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R95 **Russian Economy in 2018. Trends and Outlooks. (Issue 40**) / [V. Mau at al; ed. Editors – Alexei Kudrin, doctor of sciences (economics), Alexander Radygin, doctor of sciences (economics), doctor of sciences Sergey Sinelnikov-Murylev, doctor of sciences (economics)]; Moscow: Gaidar Institute Publishers 2019. – 616 pp. – ISBN 978-5-93255-556-9

The review "Russian Economy. Trends and Outlooks" has been published by the Gaidar Institute since 1991. This is the 40th issue. 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 sphere; 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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The housing market in Russian cities in 2018[1]

The preliminary results of the Russian economy's development in 2018 appear to be rather controversial. On the one hand, the growth rate of GDP gained 2.3 percent; on the other, the consumer inflation index increased significantly, to 4.3 percent, from its record low of the entire period since the onset of market reforms (2.5 percent), achieved in 2017. The movement pattern of personal disposable income, which is a much more significant factor determining the situation in the real estate market, was quite volatile throughout the course of last year, with multiple trend reversals. In spite of the positive results of the first two quarters, probably achieved thanks to the current electoral cycle, in the end the personal disposable income index stayed roughly at the same level as in 2017.

The RF Central Bank twice reduced its key rate over the course of H1 2018, to 7.25 percent per annum in early autumn. However, over the next few months it was once again hiked twice, and so returned to its level of late 2017 (7.75 percent). The tricky movement pattern of the key rate pushed down the interest rates on bank loans and notably improved the position of borrowers.

According to *Rosstat* data, the overall volume of housing mortgage lending (HML) in 2018 increased approximately 1.5 times (to RUB 3,012.7 billion) relative to 2017 (RUB 2,021.4 billion)[2]. The average weighted interest rate on housing mortgage loans

[1] This section was written G.Malginov, Gaidar Institute, RANEPA; S.Sternik, Financial University under the Government of the Russian Federation; Moscow Association of Realtors.

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

issued from the year-beginning decreased by approximately 1 percentage point and amounted to 9.56 percent (in 2017 – 10.64 percent; in 2016 – 12.48 percent).

In 2018, as follows from the report released by DOM.RF (JSC Russia Housing and Urban Development Corporation)[1] jointly with research company Frank RG, a total of 1.5 million loans were issued (including refinancing of previously issued loans). The plunge of the *average weighted* interest rate on housing mortgage loans (in the *primary and secondary housing markets*) to its historic low was the main factor responsible for the increasing HML volume. It attracted more new borrowers to the market, who took housing mortgage loans to the total value of RUB 2.67 trillion. However, the reduced interest rates benefited not only the new borrowers, but also some 'old' ones who could now refinance their housing mortgage loans, and thus reduce their monthly redemption payments (by 15 percent on average). The initial interest rate for such borrowers amounted on average to 12.5 percent, and after the refinancing of their loans, it shrank to 9.5 percent per annum. In 2018, their housing mortgage loans were refinanced by approximately 165,000 families (or 11 percent of the total number of housing mortgage borrowers). The average amount of a housing mortgage loan in 2018 was approximately RUB 2 million (in 2017 – RUB 1.86 million). The aggregate housing mortgage portfolio of the RF banking sector increased to RUB 6.7 trillion, having gained more than a quarter in its value over the course of that year. The relative share of housing mortgage deals in the primary housing market in 2018 was 56 percent, and that in the secondary housing market – 49 percent.

It was due to the record-high growth of the housing mortgage lending volume that stagnation in the housing market gave way to growth of prices across both its segments.

5.8.1. The behavior of housing market prices

The main indices describing the movement patterns of prices in the secondary housing market across Russia's cities can be seen in *Table 6*[2].

The study sample consists of 25 cities and one region (Moscow Oblast, for which by-town average data were collected), including 18 capitals of RF subjects, with the total population of about 40.4 million[3].

[1] The new corporate name adopted in March 2018 by the Agency for Housing Mortgage Lending (AHML), on the basis of which, in 2015, the Integrated Housing Development Institution was created, with the AHML and the Russian Housing Development Foundation becoming its subsidiaries.

[2] 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* 2.

Data processing and interpretation was done in accordance with the guidelines described in: (1) Sternik, G. M., Sternik, S. G. Real Estate Market Analysis for Professionals: Monograph. Moscow, Ekonomika, 2009; and (2) Sternik, G. M., Sternik, S. G. Methodology of Housing Market Modeling and Forecasting: Monograh. Moscow: RG-Press, 2018.

[3] 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. The Housing Market in Russia's Cities in 2017 // *Russian Economy in 2017. Trends and Outlooks*. Moscow, IEP. 2017, pp. 362–382), it does not include

Table 6

Prices on the secondary housing market in Russian cities in 2016–2018

City (region)	Average per unit supply price, thousands of rubles per m²			Price index in December 2018 relative to December 2017		Price index in December 2018 relative to December 2017	
	December 2016	December 2017	December 2018	in nominal terms	in real terms (IGS)	in nominal terms	in real terms (IGS)
Moscow	212.0	210.2	222.0	0.992	0.968	1.056	1.012
St. Petersburg	106.0	107.4	114.0	1.013	0.988	1.061	1.017
Vladivostok	93.8	95.9	109.6	1.022	0.997	1.143	1.096
Novy Urengoy (Tyumen Oblast)	89.9	89.2	93.5	0.992	0.968	1.048	1.005
Moscow Oblast	81.9	81.0	81.7	0.989	0.965	1.009	0.967
Khabarovsk	73.8	82.2	82.8	1.114	1.087	1.007	0.965
Surgut (Tyumen Oblast)	69.0	69.8	75.5	1.012	0.987	1.082	1.037
Kazan	68.4	68.9	79.2	1.007	0.982	1.149	1.102
Yekaterinburg	68.1	67.3	71.0	0.988	0.964	1.055	1.012
Samara	62.1	59.6	60.4	0.960	0.937	1.013	0.971
Tyumen	59.3	59.3	63.2	1.000	0.976	1.066	1.022
Novosibirsk	58.4	58.5	63.4	1.002	0.978	1.084	1.039
Irkutsk	52.0	56.4	61.0	1.085	1.059	1.082	1.037
Krasnoyarsk	51.3	52.6	56.2	1.025	1.000	1.068	1.024
Yaroslavl	51.3	48.6	51.6	0.947	0.924	1.062	1.018
Perm	49.8	49.3	53.3	0.990	0.966	1.081	1.036
Kemerovo	45.7	44.3	43.9	0.969	0.946	0.991	0.950
Voronezh	44.4	43.6	46.3	0.982	0.958	1.062	1.018
Omsk	44.3	43.2	45.6	0.975	0.951	1.056	1.012
Barnaul	44.0	44.0	45.4	1.000	0.976	1.032	0.989
Tobolsk (Tyumen Oblast)	42.6	49.3	43.3	1.157	1.129	0.878	0.842
Togliatti (Samara Oblast)	41.2	39.3	40.1	0.954	0.931	1.020	0.978
Syzran (Samara Oblast)	39.0	36.7	35.7	0.941	0.918	0.973	0.933
Stavropol	38.9	39.5	42.9	1.015	0.990	1.086	1.041
Pervouralsk (Sverdlovsk Oblast)	36.8	36.1	36.3	0.981	0.957	1.006	0.965
Shakhty (Rostov Oblast)	34.6	33.8	33.7	0.977	0.953	0.997	0.956

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

– the city of Moscow (approximately 12.5 million);

– Moscow Oblast (total urban population of more than 6.1 million) and the city of St. Petersburg (5.35 million) (approximately 11.5 million in total);

– 8 cities (other than Moscow and St. Petersburg) with the population of more than 1 million (Novosibirsk, Yekaterinburg, Kazan, Omsk, Samara, Krasnoyarsk, Perm, Voronezh) (9.85 million in total);

Nizhny Novgorod, Chelyabinsk, Ulyanovsk and Ryazan, but has been augmented by Khabarovsk and Novy Urengoy.

– 8 cities with the population between 500,000 and 1 million (Tyumen, Togliatti, Barnaul, Irkutsk, Khabarovsk, Yaroslavl, Vladivostok, Kemerovo) (more than 5.1 million in total);

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

– 4 cities with the population of less than 200,000 (Syzran, Pervouralsk, Novy Urengoy, Tobolsk) (more than 0.4 million in total).

The year 2018 was marked, practically everywhere, by rising prices in the secondary housing market. The highest growth indices (14–15 percent) were observed in Kazan and Vladivostok. In Stavropol, Novosibirsk, Irkutsk, Surgut, and Perm prices gained more than 8 percent. In Moscow and St. Petersburg, where growth amounted to 5–6 percent, it was within the average range – as it was also in Krasnoyarsk, Tyumen, Voronezh, Yaroslavl, Omsk, Yekaterinburg, and (with some reservations) in Novy Urengoy (where prices increased by slightly less than 5 percent).

A significantly lower growth index (within the range of 1–2 percent) was noted in Samara and Togliatti. In Moscow Oblast, Khabarovsk, Pervouralsk, Shakhty, and Kemerovo prices varied within a range of -1 percent to +1 percent, while the obvious 'outsiders' were Syzran and Tobolsk, where prices declined in absolute terms. In all the cities except Khabarovsk, Irkutsk and Tobolsk, prices were following a higher movement pattern relative to 2017, including those situations where decline gave way to growth, and where the rate of decline was becoming slower.

At the same time, in the majority of cities included in the sample, housing prices increased in real terms (IGS index)[1]. In Kazan, their growth surged above 10 percent; in Vladivostok, it was 9.5 percent; in Stavropol, Novosibirsk, Irkutsk, Surgut, and Perm it was above 3.5–4 percent, and in the group of cities in the 'average range', the growth index was up to 2.4 percent, including Moscow with its growth index of 1.2 percent. In all the other cities across our sample, including Moscow Oblast, housing prices declined in real terms.

Data on primary housing market prices are available for 12 cities and Moscow Oblast (*Table 7*).

Similarly to the situation in the secondary market, the primary housing market was demonstrating continuing growth almost in every city. The exceptions were Rostov-on-Don and Yaroslavl. An absolute leader was Kazan, where housing prices gained about 16 percent. Growth by more than 9.5–12 percent was observed in Moscow, Stavropol, Novosibirsk, Surgut, and Tyumen. In Samara, St. Petersburg and Tobolsk the prices were increasing at a significantly slower pace. Moscow Oblast and Yekaterinburg demonstrated price stability. Besides, lower movement patterns (relative to 2017) were noted in Rostov-on-Don, Yaroslavl, and Tobolsk.

[1] 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.

Table 7

Prices on the primary housing market in Russian cities in 2016–2018

City (region)	Mean unit asking price, thousands of rubles per m²			Price index in December 2017 relative to December 2016		Price index in December 2017 relative to December 2016	
	December 2016	December 2017	December 2017	in nominal terms	in real terms (IGS)	in nominal terms	in real terms (IGS)
Moscow	176.7	179.9	202.0	1.018	0.993	1.123	1.077
St. Petersburg	101.7	100.6	106.0	0.989	0.965	1.054	1.011
Moscow Oblast	81.9	85.1	85.2	1.039	1.014	1.001	0.960
Kazan	66.7	69.1	79.9	1.036	1.011	1.156	1.108
Yekaterinburg	63.1	63.3	63.3	1.003	0.979	1.000	0.959
Surgut (Tyumen Oblast)	61.0	63.2	69.5	1.036	1.011	1.100	1.055
Novosibirsk	58.8	59.9	66.3	1.019	0.994	1.107	1.061
Tyumen	53.4	56.6	62.1	1.060	1.034	1.097	1.052
Samara	53.3	46.3	49.8	0.869	0.847	1.076	1.032
Rostov-on-Don	51.3	52.0	50.6	1.014	0.989	0.973	0.933
Yaroslavl	49.8	50.6	49.7	1.016	0.991	0.982	0.942
Tobolsk (Tyumen Oblast)	46.3	49.3	50.2	1.065	1.039	1.018	0.976
Stavropol	35.9	36.3	40.7	1.011	0.986	1.121	1.075

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; and for Stavropol – LLC 'Small Enterprises Development Center 'Ilekta'.

The housing price index in real terms (IGS index) increased in 2016 in the majority of cities across our sample, with the exception of Tobolsk, Yekaterinburg, Yaroslavl, Rostov-on-Don, and Moscow Oblast. The highest growth occurred in Kazan (about 11 percent), and in Moscow and Stavropol it was above 7.5 percent. In Novosibirsk, Surgut, Tyumen, Samara, and St. Petersburg the IGS index gained somewhat less (from 1 percent to 6 percent).

Thus, after their plunge in 2015–2016 followed by stabilization in 2017, the supply prices in the secondary and primary housing markets across Russia's cities mainly entered the phase of growth, which was more typical of the secondary housing segment, and this trend also influenced the activity of market subjects.

In this connection, special mention should be made of the city of Moscow where, in 2018, some trends in the housing market began to be influenced by the housing fund renovation program.

Some of the potential buyers in the primary housing market, who had been selected as beneficiaries of resettlement plans under the housing fund renovation program, in 2018 abstained from buying in expectation of receiving, at the expense of city budgets, new bigger apartments of a higher quality to replace those currently occupied by their families. Later on, the apartments thus received can be used in many ways, with a possibility of even better market options. In this connection, the prices for apartments in

5-storey walkups earmarked for demolition jumped 20 percent on average. Following this trend, the prices for apartments in the surrounding 5-storey walkups not entered on the housing renovation programs also began to rise relative to those particular housing segments and micro-districts.

As demonstrated by the year-end results of 2018, according to data released by *Rosreestr* in respect of Moscow's secondary housing market, the total number of closed apartment purchase deals was 156,431, which represents a jump by 26.3 percent relative to the previous year. Thus, for the first time after three straight years of relative stability, and in spite of certain fluctuations, the secondary market managed to come close to its level in the record year 2014, when the total index of titles to property registered on the basis of apartment purchase and sale (or exchange) contracts amounted to 162,038 (vs. 113,769 in 2015; 126,045 in 2016; and 123,894 in 2017) (*Fig. 33*).

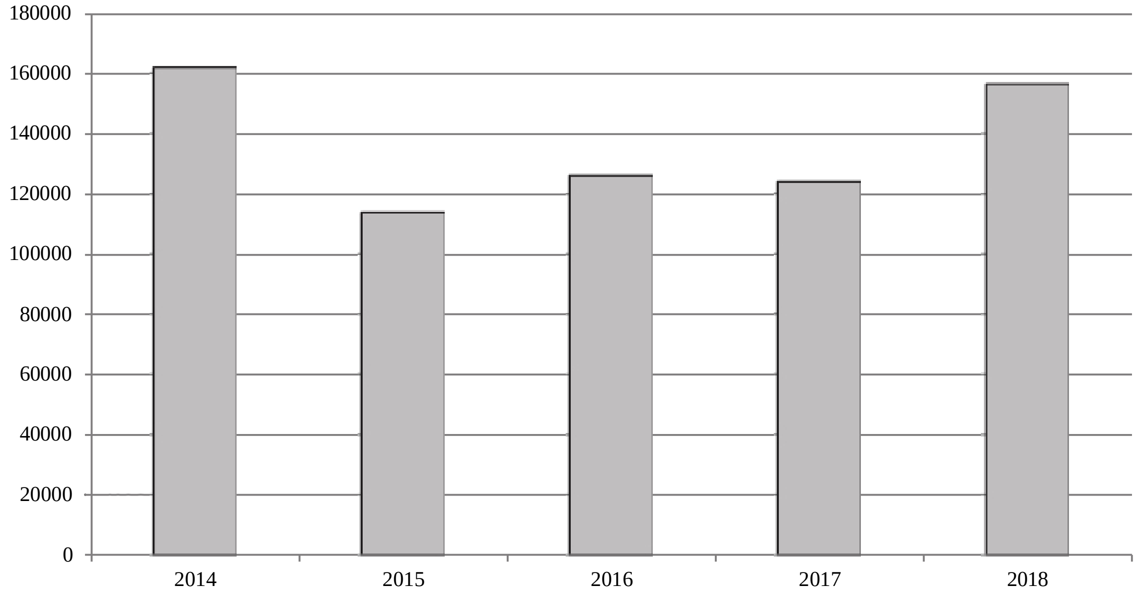

Fig. 33. The movement pattern of apartment purchase deals in Moscow's secondary housing market in 2014–2018, units

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

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

Over the course of 2018, the total volume of housing stock put into operation amounted to 75.3 million m², which is 4.9 less than in 2017; so, decline in the housing construction sector continued for a third year in a row, and its movement pattern was more negative than that of the general economic indicators (*Table 8*).

Table 8

The rate of commissioning of residential buildings across Russia in 1999–2018

Year	Total area, millions of square meters	Growth rate, percent	
		relative to previous year	relative to previous year
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
2018	75.3	95.1	248.5

Source: Russian Statistics Yearbook. 2010: Statistics Yearbook / Rosstat, Moscow, 2010, p. 477; Russian Statistics Yearbook. 2016: Statistics Yearbook / Rosstat, Moscow, 2016, p. 427; Regions of Russia. Socio-economic Indicators. 2016: Statistics Yearbook / Rosstat, Moscow, 2016, p. 828; Regions of Russia. Socio-economic Indicators. 2018: Statistics Yearbook / Rosstat, Moscow, 2016, p. 774; On Housing Construction in 2018, www.gks.ru; own calculations.

In this connection, the situation in the housing construction sector no longer resembles that observed in 2009–2010 when, after a two-year-long period of decline, the volume of housing stock put into operation once again began to follow an upward trajectory, and this trend continued through the year 2015. Meanwhile, when taken in absolute terms, that index is still above both its pre-crisis record high of 2008 and its 2013 level. Its quarterly movement pattern, after displaying an upward trend in Q1, stabilized at a level of about 90 percent relative to the corresponding period of 2017.

A less bright situation has been observed with regard to developer projects involving multi-apartment residential buildings. The volume of housing stock put into operation in this segment[1] has also been on decline for a third year in a row, at an accelerated rate. After the record high achieved in 2015 (50.1 million m²), the rate of decline relative to the previous year amounted in 2016 to 3.4 percent, in 2017 to 4.5 percent, and in 2018 to 7.3 percent. This downward trend can be explained by the shrinking number of new projects launched in 2015–2016 in response to an unstable economic situation and a drop in consumer demand.

The building construction project implementation period is becoming more protracted. According to data collected by Metrium Group, among the developer companies on the Top 100 list, only 14 companies never moved the project completion

[1] In *Rosstat*'s official reports there is no such index. However, it can be calculated as the difference between the total volume of housing stock put into operation and the number of housing units put into operation at the expense of consumers (their own funds and consumer loans).

deadline for at least one of its residential buildings. And the relative share of residential complexes completed and put into operation before or not later than their planned deadlines declined to 40.1 percent in 2018 vs. 46.7 percent in 2017 (in 2016 – 58.9 percent)[1].

In 2018, developer companies put into operation a total of 232,200 one-family homes with total area of 32.5 million m², which is 1.6 percent less than in 2017; in other words, the movement pattern of the corresponding index for one-family homes was better 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 43.1 percent, which roughly corresponds to its level observed over the period 2010–2014.

Positive movement patterns in the housing construction sector were observed in less than half of the Russian Federation's subjects, but in the majority of regions the total volume of housing stock put into operation was in excess of 1 million m².

Table 9

The commissioning of residential housing in Russia's regions 2018 (ranked in descending order)

Region	Housing stock put into operation, percent relative to 2017
St. Petersburg	111.7
Krasnoyarsk Krai	108.0
Chelyabinsk Oblast	106.9
Moscowва	103.6
Nizhny Novgorod Oblast	103.3
Leningrad Oblast	100.7
Rostov Oblast	100.6
Novosibirsk Oblast	100.6
Saratov Oblast	100.3
Voronezh Oblast	100.2
Republic of Tatarstan	100.1
Samara Oblast	99.7
Moscow Oblast	96.8
Sverdlovsk Oblast	96.8
Belgorod Oblast	93.5
Republic of Bashkortostan	93.0
Krasnodar Krai	92.9
Perm Krai	91.8
Tyumen Oblast (with autonomous districts)	84.9

Source: On Housing Construction in 2018 (in Russian), www.gks.ru.

As follows from *Table 9*, the movement pattern displayed by the index of the total volume of housing stock put into operation, which considerably exceeded Russia's average (by more than 3 percent), was noted in St. Petersburg, Krasnoyarsk Krai, Chelyabinsk Oblast, Nizhny Novgorod Oblast, and in the city of Moscow. Another 6 regions demonstrated positive movement patterns of that index, but its actual value was less than 1 percent. At the same time, shrinking volumes of housing stock put into operation were seen in 8 regions, including Belgorod Oblast, the Republic of Bashkortostan, Krasnodar Krai, Perm Krai, and Tyumen Oblast (with autonomous districts), where the plunge of that index amounted to 6–15 percent.

[1] https://erzrf.ru.

Moscow Oblast demonstrated a decline that was less deep than the corresponding Russia's average (3.2 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). The city of Moscow was in the group of leaders with respect to the growth rate of that index (3.6 percent); however, by its total volume of housing stock put into operation in absolute terms, which was above 3.5 million m², it still fell behind the city of St. Petersburg (about 4.0 million m²), where the rate of housing stock put into operation was highest (11.7 percent). The group of top five regions was also joined by Krasnodar Krai (about 4.4 million m²) and Leningrad Oblast (more than 2.6 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 16.4 percent, of which the greater part was taken up by Moscow Oblast (11.7 percent), and the city of Moscow accounted for 4.7 percent. The aggregate relative share of the entire region in and around Russia's capital (including Moscow Oblast) increased relative to its 2017 level (15.8 percent), thus practically returning to its level in 2010 (16.6 percent), whereas over the period 2013–2017 it never rose above 16 percent.

If we look only at the number of multi-apartment residential buildings put into operation according to *Rosstat*'s data for 2018, the Top 10 regions were Moscow Oblast, the cities of St. Petersburg and Moscow, Krasnodar Krai, Leningrad Oblast, the Republic of Tatarstan, Sverdlovsk Oblast, Novosibirsk Oblast, Rostov Oblast, and Samara Oblast. Out of these ten regions, growth in the volume of completed multi-apartment residential construction projects was noted only in the city of Moscow, the city of St. Petersburg, and Rostov Oblast; its decline in Moscow Oblast, Leningrad Oblast, and Samara Oblast amounted to 8–10 percent.

The new financing mechanism employed in housing construction projects has been making its first steps in Russia. By December 2018, a total of 77 ongoing projects including 183 residential properties under construction with a total floor area of more than 1.5 million m² had been funded through escrow accounts[1]. In terms of number of projects, the leader by the scale of implementation of such projects is the Republic of Bashkortostan (about 24 projects), and in terms of total floor area to be put into operation – Moscow Oblast (more than 320,000 m²). As of year-end of 2018, seven banks were operating escrow accounts. According to data released by the Unified Information System for Housing Construction (UISHC), the highest number of projects relying on the new mechanism are funded through Sberbank, VTB, and DOM.RF Bank, the latter having been created on the basis of the bank *Russian Capital* after the transfer

[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 for specific purposes. As far as shared construction projects are concerned, this instrument envisages transfer of co-investors' funds as work progresses and the developer's report is submitted to the bank.

of its 100-percent stake to the charter capital of the AHML at the very end of the year 2017[1].

As for the mechanism of attracting private funds of individuals through their participation in shared construction projects (SCP), which had already become a sort of tradition over the last one-and-a-half decades, in the course of the year 2018, according to data released by the Bank of Russia, the total number of housing mortgage loans issued under shared construction schemes was 368,340 units, which is 18 percent above the corresponding index for 2017 (312,164 units).

At the same time, towards the year end, there began to appear some signs that housing mortgage loans were becoming less affordable for participants in shared construction projects. The interest rates on housing mortgage loans secured by shared construction agreements at the year end 2018 increased to 9.39 percent per annum. In December, the number of actually issued HMLs secured by SCPs plunged by 7.7 percent relative to December 2017, while in November that index had gained 5 percent, and in October – 10.8 percent. Such was the effect of the RF Central Bank's decision, adopted in December, to raise its key rate to 7.75 percent per annum. As a rule, the interest rates on HMLs secured by SCPs are higher than the key rate by 1.5–2 percentage points.

In 2018, the housing construction market continued to demonstrate its consolidation.

While the total volume of ongoing construction projects increased by 10.7 million m² relative to the year-end of 2017, 38 percent of that growth index was accounted for by the top five companies (including 27 percent by PIK Group, which demonstrated growth in absolute terms by 2.9 million m²).

As of December 2018, about 20 million m² of floor area (more than 15 percent of the total volume of current housing construction projects across Russia) was being produced by the top 10 developer companies in terms of total volume of housing stock put into operation and their geographic spread. They operate in the main in the European part of this country (the Central, Southwestern, and Southern Federal Okrugs) and in the Urals, where more than 90 percent of all the projects are to be implemented.

Depending on the region where they operate, each of these top 10 developer companies generates up to 30–40 percent of the annual total volume of housing stock put into operation: about 30 percent in the regions near Moscow and St. Petersburg, not more than 10 percent in the other regions situated in European Russia, and about 5 percent regions situated in the Siberian and Far-Eastern Federal Okrugs. As far as the structure of regional markets is concerned, if we consider all their participants, their concentration in the majority of regions is either on a low or moderate level: the

1 In this connection it should be reminded that several years ago, this bank experienced some serious problems, and so was restructured by the State Corporation *Deposit Insurance Agency* (DIA). The Law on the federal budget for 2017–2019 established the government's right to receive as part of the RF treasury all the ordinary and preferred shares issued by that bank and held and (or) purchased by the DIA to the total value of up to RUB 92 billion, to replace the property contributions by the state due under the federal budget laws for 2008–2010 and 2014–2016, to valuate these shares at their balance sheet value (the buying price paid by the DIA), and to transfer them to the charter capital of the AHML.

aggregate share taken up by the 5 major market players does not exceed 50 percent in more than 30 regions, and does not exceed 70 percent in 60 regions. A high market concentration has been observed mostly in those regions where the climatic conditions make it difficult to implement construction projects.

The market consolidation index of the city of Moscow, while staying at a high level, changed only slightly over the course of last year, which is a sign of market maturity. The obvious leader here, in terms of housing construction volume, is PIK Group; since 2016, it has been occupying the topmost position in the primary market of 'Old Moscow' with its market share of 20 percent, and it also accounted for 34 percent of aggregate growth in the housing construction sector in 2018.

As demonstrated by the results of an analytical study conducted by Metrium Group, the Top 20 developer companies operating in the territory within the previously established city borders (Old Moscow) have been building only 150 residential multi-unit and apartment complexes. The total floor area of these complexes amounts to 8.81 million m², or 67.5 percent of the total housing volume at the year end, including also those apartments that are not legally treated as residential premises, but are frequently viewed as an integral component of residential development projects that can be offered on the market, in hopes that resident registration will eventually be permitted there, and so the total volume of housing stock put into operation will be increased.

The five leaders in terms of volume of housing stock put into operation in Old Moscow are as follows:

– PIK Group (1.94 million m², 1st place by housing construction volume in the city of Moscow);

– MR Group (884,730 m², 5th place in the city of Moscow);

– DONSTROY (831,770 m², 4th place in the city of Moscow);

– Capital Group (623,980 m², 14th place in the city of Moscow);

– Etalon Group (471,390 m², 8th place in the city of Moscow)[1].

With regard to these achievements, Metrium Group's analysts note that since 2016, PIK Group has confidently retained its leading position in Old Moscow's primary market.

In 2018, the leader of the Russian housing construction market began to sell units in 8 new residential complexes, thus increasing the total number of new street addresses in its portfolio to 23. These are, in the main, large-scale projects totaling hundreds of thousands of square meters each. And the total floor area of buildings currently put on the market by PIK Group has nearly doubled relative to 2016. MR Group, according to Metrium Group's analysts, managed to come second in the ranking thanks to the launch,

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[1] In brackets, we specify the ranking of each company by the volume of its housing stock under construction (to be put on the market) in New Moscow, meaning apartments at any stage of their creation after the issuance of a construction permit.[2] The system 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.

over the course of last year, of 8 residential multi-unit and apartment complexes with total area of 383,600 m². A year earlier, that developer company had come third. Now the third place is occupied by DONSTROY, with its 13 residential multi-unit and apartment complexes under construction. In 2018, the developer company's portfolio was augmented by four new construction projects.

The rankings of Moscow developer companies are still largely determined by the scale of their activity in the territories that were transferred to the city of Moscow a few years ago. However, this factor has been gradually dwindling as a growth driver.

According to data released by the Single Register of Developer Companies (SRDC) on its website, today in New Moscow there are 47 ongoing housing construction projects involving a total of 509 residential properties. The total floor area of these properties (5.33 million m²) amounts to 28 percent of the total housing construction volume in the city of Moscow; 95 percent of all the construction sites are situated in New Moscow Administrative Okrug, the remaining 5 percent – in Troitsky Administrative Okrug. At present, New Moscow obviously suffers from a shortage of social and transport infrastructure, as well as quality jobs, while no housing deficit can be expected in the foreseeable future. The currently issued construction permits (for a total of 18 million m²) amply provide for the next decade, at the rate of 1.5–2 million m² of new housing units to be put into operation every year. So, as Head of the Department for the development of new territories of Moscow Vladimir Zhidkin said at the X Real Estate Financial Forum in February 2019, the city government has no new housing construction plans for the next 5 years concerning these territories, instead giving priority to the development of urban environment, construction of non-residential commercial properties, and creation of new infrastructure entities.

According to Sergey Lobzhanidze, director of the analytical platform bnMAP.pro (an innovative IT product developed by BEST-Novostroy), the apartments situated in New Moscow are currently being sold at a higher rate even than in Old Moscow, because the former are more affordable, and because of the rapid development of Moscow's metropolitan underground network. Over the course of last year, 22 percent of all apartment purchase deals in the new comfort-class housing segment across the Moscow region took place in the territory of New Moscow. If housing prices should slightly increase, some of the demand may overflow to Moscow Oblast, because the average buyer is still constrained by budget considerations.

As time goes on, the housing fund renovation program approved on August 1, 2017 will be gaining in importance. It lists 5,172 residential buildings, with the prospects for resettlement of dwellers of more than 350,000 apartments. The list of street addresses of 318 startup construction sites was adopted, with a potential for building properties with total area of 4.6 million m² in all Moscow's okrugs. The list is by no means complete as yet.

As seen from data released by the Department of urban planning policy of Moscow, in 2018, a total of 98 residential buildings were being constructed in Moscow under the renovation program, with total area of about 1.2 million m²; of these, 40 new residential properties with total area of about 500,000 m² have already been put into operation. The resettlement of residents from 51 buildings has been started; two of these buildings have been completely vacated, and five have been demolished; the residents moved to 33 newly erected residential buildings in seven okrugs of Moscow: Eastern, North-Eastern, Western, South-Western, Southern, Northern, and South-Eastern.

The prospects of the housing construction sector for the nearest future appear to be controversial.

At year end 2018, according to data released by the Unified Information System for Housing Construction (UISHC)[1] operated by DOM.RF, the projects involving the construction of multi-unit residential buildings with total area of 126.5 million m² were underway in Russia, which is more than the corresponding year-end indices for 2017 (115.8 million m²) and 2016 (111.0 million m²). This movement pattern points to a reviving activity of developer companies, and makes it possible to expect an increase in the volume of housing stock to be put into operation in two or three years, which in its turn can produce a situation where supply will exceed demand, thus creating downward pressure on housing prices. The bulk of *current housing construction projects* launched by developer companies is taken up by multi-unit residential buildings. They account for 97.2 percent of all housing units under construction, while ‘apartments’ account for 2.4 percent, and linked houses – for only 0.4 percent[2].

The top five regions by the volume of ongoing housing construction projects are, not unexpectedly, the ‘two capitals’ and their environs (the cities of Moscow and St. Petersburg; Moscow Oblast; and Leningrad Oblast), and Krasnodar Krai. The highest volume of current housing construction projects being implemented by developer companies is noted in the city of Moscow – 17.8 million m² (14.1 percent of the total floor area of housing units). Second comes Moscow Oblast, where this index amounts to 15.7 million m² (12.4 percent of the total current housing construction volume)[3].

At the same time, at the meeting of the Presidium of the Public Council under the RF Ministry of Construction and Housing Utilities on December 19, 2018, Minister Vladimir Yakushev himself publicly spoke of the impossibility to achieve the ***target*** *‘of increasing the annual housing construction volume to not more than 120 million m² per annum’* (to 2024)[4], set in the Presidential Executive Order as one of indicators that the **national goal** of *‘improving the housing conditions of not less than 5 million families per annum’*.

1 The system 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.

2 Apartments are understood in this context as housing units situated in non-residential buildings (without the right to resident registration). Linked houses are structured like townhouses, whereby each home has a separate street entrance, but they share a common wall in the basement or foundation.

3 URL: https://erzrf.ru.

4 This index, applied by *Rosstat* in its official documents and reports, describes the volume of housing stock put into operation, and not the volume of ongoing housing construction projects.

According to the certificate of the national project *Housing and Urban Environment*, the volume of housing stock put into operation last year was to amount to 86 million m^2, but in reality only the prediction of reaching the level of 75.3 million m^2 came true. As seen by the period-end results of the first two months of 2019, the volume of housing stock put into operation shrank by 9.4 percent relative to the corresponding period of the previous year.

Given all these conditions, the situation in the housing construction sector will largely depend on the smooth functioning of the financing mechanisms applied there.

The market response to the December raise of the RF Central Bank's key rate (from 7.5 percent to 7.75 percent) has not yet reached its full force, so one can expect some further growth of the interest rates on housing mortgage loans. The regulator predicts that inflation will peak in H1 2019 and at the year's end will amount to 5.0–5.5 percent, and then, as early as H1 2020, it will slide back to 4 percent. Thereafter, the Bank of Russia will base its key rate decisions on the effects of the increases of the key rate in September and December 2018, with the aim of pushing back annual inflation to its target in 2020. At the same time, the Bank of Russia's cautious approach can be interpreted as its reluctance to significantly raise the key rate, and so it can be expected that the interest rates on housing mortgage loans will not be increasing at a very fast rate over the course of 2019.

A certain role in this connection can be played by the social support measures set forth by the government (subsidies to families with children covering the cost of their mortgage payments, mortgage payment holiday). However, it must be well understood that as the instrument of HML exhausts its growth potential, it is banks and developer companies that will truly benefit from these measures (because for them this is profitable business), and not the population.

Besides, the effects of the switchover to escrow accounts are not yet clearly visible. Suffice to quote, in this connection, the estimates from the already mentioned joint report by DOM.RF and Frank RG. Head of Sberbank Herman Gref believes that this may hit hard the housing mortgage system, and the rising interest rates will push down demand. And Chairman of the State Duma's Committee on Natural Resources, Property and Land Nikolai Nikolaev, on the contrary, expects that after the switchover to escrow account the interest rates will decline because 'the money in this case does not flow elsewhere, but it placed on an escrow account with the same bank', and 'the bank will earn its own from the use of these monies, not only by receiving interest on housing mortgage loans, but also by 'reusing' these monies'.

5.8.3. Institutional changes in the shared construction system and their impact on the housing market

Active reforming of the shared construction system through significant adjustments to the basic version of Federal Law No 214 has been underway for several years already[1]. However, the package amendments introduced in 2018 surpass in their scale everything that has been done over the course of the three previous years.

Firstly, the list of permitted methods of attracting private funds of individuals no longer includes that of the issuance, by the owner or holder by right of lease of a land plot for which a permit was obtained in the established procedure for the construction therein of a multi-unit residential building, of bonds of a special type – housing certificates, whereby the right of their owners to receive from the issuer of those bonds a housing unit in accordance with RF legislation on securities is secured.

The well-known source of funding (from the past experience of the Soviet period) – housing cooperatives – is allowed to be used only by those housing construction cooperatives (HCC) that implement their projects on land plots received by them by right of use on a non-reimbursable basis for a limited period of time from lands in municipal or state ownership, including under the provisions stipulated in the 2008 Law 'On Promoting Housing Construction Development', or those set up in accordance with the 2002 Law 'On Insolvency (Bankruptcy)', with the exception of housing saving cooperatives.

Federal Law No 214 regulates the relations arising from a developer company's liabilities to the participants in shared construction projects (SCP), and the transfer of its property (including the title thereto) and liabilities to the unitary non-profit organization (foundation) set up in accordance with Federal Law No 218-FZ dated July 29, 2017 'On the Public Legal Company for the Protection of Rights of Citizens – Participants in Shared Construction Projects in Case of Insolvency (Bankruptcy) of Developer Companies, and on the Introduction of Alterations into Some Legislative Acts of the Russian Federation'[2], with due regard for the specificities stipulated in that Law, as well as the laws regulating shared construction and bankruptcy issues. The new organization was granted the status of a developer company.

Secondly, one of the important qualification requirements to a developer company has been made easier to meet. The threshold for the total floor area of multi-unit residential buildings erected with the participation of a given developer company (over a period of not less than 3 years) has been reduced by half (from 10,000 m^2 to 5,000 m^2).

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[1] See the IEP's annual overviews *Russian Economy in 2016. Trends and Outlooks (Issue 38).* Moscow, IEP. 2017, pp. 328-330; and *Russian Economy in 2017. Trends and Outlooks*. Moscow, IEP. 2017, pp. 376–379.

[2] Public legal company 'Fund for the protection of rights of citizens – participants in shared construction projects' was created in the autumn of 2017. Simultaneously, the Rules for making corporate decisions concerning the financing of measures designed to ensure the completion of abandoned building construction projects and to exercise control of the use of funds received as part of such financing were adopted.

At the same time, it is now explicitly prohibited for a developer company to engage in activities involving the attraction of funds from participants in shared construction projects for the construction (or creation) of properties simultaneously under several urban development plans targeting one and the same land plot, or under several approved territory planning projects.

Thirdly, there are some changes in the requirements to a developer company that must be met in order to obtain the right to attract funds from participants in shared construction projects, with respect to financial security and control.

The requirement that a developer company, as of the date of filing a project declaration to a relevant empowered body of executive authority of a RF subject, must have money in the amount of not less that 10 percent of the planned construction project's total costs on an account opened with an empowered bank, has been augmented by the provision whereby it was allowed to provide, as of the said date, a credit agreement with the said bank envisaging the issuance by the latter of a targeted loan for the construction (or creation) of a multi-unit residential building and (or) other property entity that incorporates entities to be built in the framework of a shared construction project, in the amount of not less than 40 percent of the planned construction project's total costs.

One exception was introduced with respect to the rule stipulating that the obligations of a developer company unrelated to the attraction of monies from the participants in a shared construction project or to the construction (or creation) of multi-unit residential buildings and (or) other real estate properties covered by one or several construction permits should not exceed 1 percent of the construction project costs. The rule does not apply to the obligation of a developer company to correct the deficiencies of real estate property created under a shared construction agreement in accordance with the quality guarantees stipulated therein.

Another exception was introduced with respect to the norm whereby a developer company with the status of a legal entity must not be subject to a court ruling ordering the enforcement of one of the procedures applicable in the framework of a proceeding in bankruptcy as established by the 'core' 2002 law, concerning the cases envisaged therein.

Now, a developer company must comply with the financial sustainability norms[1].

The amount of permitted arrears of taxes, levies and other mandatory payments to the budgetary system for the previous calendar year (with a few exceptions) owed by a developer company with the status of a legal entity has been defined more specifically in coordination with the law on bankruptcy.

The developer companies that do not meet these requirements have no right to attract funding from any participants in shared construction projects involving the construction (or creation) of multi-unit residential buildings, and not only from individuals, as it was established previously.

[1] The norms established by RF Government Decree No 1683 dated December 26, 2018.

If a developer company uses the monies of participants in shared construction projects involving the construction (or creation) of one or several multi-unit residential buildings and (or) other real estate properties covered by one or several construction permits, that developer company must hold a separate settlement account for each of these construction permits. The bank account contract(s) must include a clause whereby the client agrees to disclose to the authorized bank the same information as it is required to disclose, in accordance with the law, to the empowered body of executive authority of a RF subject and to the Public Legal Company 'Fund for the Protection of Rights of Citizens – Participants in Shared Construction Projects'. The banking operations of money withdrawal from the bank account (or bank accounts) of a developer company are executed by an authorized bank in accordance with the requirements stipulated in the law on shared construction (Article 18.2). The number of settlement accounts held by one and the same developer company should not exceed the number of construction permits.

A developer company has been granted the right to terminate the bank account contract concluded with an authorized bank. If such is the case, the developer company, as well as the technical customer and general contractor operating under the building construction contracts that they are party to, are obliged to open accounts with another authorized bank and to transfer all the monies to the new bank account.

A developer company, not later than one workday after the date of opening a new bank account, should duly notify the bank that the other bank account had been opened with, and all the other parties mentioned earlier. After receiving from the developer company such a notification, the authorized bank is not allowed to execute any banking transactions on its settlement account, with the exception of those transactions that had been ordered prior to or on the same day as it receives the order whereby it is required to transfer all the monies to the new settlement account opened by the developer company. The information concerning a closed or opened settlement account by a developer company, as well as the settlement account number, the name of the authorized bank and its identification details (Taxpayer Identification Number (TIN), Primary State Registration Number (PSRN)) should be submitted by the developer company to the Unified Information System for Housing Construction (UISHC) not later than one workday after the date of opening or closing a settlement account by a developer company.

The period for submitting, by a developer company, of its intermediate accounting (financial) reports after the end of the relevant intermediate reporting period, has been extended from 5 to 30 calendar days.

Fourthly, the requirements to information disclosure by a developer company have been toughened.

Now, information disclosure should take place on the UISHC's website (previously, it was to be disclosed on the developer company's official website). The information to be disclosed is posted to the UISHC's website within 5 workdays after receiving, from an empowered body of executive authority of a RF subject, a resolution whereby the developer company and the project declaration are deemed to be in conformity with the established requirements, and certain information items are to be disclosed on a monthly or quarterly basis. Any alterations to the information and documents to be disclosed should be posted to the UISHC's website within 3 workdays from the date of introducing such alterations.

The list of information items to be disclosed has been augmented by the following items:

– an urban development plan for the land plot;

– a map of the planned development of a land plot prepared in conformity with the urban development plan for the land plot, outlining the building structure, entrances and passages around it, public servitudes, and property entities belonging to the category of archeological heritage;

– documents containing information concerning the calculated amount of funds owned by the developer company and its conformity with the established financial sustainability norms;

– information concerning the initiation of one of the procedures applicable in the framework of a proceeding in bankruptcy as established by the 'core' 2002 law;

– announcement of the start of building construction or reconstruction work on a capital construction site, as established by urban development legislation;

– information concerning the opening (or closure) of a settlement account by a developer company, including the relevant account number, the authorized bank's name and identification details (TIN, PSRN);

– other information, as stipulated in the law.

Certain information items should be provided by a developer company for each of the multi-unit residential buildings and (or) other real estate properties constructed (or created) at the expense of the participants in shared construction projects.

The payment of the contract price under a shared construction project after its state registration may now be effected only by means of bank transfer.

The norms whereby the fulfillment of obligations under a contract should be secured by a pledge do not apply to those cases when, in the framework of a shared construction project, a developer company places the monies received from its participants for the construction (or creation) of multi-unit residential buildings and (or) other real estate properties on escrow accounts.

Fifthly, as far as the requirements to a developer company's corporate governance and participants are concerned, the period during which the post of the director or chief accountant of a developer company cannot be occupied by an individual who, in accordance with the law on bankruptcy, has been brought to subsidiary responsibility under the obligations assumed by a legal entity and (or) responsibility in the form of recovery of damages by a legal entity, has been extended. Not less than 5 years should pass from the date of execution of the said obligation in accordance with a court ruling (previously – 3 years).

A similar timeframe adjustment has been introduced with respect to the individuals who had been performing the functions of a single executive body of a legal entity until submitting a project declaration to an empowered body of executive authority of a RF subject and were deemed to be bankrupt by an arbitration court.

The cap on the permitted stake in a developer company's capital has been reduced from 25 to 5 percent for individuals who may occupy the post of that company's director or chief accountant. A similar alteration has been introduced with respect to persons who for 3 years prior to submitting a project declaration have been owning, directly or indirectly (through third parties), a stake in the capital of a developer company that was deemed to be insolvent (bankrupt) by an arbitration court.

Sixthly, the norms regulating the escrow account mechanism have been fundamentally revised (Article 15.4 and 15.5).

Under a general rule, when a developer company attracts funding from individuals participating in the construction (or creation) of multi-unit residential buildings (or) other real estate properties through escrow accounts, all the participants in a shared construction project should make their contract price payments to escrow accounts opened with an authorized bank.

If the construction (or creation) of a multi-unit residential building and (or) other real estate property by a developer company is funded by a targeted loan, the participants in a shared construction project make their contract price payments to escrow accounts opened with the authorized bank that has issued that particular targeted loan. The same norm applies to the situation when a developer company has concluded a loan refinancing (recrediting) agreement.

The contract for participation in a shared construction project must stipulate all the conditions envisaged in the law, as well as the obligation of a participant in a shared construction project (the deponent) to pay the contract price in full before the multi-unit residential building and (or) other real estate property has been put into operation by depositing money, in the amount and within the timeframe established by the contract (the deposit), to an escrow account opened with an authorized bank (escrow agent), and to provide information concerning the said bank (its name, brand name, location and address, email address, telephone number).

The obligations of a participant in a shared construction project to pay the contract price is deemed to be fulfilled from the moment of crediting the said amount to the escrow account opened with an authorized bank.

An empowered body of executive authority of a RF subject issues to a developer company a resolution concerning conformity of the latter and the project declaration submitted by it with the established requirements, or refuses to issue such a resolution if the requirements are not met. If an insured event occurs for the authorized bank that an escrow account has been opened with, in accordance with the provisions of the 2003 Federal Law on insurance of individual accounts, the developer company and the participants in a shared construction project must conclude an escrow account agreement with another authorized bank.

As far as the use of escrow accounts is concerned, the new provisions are as follows.

The application for opening an escrow account and the corresponding agreement may, in accordance with the banking rule, be filled and signed with a simple electronic signature through a remote banking system of an authorized bank, if the latter can be applied in the bank's dealing with its clients.

Funds are deposited on an escrow account after the registration of a shared construction contract, and the option period for earnest money thus kept cannot be more than 6 months after the multi-unit residential building and (or) other real estate property specified in a project declaration has been put into operation; previously, there was no such provision.

No interest is charged to earnest money on an escrow account, while this was envisaged in the previous norm that was in effect for nearly two years.

The procedure for a transfer of money by bank to a developer company has been altered. While previously this was done under an act of money transfer or some other document, in the new version the grounds for money transfer should be a permit for putting into operation a multi-unit residential building and (or) other real estate property and a statement from *Rosreestr* in confirmation of state registration of a title to property, or the fact of posting such information to the UISHC's website. Besides, a developer company now has the option of transferring funds to its pledged collateral account with an authorized bank, and transfers the possession right thereto as collateral, if this is stipulated in the credit agreement (or loan agreement) concluded by the developer company.

In addition to the grounds for termination of an escrow account contract when the account has been opened for settlements under a shared construction contract as stipulated in the RF Civil Code, the former can be terminated on the following grounds:

– in an event of its cancellation;

– if one party unilaterally terminated the contract.

If an escrow account contract is terminated on such grounds, the earnest money funds, upon the receipt by the authorized bank of information concerning the striking-off of the entry of state registration of a shared construction contract from *Rosreestr*, should be returned to the participant in a shared construction project or transferred to the pledged collateral account, the rights to which are pledged to the bank or another credit institution that had lent money to the participant in a shared construction project, for the latter to pay the contract price under a shared construction contract, if such a clause is included in the contract between the participant and the lender.

An escrow account contract must contain information concerning the deponent's bank account, where the funds are to be transferred if the bank does not receive the client's instruction that the money should be disbursed or transferred if the said contract has been terminated for the aforesaid reasons.

Seventhly, many new provisions have to do with the use of funds by a developer company.

The list of possible uses has been augmented by the following items:

– payments by way of purchasing land plots, fees for switching over to another type of permitted use of funds, fees for lifting the ban on construction and reconstruction of buildings or structures situated on such land plots, imposed in accordance with the 2001 Federal Law on putting into force the Land Code of the Russian Federation (previously – land rent only);

– money transfer to an account with another authorized bank, opened in an event of termination of a bank account contract;

– depositing of temporary free funds on an account with the same authorized bank where the developer company holds a settlement account; this is done because the deposited money and the interest charged to it must be returned to the same settlement account held by the developer company where the money was originally placed;

– payment for the upkeep of residential and (or) non-residential premises, garage units, including utilities, in a multi-unit residential building and (or) other real estate property created at the expense of participants in a shared construction project, from the date of receiving the permit for putting the said property entity into operation, if the title to the said premises has not been registered.

The following transactions cannot be executed through the settlement account of a developer company:

– transactions involving the fulfillment of obligations of third parties;

– transactions involving the fulfillment of a developer company’s own obligations to third parties not associated with the use of funds received from participants in shared construction projects involving the construction (or creation) of multi-unit residential building and (or) other real estate properties;

– issuance of loans;

– purchase of securities;

– transactions involving the creation of business companies and non-profit organizations, participation in charter capital of economic societies, equity owned by other business companies and non-profit organizations, with the exception of transactions involving the creation (or participation in charter capital) of those economic societies – developer companies in relation to which the developer company is (or becomes) a core company;

– payments related to the securities issued (or released) by the developer company, with the exception of payments related to shares in the developer company.

A developer company is not allowed to engage in other activities, except the activities involving the attraction of funds from participants in shared construction projects involving the construction (or creation) of multi-unit residential building and (or) other real estate properties covered by one or several construction permits. After receiving a permit for putting into operation a multi-unit residential building and (or) other real estate property and until making an entry thereof in the state cadastre register, a developer company may conclude shared construction contracts with respect to real estate properties in the framework of shared construction projects that are not subject to any other similar contract.

The list of economic transactions that a developer company is not allowed to execute has been augmented by some exceptions, in particular the attraction of targeted loans to fund its building construction activity, and targeted loans granted by the company's founders (or participants), targeted loans issued to another developer company affiliated to the core developer company, the creation (or participation in charter capital) of other economic societies – developer companies affiliated to the developer companies, the latter thus being (or becoming) their core company. The list of documents necessary for the execution of banking transactions on the settlement account held by a developer company is to be approved by the RF Government in coordination with the RF Central Bank. An authorized bank executes the banking orders of a developer company not later that on the next workday after receiving such orders, or for the purposes of an additional audit of the documents submitted by a developer company the bank may suspend the execution of such banking order for a period of not more than 3 workdays. After the expiry of the suspension period, the authorized bank executes the said banking order not later than on the next workday, or in the cases defined in a separate list, the bank denies the transaction.

In the event of receiving banking orders concerning the execution of such transactions on the settlement account held by a developer company, the authorized bank suspends the transaction. In the event of denial, the bank notifies thereof the empowered body of executive authority of a RF subject and the Public Legal Company 'Fund for the Protection of Rights of Citizens – Participants in Shared Construction Projects' on the day that the transaction was denied. The notification must contain the identification details of the developer company, the details of the transaction that was denied, and the substantiation for such denial.

No cash withdrawal from or cash deposit in the settlement account of a developer company is allowed, with the exception of wages and salaries, on condition that the transfer of all the taxes and insurance contributions charged to these amounts is simultaneously executed, and also when the cash amounts withdrawn for the said purpose from the settlement account of a developer company are redeposited therein.

A denial or suspension of a transaction in the settlement account of a developer company in the established procedure cannot serve as the grounds for enforcing measures of civil responsibility on the authorized bank.

For several expenditure items and types of transactions, the procedures of compliance with the existing norms and caps on advance payments were introduced.

Eighthly, the following new provisions were introduced with respect to project declaration.

The empowered body of executive authority of a RF subject is obliged not only to issue, but also to prepare a resolution stating that the developer company and its project declaration are in conformity with the established requirements, or to refuse to issue such resolution, within not more than 30 days from the date of receiving the application.

An additional reason for refusing to issue a resolution can be the developer company's failure, as of the date of submitting a project declaration by the developer company and (or) its core company or subsidiary, to meet the deadline for putting into operation the multi-unit residential building and (or) other real estate property erected at the expense of participants in the shared construction project specified in the project declaration, with a delay of three or more months[1].

Ninthly, the list of required information has been augmented by the following details concerning a developer company's founders (or participants) and beneficiary owners:

– information on the individuals, including their full names, who can indirectly (through controlled persons), on their own or jointly with other persons, dispose of not less than 5 percent of votes secures by voting shares (or stakes) in the charter capital of a developer company (hereinafter – beneficiary owners);

– identification details of the founder (participant) and beneficiary owner (for individuals – their Insurance Number of Individual Ledger Account (SNILS) in the compulsory pension insurance system; TIN (if applicable)); and for a legal entity – its PSRN and TIN);

– the size of the stake held by the founder (participant), and the shares controlled by the beneficiary owner, in the charter capital of a developer company;

– a statement of the circumstances (grounds) that substantiate the status of a beneficiary owner.

Tenthly, as far as government control (supervision) is concerned, it is to be exercised by the empowered body of executive authority of a RF subject (also referred to as a controlling body) of the territory where a given building construction site is situated, in the procedure introduced at the regional level with due regard for the requirements established by the RF Government; the coordination of appointment of the head of a controlling body, and their dismissal from that post, is to be exercised by the empowered federal body of executive authority in the procedure established by the RF Government.

In order to further protect the rights of citizens participating in shared construction projects, the norm has been introduced whereby the person, including beneficiary owners, who has the actual ability to influence the acts of a developer company, including the ability to instruct the person performing the functions of a single executive, or to instruct a member of collegial managerial bodies of a developer company, should bear subsidiary responsibility to the developer company for the losses incurred through their fault by the citizens participating in shared construction projects, although in the original version of the document, responsibility was grounded in solidarity.

Besides, numerous detailed norms have been introduced concerning the functions of the Unified Information System for Housing Construction (UISHC). In particular, the Single Register of Developer Companies (SRDC) has been made its integral part, and the information entered into it is open, accessible and must be posted to the UISHC's website, with the exception of data deemed to be restricted in accordance with RF legislation.

[1] This period starts on the date of state registration of the shared construction contract between a developer company and the first participant in the shared construction project.

A separate Article (23.4) regulates the interaction between the empowered body, the body responsible for registration of titles, the controlling bodies, the Public Legal Company 'Fund for the Protection of Rights of Citizens – Participants in Shared Construction Projects', authorized banks and developer companies through the information resources posted to the UISHC's website, including by means granting these entities access to the user personal accounts which are serviced by a system operator in the established procedure, and also by means of electronic documents.

The bulk of amendments to the law on shared construction projects made in 2018, just as a year earlier, these are designed to strengthen the regulation of the activities of developer companies. The issue of economic legislation instability in that sphere continues to be a problem, one example being the reinstatement of the right to operate under several construction permits.

After the significant alterations introduced into prevailing legislation concerning the financing procedures in the framework of multi-unit residential building construction over the period 2017–2018, it can be expected that not only the market share taken up by biggest developer companies will continue to increase[1], but also that the institutional rent will shift from those developer companies to authorized banks (who are, *de facto*, the principal beneficiaries of that process). The mechanism of that shift of the institutional rent to the banking sector has not yet fully evolved, and it is going to further transform alongside the ongoing changes in regulation, including the practical experience of applying the new requirements. In this connection, considering the general logic of these transformations, it can be said that the most significant changes will be taking place along the following lines:

- The placement of the participants' funds on the accounts with authorized banks creates for the latter an increased volume of liabilities (and in contrast to other types of deposits, no interest is charged to the residuals on escrow accounts, and so the developer companies are deprived of a most attractive source of direct financing from participants in shared construction projects), while at the same time strengthening the position of authorized banks in the building construction market, and also potentially increasing property concentration (as an asset class) in the balance sheets of biggest banks;
- In their striving to minimize their risks associated with property value fluctuations, as well as a potential bankruptcy of developer companies, authorized banks will be increasing their penchant for 'financially sustainable' and 'reliable' developer companies. In this connection, it can be expected that some additional requirements

1 According to expert estimations, approximately 10 percent of developer companies failed to comply with the requirement to open a special account with an authorized bank; according to data available at erzrf.ru, as of October 15, 2018 that requirement had not been met by 143 developer companies in the city of Moscow, Moscow Oblast, and St. Petersburg. URL: https://erzrf.ru/news/uzhe-143-zastroyshchikam-zapreshcheno-privlekat-sredstva-dolshchikov-po-ddu?search= percentD0 percent95 percentD1 percent89 percentD0 percentB5

to developer companies will be added by banks to the already existing criteria established by the law;

- The withdrawal from the market of those developer companies that will be unable, for a variety of reasons, to meet the new criteria and to deal with market redistribution in favor of those market players that have long-standing relations with authorized banks[1]. It can be expected in this connection that not only small developer companies will go bankrupt, but also that the activity in the merger and takeover market will intensify in favor of stronger players (including the participation in this process of the banking investment departments of authorized banks).

On the whole, the business stratification process in the multi-unit residential building construction market has dramatically intensified over recent years. This is the natural outcome of the concentration of business activity in the hands of big developer companies and big banks and their increasing institutional power, which has made it possible to move the existing institutional barriers from the level of municipalities (land allocation and land use permits, access to infrastructure) to that of 'dividing lines' between the businesses that have been gaining prominence in the building construction sector.

All these alterations in the legal field have been publicly explained as being caused by social factors and the strong need to increase the reliability and transparency of the financing system applied in the multi-unit residential building construction sector, especially in view of the spectacular failures to fulfill their obligations and bankruptcies of some major developer companies (SU-155, Urban Group, and some others). At the same time, such requirements are fraught with future risks for those banks and developer companies that have been left outside of the transformed system. The economic indices achieved in recent years will decline, and the market shares and profits lost by them will be redistributed in favor of the banks and developer companies in the 'prime group'. The social and other risks faced by the clients of banks and businesses that are thus 'falling behind' may also significantly increase later on also in the other market segments.

It is also noteworthy that a special place in the ranking of those authorized banks that rely in their dealings with developer companies on the formal criteria set forth by the RF Government belongs to banking group DOM.RF (reorganized from *Russian Capital*), which until now could not boast of being ranked as one of Russia's top banks by Russian rating agencies. The other topmost ratings among Russian banks are enjoyed by biggest systemic, predominantly state-owned banks (and first of all, Sberbank and VTB). However, in this connection some questions have been raised about rating

[1] The governments of three regions (the cities of Moscow and St. Petersburg, and Leningrad Oblast) practically simultaneously took advantage of the new amendments to legislation on shared construction by submitting to *Rosreestr* the lists of developer companies that had been banned from using the funds of participants in shared construction projects. A total of 95 developer companies operating in the three regions with the highest housing construction volume indices were deprived of their right to register with *Rosreestr* their shared construction contracts.

agencies being affiliated with their 'beneficiary' banks, and also about their compliance with the international standards (some banks, which have a positive ranking inside Russian, were ranked negatively by international agencies).

It seems that the processes of market consolidation in the multi-unit residential building construction segment will be only gaining in intensity over the next few years (both as a result of bankruptcy of some developer companies and in response to the strengthening trend towards more mergers and takeovers across the building construction sector). It is still difficult to properly assess the consequences of market consolidation for the population, banks, building construction companies, and the shadow market due to the multi-vector trends that have been shaping the market, and also because this process is still undergoing its early phase (according to a variety of estimations, it may further evolve over the next 3–5 years with the direct participation of the state). At the same time, the concept of institutional rent and institutional constraints in a multi-level economy helps to organize a more comprehensive monitoring of this process, and thus to timely identify the risks associated with the ongoing large-scale consolidation and to properly structure the analysis of these processes in order to elaborate appropriate decisions for maintaining stability across the sector and to achieve its priority development targets (including the proclaimed targets for the volume of housing stock to be put into operation, and for its sufficiency and affordability for the population).

The main changes and effects associated with this process will be structured along the following main directions, each of which will need to be further monitored:

- Economic ones, associated with the potential for a faster growth of the housing construction volume sustained by support granted to the building construction sector's leaders, potential reduction of costs due to economies of scale (including by means of typization, or even 'commoditization' of mass housing projects, which will be more convenient for banks to assess as large-scale housing portfolios). On the other hand, there are also factors associated with the risks of housing construction market transformations, obvious or hidden market monopolization, bankruptcy of small developer companies and the resulting increased burden on the labor market (this is especially painful for small towns and economically depressed regions, which are of little interest for big developer companies).
- Social ones, associated with the reduced risks of fraudulent dealings with citizens (project participants) as a result of channeling all the money through bank transfers and placing the funds in sustainable banks; and on the other hand, with higher risks for the clients of banks that operate outside of the system of authorized banks, and shrinkage of the shadow labor market in the building construction sector.
- Technological ones, associated with greater opportunities for big consolidated market players in the building construction sector to develop and implement innovative products (including the skills necessary for the development and implementation of generic housing projects suitable for entire micro-districts, and housing renovation programs in the form of 'migration waves').

- Financial ones, associated with the possible toughening of control of money transfers by banks and gradual withdrawal of individual savings from the shadow market turnover, and the resulting expansion of taxable base, as well as increasing sustainability of the budgetary system. The implementation, by banking institutions, of new instruments in their monitoring of the building construction sector (the methodology for estimating the sustainability of developer companies and the resulting ranking of developer companies, improvement of large-scale assessment techniques, etc.)[1].

5.8.4. The forecast for Moscow's housing market for 2019

While getting down to discussing the housing market forecast for the city of Moscow, let us look first at the results of the previous annual forecast, which was prepared during the period when the current political and economic situation was already evolving.

A retrospective verification of the predicted 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 predicted values (*Fig. 34*). Over the period of December 2015 and the year 2016, the actual and plotted prices were practically identical.

For 2017, it was predicted 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 predicted values was 1–2 percent in the secondary market, and 5–7 percent in the primary market. Thus, the forecast for 2017 calculated relative to price of oil at USD 40 per barrel (decline of prices by 3–5 percent) was not realized, as it turned out to be too pessimistic, because in H2 the prices became stable. There was a consensus among experts 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.

Given the actual year-end indices for 2017 and the onset of growth in the Russian economy alongside declining real disposable income, our forecast for 2018 was that prices in Moscow's housing market might fluctuate in the interval +/-1.5–2.0 percent, thus pointing to ongoing stagnation with an uncertain time horizon.

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[1] A.A. Blokhin, S.G. Sternik, G.V. Teleshev. Transformation of the institutional rent of developers of multi-family housing into institutional rent of credit organizations. In: Property Relations in the Russian Federation, No 1 (208), 2019, p. 6-17. (In Russian).

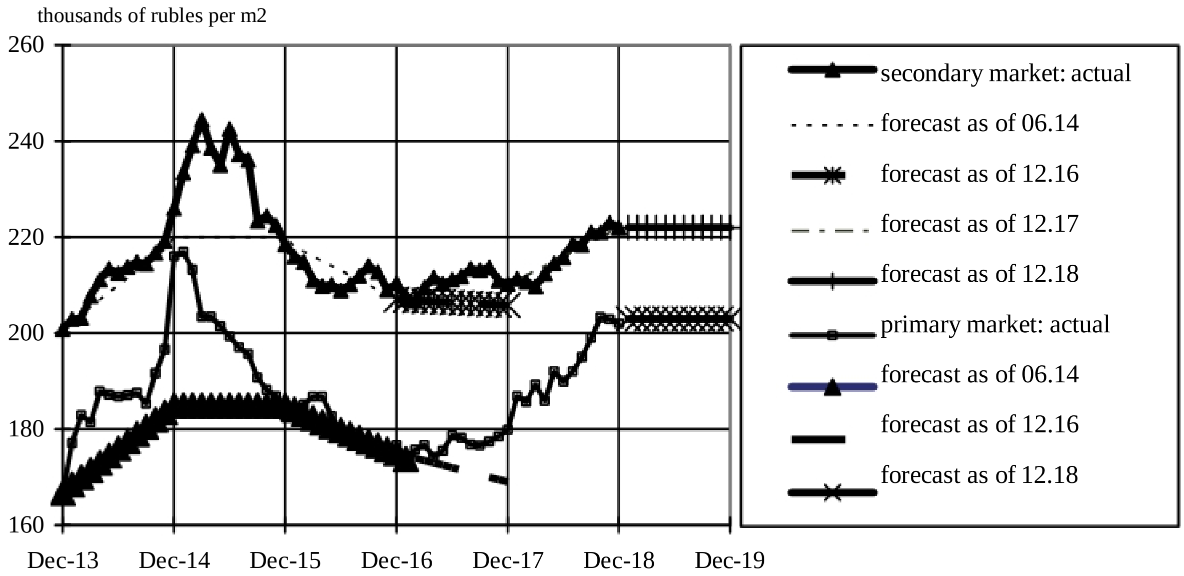

Fig. 34. A comparison of the movement patterns of actual and predicted prices in Moscow's housing market in 2013–2017, and a forecast for 2019

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

The graph in *Fig. 34* demonstrates that the actual movement pattern of prices over the course of 2018 was close to the forecast.

The situation in the housing market was shaped by the following main factors.

The agreement of the world's major oil producers (OPEC+), also joined by Russia, resulted in rising oil prices since the year-end of 2017, which translated in RF federal budget surplus, and a relative stability of the key rate alongside declining interest rates on housing mortgage loans. Thus it became possible for the government to fulfill all its social obligations, which during the electoral cycle were augmented by some other measures, and so the downward movement of real disposable income was halted. As a result, housing prices became stabilized in those cities where they had been on decline, and they began to increase in those cities where they had been stagnating.

The start of the year 2019 saw a slight plunge of global oil prices, but it is unlikely that later on they will demonstrate any significant changes. According to the RF Ministry of Economic Development's forecast, the rate of GDP growth will become slower. The situation with regard to real disposable income, which is now far from its baseline 2013 level, is uncertain.

The drivers behind the housing price growth observed over the course of last year (stabilization of real disposable income due to the electoral cycle effects coupled with rising oil prices, declining interest rates on housing mortgage loans) have disappeared. Government support of the housing market (i.e., subsidies to help repay housing mortgage loans) will yield only some moderate effects.

A more in-depth reform aiming towards heavier centralized market management, for which an institutional and normative-legal base is being actively created, in principle may translate into a more active market under the scenario envisaged in the framework of the national project *Housing and Urban Environment until 2024*, but this is not going to happen very soon. So, for the next 2–3 years, it appears feasible to predict that both the market and prices are going to stagnate.

However, in an event of a shock triggered by economic sanctions (which is a non-zero probability) – for example, if Russia's systemic state-owned banks should be cut off from the US dollar system and so on, the ruble's exchange rate may sharply fall even if price of oil remains high, followed by a surge of inflation and a return to the market's partial dollarization; then, with a certain lag, the market will follow the movement pattern of inflation and the ruble's depreciation. At the same time, as demonstrated by the history of Russia's domestic housing market since the early 1990s, the by-segment movement pattern of inflation on that market, depending on a particular segment (secondary or primary), may strongly deviate from that of the CPI, both upwardly and downwardly.