

## RECEIPT AND DISPOSAL OF FEDERAL PROPERTIES: OBSERVABLE QUANTITATIVE TRENDS

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*An analysis of the 2013 Annual Report on Changes in the Federal Property Register Associated with Origin and Termination of Right of Ownership to Immovable and Movable Property Held by the Russian Federation has led to the following conclusions. On the whole over the 5-year period under consideration, the number of properties received by the Russian Federation was more than 5 times higher than the number of properties disposed of over the same period of time, while the disposal index of economic societies with state stakes was only approximately 1.6 times higher than the corresponding receipt index. It can be assumed that these results reflect, on the one hand, the ongoing privatization process that involves, first of all, the disposal of assets prepared for sale (in the form of state-owned blocks of shares); on the other, they point to the redistribution of ownership rights between different tiers of public authority (a process that has been underway for nearly 10 years).*

The issue of creating a federal property management program was first raised by the RF Ministry of Property Relations in the early 2000s. The program, in addition to a plan for the use of federal properties, was to cover other issues like property acquisition (creation of new properties; delineation of ownership rights; acquisition as a result of civil transactions (purchase, exchange, etc.); property buyout for government needs; nationalization) and property disposal (privatization, transfer to other tiers of public authority, liquidation). The publication in 2014, by the RF Federal Agency for State Property Management (*Rosimushchestvo*), of the Annual Report on Changes in the Federal Property Register Associated with Origin and Termination of Right of Ownership to Immovable and Movable Property Held by the Russian Federation (for the year 2013)<sup>1</sup> has provided opportunities not only for an estimating the general trends in

the evolution of the entire property complex held by the State, but also for tracing the cause and effect relationships between various aspects of economic practices and assessing the performance of the mechanisms involved therein.

The information on properties in Federal Property Register has revealed the following changes that occurred in 2013 (*Table 1*).

On the whole, by the end of the year 2013 the number of properties listed in the Federal Property Register increased by 119.3 thousand units (or by 8.1%). Growth was demonstrated by all the reported indices, with the exception of the number of shares and stakes. The most impressive increase was noted with regard to movable property entities (by 73.7 thousand units, or by 17.6%), followed by land plots (by 27.7 thousand units, or by 11.7%). Likewise, growth was demonstrated by the category 'immovable property less land plots' (by 18.2 thousand units, or by 2.2%).

At the same time, the share of the latter (that category being the most numerous one) shrank from 55.4% to 52.4% (or by 3 p.p.). The corresponding shares of movable property entities and land plots выросли by 2.5 p.p. (from 28.4% to 30.9%) and by 0.6 p.p. (from

<sup>1</sup> The plans to post such a document to the Agency's website were first proclaimed in 2007 (by Decree of the RF Government of 16 July 2007, No 447). The analysis presented here is based on the Analytical Materials attached to the Annual Report on Changes in the Federal Property Register Associated with Origin and Termination of Right of Ownership to Immovable and Movable Property Held by the Russian Federation for the year 2013, and also on the authors' calculations.

Table 1

### THE DYNAMICS OF THE DISTRIBUTION OF THE FEDERAL PROPERTIES LISTED IN THE REGISTER FOR 2013, BY MAIN PROPERTY TYPE

Date	Number of properties listed in Federal Property Register, total		Distribution by property type							
			immovable property (less land plots)		land plots		movable property (less shares, stakes)		economic societies where shares (or stakes) are held by RF	
	units	%	units	%	units	%	units	%	units	%
as of 31.12.12	1.473.263	100.0	815.694	55.4	236.037	16.0	419.071	28.4	2.461	0.2
as of 31.12.13	1.592.552	100.0	833.858	52.4	263.724	16.6	492.767	30.9	2.203*	0.1

\* including 90 joint-stock companies (JSC) with regard to which the Russian Federation enjoys a special right to participate in their management without holding any stake (the special right per se is not listed in the Federal Property Register).

Table 2

**CHANGES IN THE STRUCTURE OF IMMOVABLE PROPERTY OWNED BY THE RUSSIAN FEDERATION IN 2013,  
BY MAIN CATEGORY LISTED IN THE FEDERAL PROPERTY REGISTER**

Receipt			Disposal			Balance	
Property category	units	%	Property category	units	%	units	%
Buildings, structures, unfinished construction entities	36.571	37.1	Buildings, structures, unfinished construction entities	18.554	57.8	+ 18.071	+ 97.1
Land plots	31.880	32.3	Land plots	3.004	9.4	+ 28.876	10.6 times
Residential, non-residential premises	29.722	30.15	Residential, non-residential premises	10.12	31.6	+ 19.580	2.9 times
Aircraft, naval vessels, inland vessels	424	0.45	Aircraft, naval vessels, inland vessels	385	1.2	+ 39	+ 10.1
Total	98.597	100.0	Total	32.085	100.0	+ 66.512	3.1 times

Table 3

**THE GROUNDS FOR ENTRY AND STRIKE-OFF OF IMMOVABLE PROPERTY ENTITIES  
IN THE FEDERAL PROPERTY REGISTER IN 2013**

Entry			Strike-off		
Grounds	units	%	Property category	units	%
delineation of state ownership rights	33.694	34.2	privatization	12.123	37.8
provisions stipulated in federal laws	22.288	22.6	transfer into municipal ownership	6.284	19.6
acquisition under contracts	16.227	16.5	transfer into RF subject's ownership	5.613	17.5
creation	11.294	11.5	writing off due to ruin, destruction, or loss of consumer properties	3.253	10.1
For reference: property entities, total	98.597	100.0	For reference: property entities, total	32.085	100.0

16% to 16.6%) respectively. The reduction in the number of economic societies with state stakes by 10.5% (or by nearly 260 units) inevitably resulted in shrinkage of that property category in the overall structure of public property; however, that change is almost invisible against the general background (0.1%).

Given that the total number of movable property entities is a value prone to broad fluctuations, and so it inevitably exerts a strong influence on the general movement of the public property complex, it would be worthwhile to offer a more detailed analysis of changes in the structure of state-owned immovable property (including land plots) (*Table 2*)

As follows from *Table 2*, the index of receipt of immovable property entities into federal ownership is more than thrice higher than the immovable property disposal index, and so the (positive) balance of these two indices amounts to approximately 66.5 thousand units (all immovable property categories).

By one order (more than 10 times, or approximately by 29 thousand units) differ the indices of receipt and disposal of land plots<sup>1</sup>. The difference for residential and non-residential premises is 2.9 times (or by 19.6 thousand units); that for buildings, structures, and unfinished construction entities – slightly less than 2 times (or by 18.1 thousand units). The

<sup>1</sup> In this connection it must be noted that this land plot receipt to disposal ratio somewhat differs from the ratio based on data presented in *Table 1*.

fact of separate record-keeping for the category of aircraft, naval vessels and inland vessels, where the changes were minimal, had almost no effect on the overall picture.

While in the structure of receipts the relative shares of buildings, structures, and unfinished construction entities (37.1%), land plots (32.3%), and residential and non-residential premises (30.2%) were roughly equal or at least comparable, the structure of disposals reveals the prevalence of buildings, structures, and unfinished construction entities (57.8%), as well as of residential and non-residential premises (31.6%). The share of land plots amounted to 9.4%.

In this connection, it would be reasonable to review the methods of receipt and disposal of immovable property entities in federal ownership. *Table 3* shows the range of categories that cover approximately 85% of all the phenomena observed in this field.

The most frequent reasons for immovable property entities to be entered into the Federal Property Register in 2013 were as follows: delineation of state ownership rights (33,694 units, or 34.2%)<sup>2</sup>, and the norms stipulated in federal laws (22,288 units, or 22.6%)<sup>3</sup>.

<sup>2</sup> In addition to receipt of properties transferred from municipal or regional ownership, which are listed as a separate category.

<sup>3</sup> Less the instances of alienation of properties that by operation of law cannot be owned by a given person (enforced confiscation, 17 units).

This category was followed by acquisition under contracts (16,227 units, or 16.5%) and creation of new property (11,294 units or 11.5%). Among other methods of property acquisition, each of which accounts for more than 1% of entries creation completed in 2013, we may point to acquisition under government contracts (4,106 units, or 4.2%)<sup>1</sup>; transfer from municipal ownership (3,188 units, or more than 3.2%); transfer from RF subject's ownership (3,162 units, or 3.2%); reorganization of the registered entity (1,171 units, or 1.2%); court decision (1,022 units, or more than 1%).

In this connection it is necessary to note that the classification of grounds for the entry of immovable property entities into the Federal Property Register listed in the Analytical Materials attached to the Annual Report on Changes in the Federal Property Register cannot be regarded as completely transparent. This, for example, is true of the second in importance category of property receipts 'based on provisions stipulated in federal laws', as well as 'creation' and 'reorganization or reorganization of registered entities'. The differences between 'acquisition under contract' and acquisition under government contract' are not entirely clear either.

The structure of methods envisaged for striking immovable property entities off the register appears to be as follows. First comes privatization (12,123 units, or 37.8%), followed by transfer into municipal ownership (6,284 units, or 19.6%) and transfer into ownership by RF subject (5,613 units, or 17.5%)<sup>2</sup>. A rather high share belongs to the category of disposal of properties by means of writing them off due to ruin, destruction, or loss of consumer properties (3,253 units, or more than 10%).

Among the other categories of property disposals, the share of each of them in 2013 being more than 1%, we should make special mention of contribution of property to the charter capital of an economic society (1,479 units, or 4.6%)<sup>3</sup>; alienation of property under contracts (1,459 units, or 4.5%); reorganization of a registered property entity (569 units, or 1.8%); court decision (541 units, or 1.7%); alteration of property type on the basis of a technical estimation (or statement) issued by a Bureau for Real Estate Inventory Records [BTI] (333 units, or more than 1%).

The category of disposal of federal property listed as 'alienation of property under contracts' is not explained quite clearly. Besides, questions have arisen in connection with the distinction between such rela-

tively insignificant methods of property disposal (less than 1% units) as 'realization in the course of bankruptcy proceedings' and 'claims on property arising from liabilities'.

Beside immovable property, another important component of state property is represented by shares (or stakes) in economic societies owned by the Russian Federation.

As of the end of 2013, the Federal Property Register contained information on shares (or stakes) in 2,113 economic societies, including 17 limited liability companies (the rest were joint-stock companies (JSC), with the exception of 90 JSC with regard to which the Russian Federation exercises a special right to participate in their management without holding any shares).

If we look at the size of stakes held by the State as part of its securities portfolio, the leader would be the group of economic societies fully owned by the State (100% of charter capital) those with minority state stakes (less than 25%). These take up 47.3% (1,000 units, including one LLC) and 37.6% (794 units, including 8 LLCs) respectively. The share of blocking stakes (between 25% and 50% of charter capital) was 10.6% (224 units, including one LLC), and that of majority stakes (between 50% and 100%) amounted to only 4.5% (95 units, including 7 LLCs).

In the course of the year 2013, information on state-owned shares (or stakes) in 147 economic societies, including 1 LLCs, was entered in the Federal Property Register, while 390 societies, including 3 LLCs, were struck off the Register. The specific movement of this type of assets is of great interest (*Table 4*).

The two most significant methods of receipt, by federal authority, of shares (or stakes) in economic societies in 2013 was the reorganization of unitary enterprises into joint-stock companies (65 JSC, or 44.2%), and receipt of shares as part of budget funding (52 units, or 35.4%). We can estimate as shares of unclear origin the assets listed in the Federal Property Register as those arising from a transfer of shares by a legal entity or individual and the receipt of shares by decision of the RF Government<sup>4</sup>.

Among the grounds for striking shares (or stakes) in economic societies off the Federal Property Register, the following transactions are listed: sale of shares (or privatization) (179 units, or approximately 46%); bankruptcy; liquidation and reorganization of economic societies (112 units, or 28.7%). Less than 24% of economic societies were struck off the Federal Property

1 Besides, 187 properties are acquired under investment agreements.

2 Another 77 property entities were transferred into the ownership of religious organizations.

3 Less transfers in the form of contribution of property (34 units).

4 Some questions remain with regard to the procedure of receipt of shares into federal ownership in instances when a state-owned stake in being increased, that is, when the State had already held some shares in a given economic society prior to increasing its stake in the charter capital.

Table 4

**THE STRUCTURE OF GROUNDS FOR ENTRY AND STRIKE-OFF OF SHARES (OR STAKES) IN ECONOMIC SOCIETIES IN THE FEDERAL PROPERTY REGISTER IN 2013.**

Entry			Strike-off		
Grounds	units	%	Property category	units	%
receipt of shares into federal ownership during reorganization of federal state unitary enterprises (FSUE) into joint-stock companies (JSC)	65	44.2	sale of shares (privatization)	179*	45.9
receipt of shares as part of budget funding	52	35.4	bankruptcy, liquidation, reorganization of economic societies	112**	28.7
other (newly identified properties, gratis transfers by legal entity or individual)	20	13.6	transfer of ownership rights to another tier of public authority ***	92***	23.6
receipt of shares (or stake) by decision of RF Government	9	6.1	other (absence of shares (or stakes) in federal ownership; termination of right of ownership to shares by court decision to effect that State registration of economic society should be deemed null and void; recognition of right of property ownership as belonging to another legal entity or individual)	4****	1.0
Receipt, as federal property, of shares accepted as inheritance by operation of law (due to lack of legal heirs)	1	0.7	Transfer into ownership of RF subject	3	0.8
<b>Total</b>	<b>147</b>	<b>100.0</b>	<b>Total</b>	<b>390</b>	<b>100.0</b>

\* including the termination of right of ownership to shares (or stakes) as a result of buyout claims (1 units); among a total of 179 economic societies, there were 2 LLCs;

\*\* including reorganization of economic societies (18 units);

\*\*\* in the text of the Analytical Materials the transfer of shares in 92 joint-stock companies to integrated entities and state corporations is mentioned, whereas the list of grounds for information on of shares or stakes in economic societies being struck off the Federal Property Register contains statements on transfer of ownership rights to property to another tier of public authority (77 units) and transfer of shares to the charter capital of an economic society (15 units), which amounts to a total of 92 joint-stock companies;

\*\*\*\* including court decision to the effect of recognizing the right of ownership as belonging to another legal entity or individual (1 unit).

Register as a result of transfer of shares into integrated entities and state corporations (92 JSC)<sup>1</sup>.

For an objective estimation of the movement of federal property in 2013 as reflected in the Federal Property Register, we must consider this phenomenon in the contest of medium-term trends (Table 5).

The data in Table 5 point to the fact that the trends observed in 2013 had also been typical of the entire 5-year period (2009–2013).

The number of immovable property entities transferred into RF ownership was many times higher than the number of property disposals, and this trend was stable. In 2009–2010, when the receipt index was at the level of 155 thousand and 216 thousand units respectively, the difference between the two indi-

ces was approximately 12.8 times. Over the next two years (2011–2012), the number of property receipts property disposals declined, while that of property disposals property disposals<sup>2</sup>, and so the difference between the two figures became less pronounced – only by 2–4 times. In 2013, the number of property entities transferred into federal ownership for the first time in 5 years dropped below 100 thousand units. However, the number of immovable property disposals likewise dropped (approximately by 30% on the record high of 2012 – 45.5 thousand units), while the number of receipts was more than 3 times higher than that of disposals.

On the whole over the 5-year period, the receipt index (685.7 thousand units) exceeded the disposal index (134.4 thousand units) by more than 5 times.

If we look at shares (or stakes) in economic societies, this category displayed an excess of the number of disposals over that of receipts, and this trend was present almost throughout the entire period under

1 As noted earlier, these 92 units include 15 economic societies whose shares have been transferred to charter capital, and 77 economic societies that fall into the category of 'transfer of ownership rights to another tier of public authority'.

The latter appears to be incorrect due to the existence of a separate category of 'transfer of property into RF subject's ownership' (3 units). What is actually meant is probably the transfer of powers to exercise shareholder (or participant) rights to other subjects (integrated entities and state corporations).

2 Although it would be more correct to speak of a steady annual growth, over the period 2010–2012, in the number of properties struck off the register (in 2011–2012 – by more than 60%).

**THE MOVEMENT OF FEDERAL PROPERTY ENTITIES IN 2009–2013, BY MAIN CATEGORY LISTED  
IN THE FEDERAL PROPERTY REGISTER**

Period	Immovable property entities				Economic societies where shares (or stakes) are held by Russian Federation			
	receipt	disposal	balance		receipt	disposal	balance	
			units	%			units	%
2009	154.955	12.212	+ 142.743	12.7 times	345	609	– 264	– 76.5
2010	215.836	16.861	+ 198.975	12.8 times	514	294	+ 220	+ 74.8
2011	113.066	27.774	+ 85.292	4.1 times	269	402	– 133	– 49.4
2012	103.268	45.481	+ 57.787	2.3 times	236	704	– 468	– 3 times
2013	98.597	32.085	+ 66.512	3.1 times	147	390	– 243	– 2.7 times
2009-2013	685.722	134.413	+ 551.309	5.1 times	1.511	2.399	– 888	– 1.6 times

consideration except in 2010. That year was marked by an almost 75% rise in the number of economic societies, whose shares (or stakes) were transferred into federal ownership (514 units – a peak value for the period 2009–2013), above that of economic societies whose shares (or stakes) were withdrawn from federal ownership. Over the next few years the number of asset withdrawals was stably above the constantly shrinking number of economic societies whose shares (or stakes) were received into federal ownership, and in 2012–2013 the excess of the number of disposals over that of receipts amounted to 2.7–3 times. The record highs of 600 and 700 units, displayed by the number of economic societies whose shares were disposed of, were observed in 2009 and 2012 respectively. But in 2013 this index plummeted (by 45%) and became comparable to that of 2010, when the corresponding index more than halved on 2009.

On the whole of the period 2009–2013, the shares (or stakes) of approximately 2.4 thousand economic societies were struck off the Federal Property Register, while at the same time information on more than 1.5 thousand economic societies was entered therein, and so the number of property disposals exceeded that of property receipts by approximately 1.6 times.

So, our analysis of the 2013 Annual Report on Changes in the Federal Property Register Associated with Origin and Termination of Right of Ownership to Immovable and Movable Property Held by the Russian Federation has led to the following conclusions.

Firstly, the year 2013 saw growth of the recorded number of properties owned by the State – in the main due to the increasing numbers of movable property entities and land plots.

Secondly, an excess of receipts over disposals occurred in every category of immovable property (land plots; buildings, structures, unfinished construction entities; residential and non-residential premises; aircraft, naval vessels, and inland vessels); with regard

to land plots, the number of receipts exceeded that of disposals by one order.

Thirdly, the most significant source for replenishing the available reserves of immovable property in federal ownership was delineation of ownership rights (which accounted for more than 40% of receipts, including transfers from regional and municipal ownership). This category also takes up a comparable total share in the structure of disposals of immovable property entities (alongside privatization, amounting to 37–38% each).

Fourthly, in contrast to immovables, the number of disposals of shares (or stakes) in economic societies was noticeably higher than that of the number of receipts, the main source of the latter being reorganizations of FSUEs into joint-stock companies and receipt of shares as part of budget funding. The principal methods of property disposal were privatization, including sale of shares and their transfer to integrated entities, bankruptcy, and liquidation of economic societies with state stakes in their charter capital.

Fifthly, all these trends in the movement of federal property represented by immovables and shares (or stakes) in economic societies could be seen over the entire period 2009–2013.

On the whole over the 5-year period, the federal property receipt index exceeded the corresponding disposal index by more than 5 times, but the number of disposals of economic societies with state participation exceeded the corresponding number of receipts by approximately 1.6 times.

It can be suggested that these results reflect, on the one hand, the ongoing privatization process that involves, first of all, the disposal of assets prepared for sale in the form of state-owned blocks of shares; on the other, they point to the continuing redistribution of ownership rights between different tiers of public authority – a process that has been underway for nearly 10 years (if we take as its starting point the enactment of Federal Law No 122-FZ in the summer of 2004), as well as the active participation of the

State in investment projects that have to do primarily with the social sphere, innovation, state defense and law enforcement. Naturally, these conclusions may be adjusted later on, after the publication of more detailed information on federal property movement, as well as on property value. ●