

GAIDAR INSTITUTE FOR ECONOMIC POLICY

RUSSIAN ECONOMY IN 2020

TRENDS AND OUTLOOKS

(Issue 42)

**Gaidar Institute Publishers
Moscow / 2021**

UDC 338.1(470+571)»2020»
BBC 65.9(2Poc)

R95 **Russian Economy in 2020. Trends and outlooks. (Issue 42)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2021. – 668 pp.: illust.

ISBN 978-5-93255-616-0

The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 42th 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: global economic and political challenges and national responses, economic growth and economic crisis; 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.

Reviewers:

Kharlamov A.V., Doctor of sciences (Economics), Professor of the Department of General Economic Theory and History of Economic Thought, Saint Petersburg State University of Economics.

Yakobson L.I., Doctor of sciences (Economics), Professor, Vice-President of the National Research University Higher School of Economics.

UDC 338.1(470+571)»2020»
BBC 65.9(2Poc)

ISBN 978-5-93255-616-0

© Gaidar Institute, 2021

4.5. Housing market of Russian cities¹

The past year in the Russian real estate market was unique. Some of the trends that emerged earlier have noticeably intensified (the decline in the developers' profitability, the digitalization of technical and business processes, increase in size and consolidation of the industry as a response to the pre-bankruptcy state of a significant part of market participants, the expansion of state support for developers and its participation in the completion of many uncompleted projects). Other trends impact the spread of remote work format, migration from megacities, the systemic revival of the individual housing construction (IHC) segment as an alternative to apartment buildings, the easing of requirements for the level of income of borrowers and their reliability, the unprecedented expansion of state-subsidized mortgages - have only just begun to take shape.

The price dynamics of the housing market was influenced by multidirectional factors: on the one hand, the fall in real disposable incomes of the population and the general depressive mood in the market acted in the direction of reducing demand, and on the other hand, state support for the industry and subsidized mortgages, on the contrary, caused a commotion, which was clearly manifested in the second half of the year in the form of rising prices for all types of real estate.

4.5.1. Market price indexes

First of all, let's consider the data of professional market analysts from a number of well-known companies under the Russian Guild of Realtors (RGR).²

The main indexes of the prices dynamic in the housing market in Russian cities in 2020 are presented in *Table 16*.

According to RGR experts, the leaders in price growth (20% or more) in 2020 in the secondary market were Ryazan and Krasnodar, and in the primary market – Ryazan, Krasnodar, Irkutsk, Moscow, and St. Petersburg.

There were more cities where prices for newly constructed buildings were higher than in the secondary market. However, among the cities that have prices on the secondary market higher than the primary ones, are Moscow, St. Petersburg and Vladivostok, which form the top three in terms of absolute price levels (more than Rb100,000 per sq. m).

1 This section was written by: *Malginov G.*, Candidate of Economic Sciences, Head of Ownership and Corporate Governance of the Gaidar Institute; *Maslov D.*, Director of Analytical Department of LLC TK Agro; *Sternik S.*, Doctor of Economic Sciences, Professor of the Financial University under the Government of the Russian Federation, Senior Researcher, Ownership and Corporate Governance Department of the Gaidar Institute.

2 URL: <http://rgr.ru/news/itogi-rynka-nedvizhimosti-rossii-2020-goda-i-prognoz-na-2021-god>
Voronezh: Moskalev A., General Director of LLC Invest Otsenka; Saint Petersburg: Bent M., General Director LLC BN Expert; Syktyvkar: Prosheva E., chief expert on determining cadastral value GBU RK RUTIKO; Sevastopol: Pichuev I., Managing partner LLC Analiticheskaya korporativnaya gruppa; Perm: Skorobogach A., Director ATs KD Consulting; Ekaterinburg: Khorkov M., Head of

Analytical Department the Urals Chamber of Real estate; Tyumen: Molodkina S., independent analytic-consultant of the real estate market; Irkutsk: Galuschenko T., Marketing Director business district Irkutsk-Citi UK Irkutsk-Citi GK Aktiv; Novosibirsk: Ermolaeva E., Director of RID Alalytics; Vladivostok: Dymchenko S.N., Director of LLC INDUSTRIA-R; Khabarovsk: Shvalova A., specialist KGBU Khabkraikadastr; other cities: aggregator of real estate offers Restate.ru.

Prices in apartment buildings in Russian cities in 2020

Federal district/city	Secondary market		Primary market		Price difference between primary and secondary markets, %
	Average asking price, Rb/m2	Change for the year, %	Average asking price, Rb/m2	Change for the year, %	
	Central FD				
Moscow	260200	12.0	230039	20.2	13.1% higher in the secondary market
Tambov	58800	5.0	46000	11.0	27.8% higher in the secondary market
Voronezh	57136	16.4	60517	14.6	5.9% higher in the primary market
Ryazan	49450	26.0	54500	37.0	10.2% higher in the primary market
Kostroma	45000	5.0	46000	15.0	2.2% higher in the primary market
	North-Western FD				
Saint Petersburg	148000	13.0–15.9	145400	19.0–22.5	1.8% higher in the secondary market
Syktvykar	52505	2.0	59000	7.0	12.4% higher in the primary market
	Southern FD				
Sevastopol	90488	5.0	73593	8.0	23.0% higher in the secondary market
Krasnodar	65000	20.0	70000	30.0	7.7% higher in the primary market
	Volga FD				
Perm	59960	4.7	71626	13.6	19.5% higher in the primary market
Saratov	45000	15.0–20.0	38000	10.0–12.0	18.4% higher in the secondary market
	Urals FD				
Ekaterinburg	77270	7.0	87430	12.0	13.1% higher in the primary market
Tyumen	74804	10.0	77125	15.0	3.1% higher in the primary market
	Siberian FD				
Irkutsk	76310	17.0	81000	24.0	6.1% higher in the primary market
Novosibirsk	73400	5.0	80000	12.0	9.0% higher in the primary market

			Far-Eastern FD		
Vladivostok	135973	9.5	122334	9.7	11.1% higher in the secondary market
Khabarovsk	96822	13.2	92985	11.3	4.1% higher in the secondary market

Source: Russian Guild of Realtors.

If we talk about the degree of excess of prices of one market segment over another, the most noticeable advance in prices in the secondary market compared

to the primary one was observed in Tambov and Sevastopol (more than 20%). They were followed by Saratov, Moscow and Vladivostok (with a difference of 11 to 18%). The excess of prices for newly constructed buildings relative to the secondary market by more than 10% was noted in Perm, Yekaterinburg, Syktyvkar, and Ryazan.

RGR analysts work with the offer prices, however local realtors noted an increase by 40-50% in the number of real transactions in many cities of the country in the second half of the year compared to the results seen in the first half of the year. The specifics of the 2020 situation affected not only the market itself, but also the representativeness and quality of professional analysis on it. The number of analysts who personally provide data to the RGR has markedly decreased, and a number of cities use statistical processing of samples of the aggregator of offers on the Internet with an erratic error.

In this regard, it is advisable to consider for comparison the data of another aggregator of offers - CIAN, which is larger and has more experience in its own analytical division, but analyzes data only on the secondary market.¹

The sample of CIAN included 107 cities with a population of 100,000 people and the sale offer of 100 apartments.² Subsidized mortgages have fueled a surge in the cost not only in the segment of newly constructed buildings, but also in the secondary market, where the price increase was twice as high as in 2019. In December 2020, average cost of 1 sq. m. in the secondary market totaled Rb90,200 against Rb77,700 at the end of 2019.³ For the year, the increase was 16.1% against 7.5% at the end of 2019 (*Table 17*).

Table 17

**Dynamics of average asking prices of 1 sq. m in apartment buildings
on the secondary market in Russian cities in 2018–2020**

Year	Average price of 1 sq.m, Rb thousand	Increase on previous year, %
2018	72.3	
2019	77.7	7.5
2020	90.2	16.1

Source: CIAN.

Therefore, in two years, the average prices in the secondary market gained 24.8% (by almost Rb18,000 per 1 sq. m).

Let's take a closer look at how the price dynamic developed over the past year (*Table 18*).

1 URL: <https://www.cian.ru/stati-vtorichka-sdaet-pozitsii-i-proigryvaet-novostrojkam-po-tsene-313548/>

2 Given the high representativeness of the sample, it is worth noting that more than 40% of all the cities included in it are located in the Volga (25 cities) and Central (22 cities) federal districts. The other three districts (Southern, Ural, and Siberian) are represented by 12 cities each, while the North-Western, Far-Eastern, and North Caucasian districts are represented by 10, 9, and 5 cities, respectively.

3 Hereinafter, the annual price dynamic is estimated based on a comparison of prices at the end of the month (December).

Movement of average prices in apartment buildings on the secondary market in Russian cities in 2020

Month	Average price of 1 sq. m. at month-end, Rb thousand	Change		
		Month-on-month, %	Quarter-on-quarter, %	Year-on-year, %
December 2019	77.7			
January 2020	77.3	-0.5	-0.4	16.1
February 2020	77.8	0.6		
March 2020	77.4	-0.5		
April 2020	77.5	0.1	2.7	
May 2020	76.5	-1.3		
June 2020	79.5	3.9		
July 2020	78.0	-1.9	5.2	
August 2020	82.9	6.3		
September 2020	83.6	0.8		
October 2020	83.6	0.0	7.9	
November 2020	83.9	0.4		
December 2020	90.2	7.5		

Source: CIAN.

In Q1 2020, the average price of 1 sq. m. in the secondary market of Russia slightly decreased by 0.4% (to Rb77,800).

The second quarter was almost completely in self-isolation regime. And if the developers managed to quickly switch to remote sales, then the secondary market actually stopped operating. The decline in demand led to a drop in prices in May 2020 (by 1.3% compared to April). In June, due to the expansion of the pent-up demand accumulated during the quarantine period, prices went up, compensating for the May drop. Overall, the average unit price gained 2.7% in Q2.

In Q3 2020, the secondary market was still in a fever: in July, average prices declined (by 1.9%), in August, an increase of 6.3% was recorded against the background of a rise in the price of newly constructed buildings due to subsidized mortgage programs. As a result, the average price of 1 sq. m. gained 5.2% for the third quarter.

Q4 2020 was marked by a record price growth in December (by 7.5%). The reasons for this accumulated throughout the second half of the year: the ruble's devaluation, low rates on bank deposits, which made some of the depositors to go to the real estate market. The inability to travel and lack of vacation trips gave time and money to resolve the housing problem, which was in line with one of the traditional stereotypes of many Russians: aspirations to resolve all the major issues before the end of the year. It is in November–December that the highest price increase is observed in the primary market, pushing up the cost in the secondary segment as well.

Consequently, the main price growth occurred during the period of the subsidized mortgage rate in the primary market, thanks to which (in combination with greater availability of mortgage loans to a number of categories of the

population) developers were able to significantly increase the cost of housing. The reaction of the owners in the secondary market was an increase in prices relative to the primary market.

At the end of the year, the pricing of ready-made housing was also affected by the emotional component, which was not bolstered by real demand. On the news about the general rise in the price of goods and services, some sellers began to raise prices for real estate, taking advantage of the decline in supply on the back of the pandemic.

The average price tag of an apartment on offer on the secondary market in Russia as a whole (cities with a population of 100,000 people or more) is equal to Rb5.4 mn as of year-end 2020 (*Table 19*).

Table 19

Average price tag for an apartment on offer on the secondary market of apartment buildings in Russian cities in 2018–2020

Year	Average price tag for an apartment on offer, Rb million	Increase year-on-year	
		%	Rb mn.
2018	4.57		
2019	4.83	5.7	0.26
2020	5.5	13.9	0.67

Source: CIAN.

Over the year, the apartment price on the offer increased by Rb670,000, over two years - by Rb930,000 or 20.4%. In other words, for two years (2019-2020), the average apartment offered on the secondary market has risen in price by almost Rb1 mn.

Table 20

Dynamics of the average unit of asking price of 1 sq. m in apartment buildings on the secondary market in Russian cities by federal districts

Federal District	Weighted average price of 1 sq. m., Rb thousand			Increase, %	
	2018	2019	2020	over 2020	over 2019–2020
Central	110.0	108.0	109.2	1.1	- 0.7
North-Western	101.8	102.8	106.2	3.3	4.3
Far-Eastern	67.5	65.4	79.2	21.1	17.3
Sothern	62.6	64.6	77.2	19.5	23.3
Urals	56.6	57.4	64.9	13.1	14.7
Siberian	55.7	58.7	66.8	13.8	19.9
Volga	50.6	51.9	54.1	4.2	6.9
North-Caucasus	43.5	46.9	53.2	13.4	22.3

Source: CIAN.

The largest price increase was recorded in the Far-Eastern (more than 21%) and Southern (about 20%) Districts. At the other pole were the Central, North-Western

and Volga Districts, where the price growth did not exceed 5%. The intermediate position is occupied by the North-Caucasus, the Urals and Siberian Districts with a price increase of 13-14% (Table 20).

When considering the dynamics for 2019-2020, the leaders are the Southern and North-Caucasus Districts (an increase of more than 22%-23%), the Siberian District is slightly behind (about 20%). The composition of the outsider group did not change, the price growth there did not exceed 7%, and in the Central District prices even slightly decreased. The intermediate position was taken by the Urals and the Far-East Districts, where the price growth exceeded 14% and 17%, respectively.

The price dynamic for different groups of cities is most indicative (Table 21).

Table 21

Dynamics of the average unit of asking price of 1 sq. m in apartment buildings on the secondary market in Russian cities by city groups

Location	Average price of 1 sq. m., Rb thousand			Increase, %	
	2018	2019	2020	over 2020	over 2019–2020
Capital agglomerations* as a whole	134.3	137.9	158.6	15.0	18.1
Moscow	204.0	210.4	237.0	12.6	16.2
Moscow region	91.5	97.5	113.4	16.3	23.9
St. Petersburg	116.3	123.2	139.2	13.0	19.7
Leningrad region	65.6	70.7	75.8	7.2	15.5
City outside of capital agglomerations, including	54.5	56.1	64.6	15.2	18.5
Cities with over 1 mn people (major)	57.7	61.0	67.9	11.3	17.7
Cities with 500,000 to 1 mn people (large)	51.3	54.0	62.8	16.3	22.4

*Moscow, St. Petersburg, Moscow and Leningrad regions.

Source: CIAN.

Average cost of 1 sq. m. on the secondary market in the Moscow and St. Petersburg agglomerations in 2020 hit Rb158,600, which is 15% higher than a year ago. The largest growth was recorded in the Moscow region (more than 16% for the year, up to Rb113,400). Prices in Moscow and St. Petersburg increased to a lesser extent: by 12.6% (to Rb237,000) and 13% (to Rb139,200), respectively. The smallest increase was recorded in the Leningrad Region by 7% (up to Rb75,800).

In other regions, the price of residential real estate on the secondary market gained 15.2% (to Rb64,600 per 1 sq. m.). At the same time, in cities with a population of more than 1 million people (without Moscow and St. Petersburg), it increased to a lesser extent (by 11.3%), while the price per square meter in cities with a population of 500 thousand to 1 million people, it grew significantly (by 16.3%). Among the cities with million+ people, prices increased most markedly in Omsk (20.6%), Nizhny Novgorod (16%), Voronezh (15.7%), and Krasnoyarsk (14.8%). On the contrary, in Samara, Volgograd and Perm, their growth did not

exceed 5%. CIAN notes a relatively small difference in the cost per square meter for both categories: due to a larger price increase, cities with a smaller population are catching up in price with the largest cities. The price per square meter in large cities (Rb62,800) in 2020 was higher than in the largest cities in 2019 (Rb61,000).

This effect is even more pronounced in the 2-year span (2019-2020). The increase in housing prices in metropolitan agglomerations was comparable to the price dynamic in other cities (more than 18%). If we consider the dynamic within these locations, the cities with a population of 500,000 to 1 million people in terms of price growth (by 22.4%) were ahead not only of the cities with a population of more than 1 million people (17.7%), but also of Moscow (16.2%), and St. Petersburg (19.7%). The only region of the metropolitan agglomerations where the price growth in two years has overtaken the value of this index in large cities is the Moscow region (about 24%). On the opposite pole of the Moscow region was the Leningrad region, where the price growth was 15.5%.

Table 22

**Dynamics of the average unit of asking price in apartment buildings
and the average price tag for an apartment on offer on the secondary
market in Russian cities in 2019–2020**

Federal District / city	Average price of 1 sq. m., 2020, Rb thousand	Price increase, %		Average price tag of an apartment on offer, Rb million	
		over 2020	over 2019–2020	2019	2020
Central FD					
Moscow	237.0	12.6	16.2	13.17	14.58
Tula	73.1	13.3	15.1	3.64	4.33
Belgorod	67.0	13.8	15.3	3.56	4.41
Kaluga	60.2	2.9	4.0	3.19	3.28
Vladimir	60.3	9.2	15.1	3.10	3.45
Yaroslavl	56.1	8.3	14.0	2.78	3.16
Voronezh	58.3	15.7	21.5	2.85	3.37
Tver	54.8	7.0	15.1	2.93	3.21
Tambov	55.2	17.9	23.5	2.65	3.28
Kursk	56.4	20.0	30.0	2.68	3.45
Kostroma	52.7	10.3	19.8	2.52	2.91
Orel	53.2	17.7	22.9	2.46	3.19
Lipetsk	50.9	8.8	13.9	2.62	2.84
Ryazan	48.1	6.2	7.8	2.51	2.76
Ivanovo	47.7	7.7	11.7	2.36	2.63
Staryi Oskol	48.6	12.5	16.5	2.43	2.90
Smolensk	45.8	6.0	8.3	2.40	2.69
Briansk	44.4	13.3	14.7	2.16	2.54
Novomoskovsk	42.9	8.1	2.6	2.14	2.19
Murom	42.4	8.4	10.7	1.95	2.25
Kovrov	38.1	9.8	13.7	1.83	2.08
Rybinsk	34.7	2.7	-2.3	1.67	1.68

RUSSIAN ECONOMY in 2020
trends and outlooks

Federal District / city	Average price of 1 sq. m., 2020, Rb thousand	Price increase, %		Average price tag of an apartment on offer, Rb million	
		over 2020	over 2019–2020	2019	2020
North-Western FD					
Saint Petersburg	139.2	13.0	19.7	7.78	9.01
Kaliningrad	77.3	25.3	31.7	3.59	5.02
Severodvinsk	73.7	6.8	10.7	3.87	4.36
Arkhangelsk	63.3	3.8	3.6	3.19	3.33
Petrozavodsk	61.2	26.7	25.2	2.70	3.76
Syktvykar	59.4	3.5	2.6	3.01	3.21
Murmansk	58.4	9.8	10.0	2.86	3.25
Cherepovets	53.2	33.0	39.3	2.16	3.11
Vologda	49.7	9.7	13.2	2.42	2.72
Velikiy Novgorod	48.1	7.4	6.7	2.49	2.80
Sothem FD					
Sochi	158.6	9.6	12.0	9.42	9.54
Sevastopolʼ	108.7	15.1	17.5	5.66	6.78
Simferopol	83.9	6.7	8.5	4.45	4.96
Novorossiysk	73.0	7.5	14.4	3.94	4.26
Krasnodar	70.6	6.6	18.3	4.13	4.26
Rostov-on-Don	66.6	5.5	7.4	3.63	3.85
Bataisk	52.2	5.7	7.0	2.7	2.82
Volgograd	51.3	3.8	6.0	2.73	2.87
Astrakhan	45.5	11.0	13.8	2.40	2.78
Volzhskiy	44.0	8.1	10.8	2.13	2.33
Taganrog	39.9	2.8	6.1	2.16	2.15
Volgodonsk	33.2	0.0	3.8	1.96	1.92
North-Caucasus FD					
Pyatigorsk	59.1	4.8	9.6	3.52	3.71
Kislovodsk	56.2	6.2	12.9	3.17	3.34
Essentuki	53.8	11.6	13.5	3.02	3.38
Stavropol	52.7	12.4	22.0	2.72	3.14
Nalchik	50.7	16.0	6.1	2.14	2.97
Volga FD					
Kazan	90.5	12.4	18.3	4.84	5.66
Nizhniy Novgorod	79.7	16.0	22.0	3.88	4.71
Ufa	75.5	5.6	8.6	4.10	4.31
Samara	62.2	2.6	4.4	3.40	3.53
Perm	60.7	3.8	9.2	3.30	3.34
Almetievsk	59.2	12.1	14.5	3.03	3.56
Naberezhnye Chelny	56.9	5.4	12.5	2.95	3.27
Izhevsk	54.7	5.2	13.7	2.75	2.90
Penza	54.7	14.2	18.9	2.58	2.98
Cheboksary	49.4	4.7	4.2	2.53	2.80
Oktiabskiy	47.3	3.7	-8.3	2.25	2.47
Orenburg	47.0	3.5	2.8	2.38	2.50

Section 4
Real Sector of the Economy

Federal District / city	Average price of 1 sq. m., 2020, Rb thousand	Price increase, %		Average price tag of an apartment on offer, Rb million	
		over 2020	over 2019–2020	2019	2020
Kirov	46.8	5.2	4.7	2.31	2.49
Ulyanovsk	46.7	9.6	15.6	2.40	2.64
Saratov	46.4	5.5	7.4	2.45	2.61
Tolyatti	44.1	5.0	5.5	2.28	2.50
Yoshkar-Ola	42.8	4.4	4.9	2.32	2.43
Engels	42.6	3.4	6.0	2.33	2.45
Dzershinsk	42.3	5.2	3.7	2.03	2.11
Neftekamsk	39.3	1.8	-26.7	2.18	2.06
Novocheboksarsk	37.7	2.7	5.0	1.95	2.06
Votkinsk	37.0	-0.5	-1.9	1.77	1.87
Balakovo	32.6	3.5	3.2	1.64	1.71
Dimitrovgrad	32.0	3.6	7.4	1.79	1.71
Orsk	26.4	-1.1	3.1	1.52	1.44
Urals FD					
Nefteyugansk	86.7	8.6	19.9	4.6	5.2
Surgut	84.2	7.8	12.9	4.76	5.34
Ekaterinburg	76.6	7.4	9.7	4.07	4.48
Tyumen	72.8	9.5	17.4	4.05	4.6
Nizhneartovsk	65.1	10.5	14.2	3.39	3.93
Sterlitamak	45.0	7.1	9.2	2.27	2.38
Chelyabinsk	42.9	6.5	3.6	2.25	2.42
Kurgan	40.7	5.7	7.7	2.04	2.18
Pervouralsk	38.6	2.4	3.8	1.91	2.05
Nizhniy Tagil	37.4	3.3	2.7	1.94	1.95
Magnitogorsk	35.0	9.0	14.0	1.78	1.87
Miass	33.8	6.6	7.6	1.74	1.85
Siberian FD					
Irkutsk	81.9	18.4	30.2	4.15	4.88
Novosibirsk	77.7	9.7	14.8	4.02	4.43
Krasnoyarsk	70.6	14.8	19.3	3.58	4.32
Tomsk	67.6	17.2	22.5	3.11	3.93
Abakan	58.4	13.0	18.9	3.01	3.63
Barnaul	58.1	16.7	20.8	2.87	3.3
Omsk	56.2	20.6	27.1	2.50	3.11
Kemerovo	55.0	13.6	15.3	2.7	3.31
Angarsk	49.5	12.8	19.3	2.34	2.88
Novokuznetsk	48.6	14.4	29.6	2.37	2.76
Norilsk	40.4	20.2	28.7	1.87	2.37
Biysk	38.6	12.2	8.7	1.95	2.02
Far-Eastern FD					
Yuzhno-Sakhalinsk	142.9	15.1	29.7	6.62	8.1
Vladivostok	132.6	11.0	22.0	6.74	7.34
Khabarovsk	94.2	12.7	20.9	4.63	5.27

Federal District / city	Average price of 1 sq. m., 2020, Rb thousand	Price increase, %		Average price tag of an apartment on offer, Rb million	
		over 2020	over 2019–2020	2019	2020
Blagoveshchensk	90.3	20.4	36.2	4.45	5.21
Yakutsk	87.7	1.0	7.7	5.10	5.44
Chita	65.6	26.4	35.5	3.02	4.07
Nakhodka	64.5	16.0	13.2	2.9	3.4
Ulan-Ude	64.3	20.4	29.9	2.92	3.72
Komsomolsk-on-Amur	44.0	3.8	3.8	2.23	2.3

Source: CIAN.

Only in three Russian cities out of 107 surveyed by CIAN (with a population of 100,000 people and from 100 apartments on offer for sale), at the year-end 2020 the average cost of 1 sq. m. decreased or remained the same (*Table 22*). Among them, not a single city with a population of more than 250,000 people. The fall in prices was recorded in Orsk (Orenburg region, by 1.1%) and Votkinsk (Udmurtia, by 0.5%). In Volgodonsk (Rostov region) prices remained the same.

In 2020, the group of leading cities in terms of price growth comprises Cherepovets (Vologda Oblast, 33.0%), Petrozavodsk (26.7%), Chita (26.4%), and Kaliningrad (25.3%). In five other cities (Kursk, Norilsk, Blagoveshchensk, Ulan-Ude, and Omsk), the price for the year gained 20-21%. In the next group, the price increase was from 15 to 20% (11 cities). The most numerous was the part of the sample with a price increase in the range from 5 to 10% (39 cities). Roughly equal were the groups with price increases of up to 5% (23 cities) and from 10 to 15% (22 cities).

If we consider the 2-year span (2019-2020), the following picture is observed. The group of leading cities where the price increase was at least 30% is represented by 6 cities (Cherepovets, Blagoveshchensk, Chita, Kaliningrad, Irkutsk, and Kursk). At the other pole were Votkinsk, Rybinsk (Yaroslavl region), Oktyabrsky and Neftekamsk (both in Bashkortostan), where prices exhibited a negative trend. In 15 cities, the price increase was in the range of 20 to 30%. Roughly equal were the groups with price increases of up to 10% (39 cities) and 10 to 20% (43 cities).

With an almost universal price growth of a square meter of housing in almost all cities in 2020, there was an increase in the average price tag for an apartment on offer. The exceptions were Neftekamsk, Dimitrovgrad (Ulyanovsk region), as well as the aforementioned Volgodonsk and Orsk, where, contrary to the all-Russian trend, housing prices fell or remained unchanged, which can be explained by the poor quality of housing offered for sale.

The largest absolute value of the average price tag for an apartment on offer in 2020 was expected to be in Moscow (about Rb14.6 mn). It was followed by Sochi (Rb9.5 mn), St. Petersburg (Rb9.0 mn), Yuzhno-Sakhalinsk (Rb8.1 mn), Vladivostok (Rb7.3 mn), and Sevastopol (Rb6.8 mn). In several other cities: Kazan, Surgut (Tyumen region), Yakutsk, Khabarovsk, Blagoveshchensk, Nefteyugansk (Tyumen region), and Kaliningrad, the average price tag for an apartment on offer

was more than Rb5 mn, and in almost all of them (except Yakutsk) a year earlier it was lower.

4.5.2. Construction and newly built housing commissioning

According to preliminary data released by Rosstat, 80.6 million square meters of housing were commissioned in Russia in 2020, which is 1.8% less than in 2019 (*Table 23*).

Table 23

Commissioning of new housing in Russia in 1999–2020

Year	Gross floor arear, million sq. m.	Growth rates, %	
		Year-on-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
2018	75.7	95.1	248.5
2019	82.0/81.0*	108.3/107.0*	270.6/267.3*
2020	80.6/75.5*	98.2/93.2*	266.0/249.2*

* Without taking into account commissioning of houses on allotments, which volume is given according to the initial data released by Rosstat.

Sources: Rosstat, own calculations.

Contrary to initial fears, the depth of the housing crisis was also small in comparison with the economy as a whole (the decline in GDP was 3.1%), and especially in comparison with the decline in previous crises. (6.6% in 2009 and 6% in 2016).

However, the past year was the first full validity span of the provisions of Federal Law No. 217-FZ of July 29, 2017 “On Gardening by Citizens for Their Own Needs and on Amendments to Certain Legislative Acts of the Russian Federation”, which led to the start of accounting for houses commissioned on allotments from

August 2019. As a result, in 2019 about a million square meters of real estate were reported by Rosstat from this source,¹ and in 2020, the value of this index was already 5.1 million square meters (or 6.3% of the total commissioning).² Without taking this category into account, the depth of the decline (6.8%) is quite comparable to the indexes of 2009 and 2016.

If we consider the housing construction dynamic in the regional context, the number of subjects of the Russian Federation with a positive dynamic of commissioning slightly exceeded the number of territories where it decreased. Approximately the same pattern was observed in the group of regions with a total volume of housing commissioning of more than 1 million square meters (*Table 24*).

Table 24

**Housing commissioning dynamic in Russian regions in 2020
(ranked by commissioning rate)**

Region	Housing commissioning rates, in % on 2019
Kaliningrad region	120.6
Novosibirsk region	110.3
Tyumen region (with autonomous okrugs)	105.3
Irkutsk region	105.0
Nizhniy Novgorod region	104.7
Bashkortostan	103.5
Stavropol krai	102.7
Perm krai	101.9
Chelyabinsk region	101.5
Ulyanovsk region	101.5
Moscow region	101.2
Tatarstan	100.2
Rostov region	100.1
Krasnodar krai	99.8
Sverdlovsk region	98.3
Saint Petersburg	97.1
Saratov region	96.4
Moscow	96.2
Lipetsk region	96.0
Voronezh region	91.7
Krasnoyarsk krai	91.6
Belgorod region	91.2
Leningrad region	81.1
Samara region	76.1

Source: On residential construction in 2020. URL: <http://rosstat.gov.ru/>

As follows from *Table 24*, the housing commissioning growth by over 3% was recorded in the Kaliningrad, Novosibirsk, Tyumen, Irkutsk, and Nizhny Novgorod

1 URL: https://gks.ru/bgd/free/B19_00/IssWWW.exe/Stg/dk12/2-4.doc

2 URL: https://rosstat.gov.ru/bgd/free/b04_03/IssWWW.exe/Stg/d05/201.htm

regions and Bashkortostan. Another 7 regions (including the Moscow Region) exhibited positive dynamic of housing commissioning, but less than the specified value. At the same time, the fall in housing commissioning occurred in 11 regions, including Moscow, St. Petersburg, and the Leningrad region, and in the latter the depth of the fall was almost 19%. It was even more serious only in the Samara region (around 24%).

The Moscow region, with an increase in housing commissioning by 1.2%, naturally retained its leadership among Russian regions in terms of the absolute value of housing commissioning (more than 8.7 million square meters). Moscow, after an unprecedented growth seen in 2019, demonstrated a slight decline (3.8%), taking second place (about 5 million square meters). The five leading regions also included: Krasnodar Krai (about 4.5 million square meters), St. Petersburg (about 3.4 million square meters) and Tatarstan (about 2.7 million square meters). The share of the capital region in the total volume of residential construction in the country stood at 17% (including the Moscow region - 10.8% and Moscow - 6.2%), approximately staying at the 2019 level.

4.5.3. Shifts in the structure of individual housing construction

The main trend of shifts in the structure of housing construction in Russia in the last decade has been an increase in the share of commissioned individual houses on the back of a reduction in the share of apartment building construction.

In the economic terms, these categories of housing construction have significantly different requirements in terms of the mechanism of permanent extended reproduction: construction carried out by individuals is aimed at meeting the individual needs of citizens (households) in the quantitative and/or qualitative improvement of existing housing conditions. After that, as a rule, there is no sustainable construction business to meet the similar needs of other citizens (households). This process, therefore, is irregular (often one-time) in nature, without requiring the formation of a mechanism for extended reproduction of the housing stock on a large scale. And its promotion can be targeted and quite flexible, tied to the needs of a specific category of citizens, with due regard for the peculiarities of a particular region.

The share of individual housing construction (IHS) in the indexes of annual housing commissioning, which previously did not fall below 40%, has grown markedly in the last two years, approaching half (47-48%) (*Table 25*).

According to Rosstat, the area of individual housing construction (IHS) facilities commissioned in Russia at the year-end 2020 totaled 38.7 million square meters, which is 0.5% more than in the previous year. The indexes of 2019-2020 exceed the values provided for in the technical passport of the national project "Housing and Urban Environment" for this category not only for the specified 2-year period, but also for all subsequent years, with the exception of 2024. The volume of commissioning of individual homes should increase by less than 1/4: from 33 million square meters. m in 2017 to 40 million sq. m in 2024 (*Fig. 24*).

Table 25

**Structure of commissioning residential housing in the Russian Federation
in 2010–2020**

	million sq. m	Apartment building construction (ABC)		Individual housing construction (IHC) for own and attracted funds	
		Million sq. m	Share in total commissioning, %	Million sq. m	Share in total commissioning, %
2010	58.4	32.9	56.3	25.5	43.7
2011	62.3	35.5	57.0	26.8	43.0
2012	65.7	37.3	56.8	28.4	43.2
2013	70.5	39.8	56.5	30.7	43.5
2014	84.2	48.0	57.0	36.2	43.0
2015	85.3	50.1	58.7	35.2	41.3
2016	80.2	48.4	60.3	31.8	39.7
2017	79.2	46.2	58.3	33.0	41.7
2018	75.7	43.3	57.2	32.4	42.8
2019	82.0	43.5	53.0	38.5	47.0
2020	80.6	41.9	52.0	38.7	48.0

Source: Rosstat, own calculations

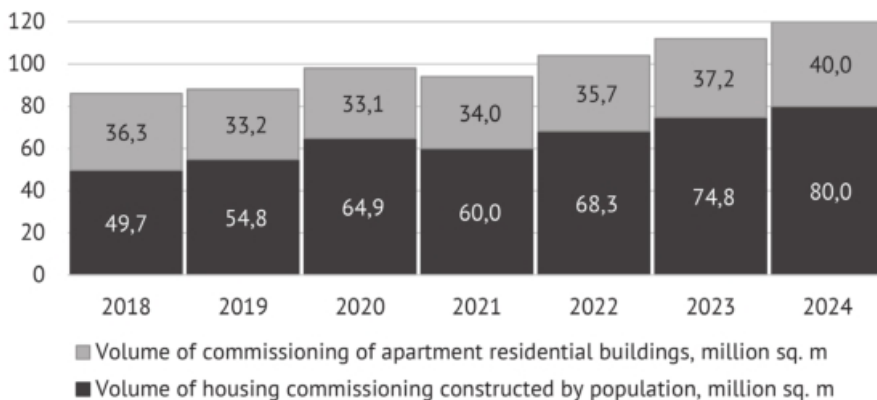


Fig. 24. Parameters of commissioning of apartment buildings until 2024 under national project “Housing and Urban Environment”

Source: technical passport of national project “Housing and Urban Environment” [URL: <https://base.garant.ru/72192510/>].

The interpretation of this trend may be different. On the one hand, it is possible that many households have come to view suburban life as more attractive than the habitual pattern of life in large cities.

Last year, Russia saw a significant increase in demand for private homes. According to RBC,¹ based on the report of the Unified Institute for Housing

1 URL: <https://realty.rbc.ru/news/5fe268539a79473875fdd3a0>

Development of JSC “DOM. RF”, the findings of the survey demonstrated that almost 40% of Russians in self-isolation began to prefer the construction of an individual house as a more suitable and promising housing option, considering it as an alternative to buying an apartment in a new residential building not only in the metropolitan agglomeration, but also in other cities and regions of the country.

For the first time in a very long time, there was a negative migration growth in Moscow, according to Rosstat, in January-September 2020, almost 27 thousand more people left the capital than arrived.¹ There is no doubt that this is due to the pandemic fallout, and most importantly to the transition to the remote work format, which allowed many workers, especially qualified ones, to leave the metropolis without losing their income and quality of life. Of course, one year, especially such an atypical one, is not enough to predict the shaping of a stable trend for de-urbanization. However, we cannot exclude the beginning of a process that can stop and possibly reverse the concentration of various resources and business activity including construction in several prosperous regions amidst minimal activity of developers throughout the rest of the country.

Secondly, individual construction represents an obvious reserve for the use of statistical tools in order to improve the indexes of housing commissioning in certain regions and the implementation of the national project for the country as a whole. In the IHS, in contrast to commissioning of apartments built in the framework of ABC, there are two aspects for indexes improvement: (1) recording real estate built earlier, but registering it only in the reporting period, and (2) recording residential houses built by the population on land plots for gardening, which were not previously taken into account. The latter used since August 2019 has already affected the results achieved by the construction industry as a whole. Commissioning of housing built on garden plots in 2020 (5.1 million sq. m) accounted for more than 13% of the total volume of individual housing construction, being much more than the total increase in individual housing construction, i.e. it compensated for the fall in its other main volume. Without due regard for this factor, the dynamic of individual housing construction looks much less rosy.

Meanwhile, the technical passport of the national project “Housing and Urban Environment” provides for an increase in the volume of residential construction to 120 million square meters per year for the period until 2024, mainly due to an increase in the volume of construction of apartment buildings, which should almost double: from 46.2 million sq. m in 2017 to 80 million sq. m in 2024. So far, we can talk about the noncompliance with the national project in this part. The volume of commissioning of the ABC in 2020 fell by 3.7% compared to 2019, coming to around two thirds of the planned amount.

More than half of the housing commissioning volume (excluding those built by the population)² was accounted for 10 regions (with commissioning of at least

¹ URL: <https://mosstat.gks.ru/folder/64634>

² There is no such index in the official reports of Rosstat. However, it can be calculated as the difference between the total volume of housing commissioning and housing commissioning by

1 million sq. m in each of them), and the share of the top five (Moscow Region and Moscow, St. Petersburg, Krasnodar Krai and Tyumen Region with autonomous districts) accounted for about 39% of the total volume of apartment buildings commissioning.¹ Its concentration in the largest megacities is obvious, where the opportunities for residential construction growth are limited by a shortage of land resources. And in other regions, developers do not exercise due activity given insufficient effective demand.

The unfavorable prospects for the segment and the industry as a whole are also indicated by the reduction in the volume of ABC under construction in 2020 from 107.5 million sq. m to 94.0 million sq. m (or 12.5%), which is due to the lack of new projects launched in the first half of the year against the background of the coronavirus pandemic and falling demand for housing.²

The mass proliferation of the new housing finance scheme continued. According to the Central Bank of the Russian Federation, as of January 1, 2021:

- over 303,000 escrow accounts have been opened for shared-equity housing construction;
- the volume of funds deposited on these accounts by shareholders exceeded Rb1.19 trillion that is 8.5-fold more than at end-2019;
- Rb126.7 bn have been released from escrow accounts for construction projects completion in 64 regions of the Russian Federation, i.e. have been transferred to developers or sent to repay the loans they received for the construction;
- there are 2,242 active mortgage loan agreements concluded by banks and developers worth Rb2.72 trillion, which is about 200% more than a year earlier.

A positive result is that since the beginning of the reform, no problematic situations with the use of escrow accounts have ever been recorded, in other words, in the context of the pandemic it was possible to avoid exacerbating the long-standing problem of defrauded homebuyers.³

According to “DOM.RF” by reference to the Unified Information System of Housing Construction (UISHC) apartment building construction using escrow accounts for the first time exceeded half of the total construction area: 48.6 million sq. m of 95.8 million sq. m (or 50.7%) as of December 30, 2020. According to this indicator, the top ten leading regions comprised Udmurtia, Perm and Primorsky Krai, Voronezh and Sverdlovsk regions, Stavropol Krai, Tatarstan, Rostov, Tyumen and Kaliningrad regions. In Moscow, its value was at the average Russian level (51.4%), and the gap between the two leaders in terms of housing

the population built from their own and attracted funds.

1 URL: <https://rosstat.gov.ru/folder/14458>, own calculations

2 Review of the apartment housing construction market in the Russian Federation. December 2020, p. 1. URL: <https://дом.рф>

3 Zubov S. Mortgage credit in 2020 // Monitoring of Russia's Economic Outlook. Trends and Challenges of Socio-Economic Development. 2021. No. 3 (135). February. Gaidar Institute, RANEPa, pp. 17–20. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3793820 URL: http://www.iep.ru/files/text/crisis_monitoring/2021_03-135_Feb.pdf

commissioning was noticeable: Krasnodar Krai and St. Petersburg (about 45 and 39%, respectively).¹

4.5.4. State support of apartment housing construction in the context of anti-crisis policy

The financial and economic problems that suddenly emerged in the spring of 2020 on the back of a temporary but steep decline in world oil prices and the COVID-19 pandemic forced the Russian authorities to start ensuring the functioning of residential construction in the wake of lockdown and its fallout from April.

First of all, we are talking about boosting the demand for housing:

- state subsidization of mortgage rates for apartments in newly constructed buildings originated in 2020-2021 (subsidized mortgage according to the Resolution of the Government of the Russian Federation of April 23, 2020 No. 566);
- amendments to Article 241 of the Budget Code of the Russian Federation, allowing regional and municipal authorities to apply budget funds towards escrow accounts;
- easing by the Bank of Russia of the requirements for the minimum rating of credit institutions for participation in the mortgage lending program down to the level not lower than “A-(RU)” according to the classification of the rating agency ACRA or “ruA -” according to the classification of the rating agency “Expert RA”;
- cancellation of the premium to risk ratios for mortgages originated prior to April 1, 2020, and its reduction for loans granted after that date;²
- introduction of a new methodology for assessing credit risk on mortgage loans, which allows more accurately assessing capital adequacy premiums depending on the loan-to-collateral ratio and debt burden;
- provide a possibility for pension funds to invest pension funds in mortgage-backed bonds with a set limit of 5%.

Put in place measures contributed to the growth of mortgage lending.

A special importance was assigned, of course, to the opportunity for borrowers to receive funds from banks at a rate of no more than 6.5% per annum for the purchase of new housing. The operator of the program was the Integrated Housing Development Institution, JSC “DOM. RF”, which reimburses creditors for lost income up to the amount of “key rate plus 3 percentage points”, receiving allocations from the federal budget without increasing its authorized capital. Credit holidays were also of some importance for those who, due to falling incomes, faced difficulties in servicing previously taken out mortgages. For federal and regional authorities, the opportunity has opened up to select projects of interest of certain developers and buy out the housing under construction from

¹ Review of the apartment housing construction market in the Russian Federation. December 2020, p. 1, 5. URL: <https://дом.рф>

² For mortgages with a low loan-to-collateral ratio that are repaid at the expense of the maternal capital, the reduction in allowances is linked to the repayment of the loan.

them at the expense of the corresponding budgets. The effect on banks from the cancellation of risk factor premiums on loans issued before the crisis, which consisted in eliminating negative consequences for compliance with capital adequacy standards, eliminating losses on loans, and partially compensating for potential losses from a decrease in interest income, amounted to more than Rb100 bn. The introduction of a new methodology for assessing credit risk on mortgage loans due to the reduction in the values of premiums allows to release around Rb300 bn more of the capital of banks.

DOM.RF began to act in the same direction, when in June 2020 it began the next stage of apartments purchase from developers in newly constructed buildings as part of state support for the industry. In addition to the Voronezh region and the Krasnoyarsk Krai, which became pilot sites of the state program, it comprises Kaluga, Lipetsk, Novosibirsk, Rostov, Smolensk, Tyumen, Ulyanovsk, and Yaroslavl regions, Bashkortostan and Stavropol Krai. The program for the purchase of standard housing under construction from developers is being implemented on the initiative of the President of the Russian Federation as one of the measures to support the construction industry and resolve the housing problem in the wake of the crisis.

The procedure for the program implementation provides for an auction. Within its framework, regional developers should offer a discount to the average market selling price (in each particular residential building), which emerged over the past six months. Accordingly, those for which the highest discount is offered will be considered primarily for redemption. In addition, the proposed residential buildings must be commissioned by June 30, 2021. The buyer is a closed-end mutual investment fund (CEMIF) “Comfortable Housing” under the management of “DOM.RF Asset Management”, which, in turn, is one of the subsidiaries of JSC DOM. RF. The total amount of funds earmarked for direct purchase of apartments aimed to support the construction industry during the crisis period comes to Rb150 bn. One third of this amount (Rb50 bn) is secured by state guarantees provided to the company by the Ministry of Finance. In this way, according to DOM.RF estimates up to 3 million square meters can be purchased, or about 3% of all residential housing built in the country.

Another measure of support for developers was the identification of strategic enterprises as part of the package of anti-crisis measures adopted by the Russian government in the spring of 2020. These include organizations that have exceeded the minimum industrial indexes, with due regard for the affiliation within their group (holding) structures (i.e. when calculating indexes for a group of companies). Initially, in the construction industry, the volume of construction in accordance with the current permits was determined as an indicator in the amount of 400 thousand sq. m of residential and non-residential buildings. As of April 1, 2020, according to the portal ERZ.RF 32 developers from 1,300 organizations in the country had the volume of current construction exceeding the specified amount, most of which were in pre-bankruptcy.

The Decree of the RF Government dated April 3, 2020 No. 428 imposed a moratorium on the initiation of systemic companies’ bankruptcy proceedings,

which, after being extended in autumn, terminated in early 2021. At the same time, these organizations on the basis of the Decree of the RF Government dated May 10, 2020 No. 651 could apply for the following state support measures:

- subsidies for financial support (reimbursement) of costs (part of costs) in connection with the production (sale) of goods, performance of works, provision of services;
- deferred payment of taxes and insurance premiums (advance payments);
- guarantees for loans and bonded loans raised for the purposes established by the Government of the Russian Federation as part of measures aimed at solving urgent tasks to ensure the sustainability of economic development, in accordance with the procedure and under the terms provided for by the Decree of the Government of the Russian Federation No. 549 of May 10, 2017.

An integral part of the “National Action Plan for Restoring Employment and Incomes, Economic Growth and Long-term Structural Changes” (hereinafter referred to as the “National Plan”),¹ which is in force until the end of 2021 is the “Agenda for Action for the Development of Housing Construction and Mortgage Lending”, submitted by the Ministry of Construction to the government and is under approval. It comprises more than 200 initiatives of the Ministry of Construction, “DOM. RF”, industry associations NOSTROY and NOZA and other market participants.

The proposed support measures required for the implementation of the national project stay within the framework of three strategic directions of institutional reforms and modernization of the management of the construction industry and real estate markets:

1. “New rhythm of construction”: acceleration of construction procedures, reform of the regulatory framework for urban development and construction.

2. Digitalization of the construction industry: creating a single digital space in construction, deployment of a digital model of an object during its life.

3. Creation of a program mechanism for accelerating the socio-economic development of urban agglomerations and cities that are centers of economic growth. These strategic directions comprise a number of specific medium-term institutional stimulus measures, including:

- development of saving instruments for the down payment for a mortgage loan;
- absorption in the turnover of federal land plots for the purposes of housing construction;
- enhancing the importance of federal development institutions - JSC DOM. RF, PPK “Fund for the Protection of the Rights of Citizens Participating in Shared Construction”, Housing and Utilities Fund;
- improving the efficiency of providing land plots with the necessary infrastructure;
- development of the institute of integrated individual housing construction;

¹ Approved at the meeting of the RF Government of September 23, 2020. URL: <https://www.economy.gov.ru/material>

- development of the rental properties institution;
- optimization of technological connection processes to engineering networks;
- reduction of failing housing stock;
- improving the quality of major structural repairs of apartment buildings.

Operational monetary measures of emergency support for the industry and the market are as follows:

- extension of the subsidized mortgage lending program;
- lower mortgage rates for young families on waiting lists;
- state subsidized interest rates on loans issued to developers to finance new projects with low profitability;
- additional advance financing of the state program “Stimul” in 2020-2021 through disbursement of funds planned for 2022-2023.

The federal program “Stimul”, which has been operating in Russia since 2016, helps developers to build infrastructure facilities from the budget funds. According to its terms, the developer participating in the project of integrated urban development (IUD) must draft a proposal and receive an endorsement from the government expert review panel, as well as transfer the site on which the objects of social, transportation, and engineering infrastructure will be built. The customers of the construction works are the municipal authorities that choose the contractor, although the main source of funding is the federal budget. Currently “Stimul” is an integral part of the national project (NP) “Housing and Urban Environment”.

An important positive aspect of the National Plan is the fact that among the system-wide measures there is a mutual link between the activities of this NP and other national projects, which potentially allows us to synchronize efforts to achieve the NP targets with other priority projects and higher-level strategic planning documents.

4.5.5. Preferential mortgage as the main reason for new trends

The sharp increase in demand for real estate in the past year (mainly through mortgage lending) was impossible without the easing monetary policy of the Bank of Russia, which, in contrast to its policy during the past crises, has reduced the key rate several times.

So, at the beginning of the year, it was 6.25%, falling to 4.25% by the end of the year, while deposit and mortgage rates fell in parallel. According to the Central Bank, the average mortgage rate stood at 9.01% on January 1, 2020 against 7.36% - on January 1, 2021 (the minimum level was recorded in September - 7.17%).¹ The already extremely attractive terms of purchase (by Russian standards) were also accompanied by active PR program of subsidized mortgage rates for newly constructed buildings in the mass media, aggressive advertising by banks, as well as streamlining of the mortgage loan procedure (for example, the practice of remote application for a loan has expanded).

¹ URL: https://cbr.ru/statistics/bank_sector/mortgage/

In July 2020, the disbursement limit under the preferential mortgage program was raised from Rb740 bn to Rb900 bn. The down payment amount was reduced from 20% to 15%, and the maximum loan amount was doubled to Rb6 mn (Rb12 mn in Moscow, St. Petersburg, Moscow and Leningrad regions).

Since then, the speed of mortgage origination has increased dramatically, and the average monthly volume of loans exceeds Rb500 bn, which is an unprecedented amount for the banking system.

In mid-autumn, by the Decree of the Government of the Russian Federation No. 1732 of October 24, 2020, the program was extended until July 1, 2021, with an increase in the disbursement limit by more than twice (up to Rb1,850 bn).

Mortgage rates have been declining over the past few years, accompanied by an increase in: (1) the amount of the mortgage loan, (2) the loan term, and (3) the number of loans with a low down payment. All this points to an increase in systemic risks for mortgage, even despite the extremely low overdue debt of the population.

The share of mortgage loans with 90+ days overdue payments in December remained at the level of the beginning of the year (1.3% of the mortgage portfolio), including in the primary market - decreased from 1.2 to 1%. At the same time, this indicator for other loans to the population went up from 7 to 8.5%. It should be noted that the quality of the loan portfolio was largely supported by an increase in the number of restructurings, including under the laws on credit (No. 106-FZ of March 3, 2020) and mortgage holidays (No. 76-FZ of May 1, 2019). This helped borrowers to maintain their solvency, and helped banks not to raise their reserves for potential losses on these loans. According to the Bank of Russia, 3.1% of mortgage loans were restructured.¹

In 2020, a record volume of mortgages was originated for the entire history of observations: more than 1.7 million loans, which is 35% more than a year earlier. And their amount totaled around Rb4.3 trillion, exceeding the figure of the previous year by one and a half times. At the same time, the share of refinancing has almost doubled: if in 2019 6.8% of mortgage loans issued were refinanced, then in 2020 – already 13.7%. In absolute terms, the number of refinanced loans went up almost 2.7 times (to 234,000 against 88,000 in 2019). However, this procedure does not generate new demand for real estate and, excluding refinancing, the increase in mortgage lending stayed at about 25%.

Among them loans for the purchase of ready-made housing predominated (around 58% of all loans issued). Their growth compared to 2019 was 18% (995,000 against 841,000). Much more (by 42%) increased the number of loans for the conclusion of co-investment agreements (CIA) (up to 484,000 against 340,000 a year earlier).²

However, the outstripping growth rate of this category of loans does not imply the same growth of the primary market as a whole. Part of this segment is represented by ready-made housing sold in newly constructed buildings, as well as individual houses. In addition, mortgages are also used in the secondary market,

1 URL: <https://дом.рф>: Review of the mortgage lending market in 2020. February 2021, p. 7.

2 URL: <https://дом.рф>: Review of the mortgage lending market in 2020. February 2021, p. 3, 5

which, on the one hand, is marked by the alternative nature of a significant part of transactions within the proceeds, and on the other, by the frequent purchase of real estate by sellers in newly constructed buildings.

Therefore, taking into account these factors, as well as the growth in the share of transactions with mortgages in the primary market as a whole,¹ putting out other transactions, we can conclude that the growth of the primary market in unit terms in 2020 was not so significant. Since the volume of commissioning of MAC and its current construction in Russia does not grow, the increase in the number of transactions could only be achieved by reducing the available lots for sale from developers, including those who, taking advantage of the stir in the market, reassigned previously purchased lots.

As a result, by the end of 2020, the mortgage portfolio of banks (according to the reports of the Bank of Russia) approached Rb9 trillion, and the entire mortgage portfolio, which characterizes the total debt of the population on mortgages (according to DOM.RF) comes to Rb10 trillion. The difference is due to the write-off of part of the mortgage bonds from the balance sheets of banks as a result of the repurchase by the mortgage agent DOM. RF, which, in turn, issues bonds secured by these assets.

Of course, the catalyst for housing lending in the past year was loans issued at concessional rates, subsidized by the state (*Table 26*).

Table 26

Concessional mortgage lending in 2020

Credit category	Number of loans		Total amount	
	thousand	%	Rb bn	%
Total	1713.0	100	4296.0	100
Concessional mortgage at the rate of 6,5%	345.6	20.2	1003.0	23.3
Family mortgage*	78.8	4.6	214.9	5.0
Far-Eastern mortgage**	14.8	0.9	52.4	1.2
Preferential loans (in total)	439.2	25.7	1270.3	29.6

* It exists since 2017, in 2020 the down payment is reduced from 20 to 15%.

** It exists since the end of 2019, but it has been fully operational since 2020 (the possibility of purchasing housing on the secondary market and a reduction in the loan rate).

Sources: Review of the mortgage lending market in 2020. February 2021, p. 5–6, own calculations.
URL: <https://дом.рф>

The share of soft loans accounted for about 30% of the total volume of mortgage lending. Among them, the program of issuing loans at a rate of 6.5% (79% of the total volume of soft lending) dominated. The “Family Mortgage” and “Far-Eastern Mortgage” programs were complementary (about 17% and 4%, respectively).

A distinctive feature of soft lending was its focus on the primary market, represented by new buildings under construction, which involves the conclusion

¹ According to DOM.RF up to 70% of transactions in the primary market are made with mortgages.
URL: <https://дом.рф/upload/iblock/065/0656b03286094221e71b484ecfb9d347.pdf>

of co-investment agreements (CIA). In general, this segment accounted for more than 28% of all mortgage loans origination, and their volume amounted to almost Rb1.5 trillion, an increase of more than 60% compared to 2019. Having said that, almost 3/4 of all loans issued under the co-investment agreements, and more than 70% of their amount were concessional.

The structure of concessional lending was dominated by loans issued under co-investment agreements (more than 80% of the number and volume), while the vast majority of other mortgage loans were issued for the purchase of ready-made housing (more than 90% of the number and 85% of the volume). At the same time, the situation within concessional lending was not homogeneous by category. For “Family mortgage”, the share of ready-made housing was more significant than for preferential loans in general (more than 45% of loans and 35% of their volume). For the “Far Eastern mortgage”, the share of ready-made housing was about 1/3. However, due to the rather modest size of these programs, the structure of concessional lending was determined mainly by the indexes of the standard subsidized mortgage at the rate of 6.5%, for which the share of loans issued under the co-investment agreements was slightly less than 90%.

When assessing the impact of the state on the housing market, do not forget about the direct subsidization programs, the most well-known of which is the maternity capital (about 80% of its value is used for the purchase of real estate). So, in 2019, according to Rosstat, these funds were handled by 647,998 people,¹ which in terms of money is about Rb250 bn, potentially poured by the state into the real estate market.² From 2020, on the initiative of the President of the Russian Federation, this amount will increase significantly, since the maternity capital for the first child in the amount of Rb466,000 will be introduced, for the second child, it increases by Rb150,000 to Rb616,000. ³ Also, since 2019, there is a program to support multiple children borrowers who receive a subsidy of Rb450,000 to pay off the principal debt.

Returning to the events of 2020, we note that the original stated goal of the concessional lending program (compensation for lost demand induced by restrictions imposed during the lockdown period) was already achieved by the summer. The further increase in mortgage demand naturally led to an unbalanced market. A record demand growth on the back of reduced supply led to an increase in ruble prices.

At a time when the volume of mortgage loans alone far exceeded the level of previous years, the total inflow of funds on the residential real estate market for the purchase of housing (taking into account subsidies and buyers’ own funds) allowed developers to raise prices, reducing the volume of housing offered. We can expect the upward price dynamic to continue, since the preferential mortgage programs have been extended until mid-2021, and developers cannot quickly raise the supply due to the sector-specific issues.

1 URL: <https://rosstat.gov.ru/folder/13807?print=1>

2 However, it is impossible to simply sum up mortgage loans with the maternity capital, since the latter is very often used for early repayment of the mortgage.

3 URL: <https://pfr.gov.ru/branches/tver/news/~2020/03/11/201343>

Not surprisingly, by the end of the year, there was some cautious opposition from the financial authorities to the expansion of the preferential lending program.¹ In a concentrated form, it found expression in the position of the RF Central Bank, which consists in the advisability of transforming preferential mortgage into a tool for selective support of individual groups of the population and regions.

Accordingly, a new systemic trend in 2020 was that real estate pricing was determined not so much by the market as by the state through its policy (primarily through mortgage incentives). Without formal or informal guarantees from the state, banks would not be able to issue impressive long-term loans at low rates (if just for the structure of the liabilities side of the balance-sheet, where banks are dominated by short-term liabilities).

The distorting impact of the state on the formation of demand for residential real estate and market pricing in this real estate market is especially evident when comparing the dynamic of mortgage and consumer loans origination. Unlike mortgages, which grew in both ruble and quantitative terms, consumer lending has been stagnating all year. Thus, according to the National Bureau of Credit Histories (NBCH), in 2020, the number of loans decreased by 25.9% compared to 2019.² Its obvious difference from mortgages is that there are no subsidized rates, and institutional support for borrowers is much weaker, therefore, both rates and lending volumes are more in line with those formed in the context of the free market.

4.5.6. Investment attractiveness of real estate as a factor of demand for mortgage products from the population

In 2020, the growth of prices in the real estate market significantly outstripped the official level of inflation in the consumer market. For example, according to the Moscow Exchange DomKlik index, prices for metropolitan real estate increased gained 14.4% over the year.³ In the primary market, the growth was even higher – by 19.1%.⁴ In the country, the growth in the primary market was recorded at the level of 15.7%.⁵ At the same time, bank deposit rates fell from 5.92% to 4.48% over the year.⁶ Since the real deposit rates became negative, the population, fearing for the safety of their funds, could direct part of the funds from the deposits to the real estate market. However, a much more significant factor in the stir was negative real mortgage rates. It is obvious that obtaining a loan at a rate of 6-8% with an increase in real estate prices of 15-20% becomes an extremely profitable operation, and more and more people are involved in speculative investments, hoping for further price rise.

1 “Nabiullina called for” timely “curtailment of the preferential mortgages program”. URL: <https://www.rbc.ru/finances/25/11/2020/5fbc2c2b9a79470de03c7bde>.

2 URL: <https://www.nbki.ru/company/news/?id=248930>

3 URL: <https://www.moex.com/ru/index/MREDC>

4 URL: <https://erzrf.ru/images/repfle/16913735001REPFLE.pdf>

5 URL: <https://erzrf.ru/images/repfle/16877631001REPFLE.pdf>

6 More precisely, “the maximum rate for the 10 largest institutions that attract the largest volume of retail deposits.” URL: <https://cbr.ru/statistics/avgprocstav/>

The trend to outstrip the growth of prices in the primary market compared to the secondary segment after 2015, which was clearly manifested in the past year, is associated not only and not so much with subsidizing mortgage interest rates in the primary market (it did not exist in 2016-2019), but with a change in the model of financing shared-equity construction and a general decline in rates in the economy.

Until 2019, developers financed their projects at the expense of equity holders, providing them with significant discounts at the construction stage. Owing to the difference between the price of an unfinished residential building under construction and the price of such a property in an already commissioned residential building, private investors received a high investment income, significantly exceeding the deposit rates, which determined their interest in participating in such a risky scheme. The double-digit yield covered all the risks of the developer's bankruptcy or postponing the commissioning of the residential building to a later date.

While in transition to project financing, where the bank becomes the main lender of the developer, the latter loses the economic sense to provide discounts to the co-investor at the construction stage, which is visually expressed in the outstripping "growth in prices for newly constructed buildings." De facto, we are talking about reducing discounts at the construction stage, and not about increasing prices for real estate. Further reduction (up to the complete disappearance) of discounts at the construction stage calls into question the rationale of investment purchases of newly constructed buildings for the purpose of their further resale, where private investors were actively engaged since the early 2000s.

The purchase of real estate for investment purposes against the background of the economic crisis led to another important phenomenon: almost for the first time in recent Russian history, real estate prices and apartment rental rates not only demonstrated different dynamic, but moved in opposite directions. Recap that the growth of nominal ruble prices for housing on sale was in the range of 14-20%. At the same time, according to the portal CIAN, rental rates in some cities have fallen. For example, Moscow recorded a decrease of 3%, and in St. Petersburg – a drop by 7%.¹ It is obvious that rental rates are devoid of the speculative and investment component inherent in apartment prices, the demand for rent is not subsidized in any way, and, therefore, the rental situation more accurately shows the real state of affairs in the economy.

The simultaneous decline in the profitability of renting out real properties and the reduction in the attractiveness of investments in newly constructed buildings for resale undermines the stability of the housing market financing model in the medium term. In the context of low profitability of investments in real estate, the only significant motive for buying it for investment purposes can only be an increase in real estate prices, which comes on the back of the corresponding demand. Accordingly, with any pause in price growth, the reverse effect rapidly

¹ URL: <https://www.cian.ru/analitika-nedvizhimosti-online/>

occurs (sale of investment apartments, lower prices, further sales and even greater price reductions), whereby the developers will lose most of the demand.

The fundamental nature of the existing housing problems in Russia (lagging behind developed countries in terms of housing security and quality), in itself does not create important reasons for purchases. And it's not just the low level of real incomes of the population. Demographic problems are beginning to play an increasingly important role. With the risk of depopulation in general, the age structure of the population is expected to reduce the share of the working-age population, and especially the share of the population aged 25-40 years.¹ It is young people of childbearing age who are most interested in buying and expanding living space, and while reducing the number of such people the fundamental need for housing decreases. Only investment demand remains, but it does not make sense when growth stops and real estate prices decline. Damping this process on the back of the general increase in prices and lower mortgage rates on newly constructed buildings is possible, but it is unable to promote residential construction to the role of the driver of the Russian economy.

4.5.7. Projection of the construction market development and sale of apartment residential housing

On the supply side, there are no objective grounds to predict significant growth driven by an increase in the number of new projects being implemented and an increase in the indexes of commissioning of ready-made apartment buildings in most regions of Russia. Probably, the supply will still grow, but slowly and very unevenly. At the same time, the relative share of supply in the individual housing construction segment will increase in many regions, partially offsetting for the lack of supply and preventing excessive price increases in the apartment building construction segment. It can be assumed that, contrary to the National Project, it is more likely that the share of individual housing construction will grow, and not the share of apartment building construction.

The crisis of 2020 adjusted the usual logic of cyclical movement of real estate prices, when the growth phase resumes, and real estate prices also grow with a certain lag. However, the past year in Russia was fundamentally different from the previous crises. When the Central Bank lowered the key rate, the ruble exchange rate remained relatively stable, and inflation remained moderate. Despite the alarming spring expectations, world oil prices, after certain fluctuations, reached a level far from historical lows, which was an important factor that supported the domestic economy. With massive government support for demand, banks increased mortgage lending. Therefore, construction was not particularly affected, and real property prices in ruble terms went up, remaining in foreign currency terms at the level of 2017-2019.

However, such dynamic has an unstable basis in the form of mortgages, reduced in price owing to state support measures, and low consumer inflation. Maintaining lending at the same level is very difficult given the lack of banks' own

¹ See "Demographic projection of the population until 2035" by Rosstat. URL: <https://rosstat.gov.ru/folder/12781>

