures, e.g., reducing the relative share of self-employed population, and making job cuts at the inefficiently performing enterprises in the framework of their reorganization, which will push down the household income growth rate.

Given these baseline data, with due regard for the actual result achieved in 2017, we predict that prices in Moscow's housing market in 2018 may fluctuate in the interval +/-1.5–2.0 percent, which means ongoing stagnation with an uncertain time horizon.

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[1] S. Drobyshevsky, S. Sinelnikov-Murylev. Russia's Economic Growth Characteristics in 2017-2018: Incentives and Constraints // Monitoring of Russia's Economic Outlook: Trends and Challenges of Socio-Economic Development. No 2 (63). February 2018, pp. 7–11.