

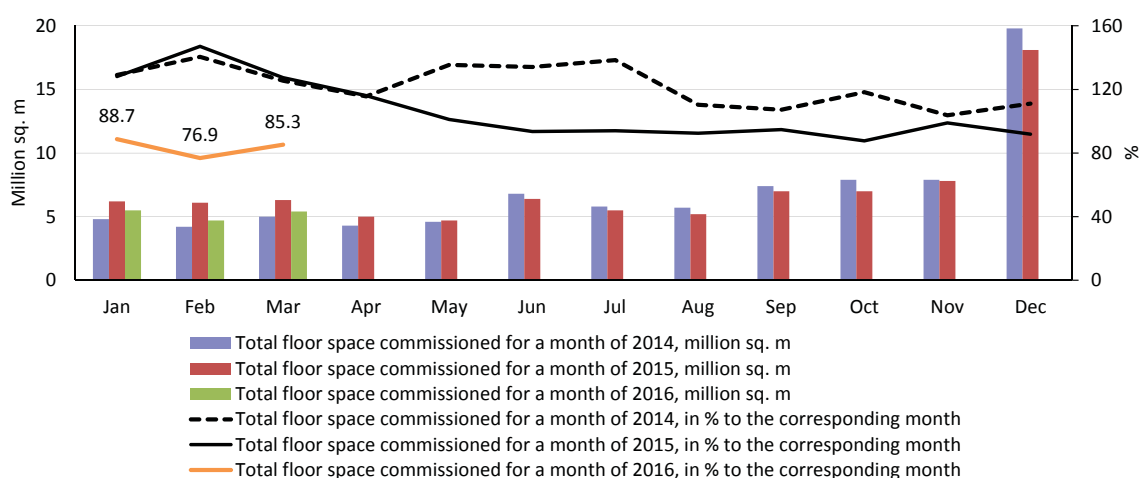
THE REAL ESTATE MARKET IN THE RUSSIAN FEDERATION IN Q1 2016

G.Zadonsky

In Q1 2016, 224,000 flats were built totaling to 15.6 mn sq. m, which constitutes 84% of the floor space commissioned in Q1 2015. In Q1 2016, the volume of land mortgage loans extended to individuals exceeded by 52.8% the volume of land mortgage loans extended to individuals in Q1 2015 and its volume came to 79.13% of the total number of mortgage loans originated in Q1 2016. In Q1 2016, credit institutions extended to borrowers 188,300 housing mortgage loans (HML) totaling to Rb 323.4 bn, which by 48% exceeded the amount of housing mortgage loans originated in Q1 2015. As of 1 April 2016, outstanding debt on HML denominated in rubles in percent to residual debt went up by 0.06 p.p. against 2015 and constituted 1.08% Average weighted rate for March 2016 on HML denominated in rubles came to 12.86% against the maximum value of 14.71% for February 2015.

In Q1 2016, entities of all patterns of ownership built 224,000 new flats with total floor space of 15.6 mn sq. m, which amounts to 84% of housing floor space commissioned in Q1 2015 (Fig. 1). In Q1 2016, the individual developers commissioned 6.3 mn sq. m of housing or 40.5% of the total volume commissioned housing. In March 2016, 73,900 new flats were commissioned totaling to 5.4 mn sq. m.

In Q1 2016, the minimal value of the average floor space of newly commissioned flats (63.4 sq. m) down by 13.2% against the corresponding value of 2015. Average floor space of commissioned in Q1 2016 flats came to 69.6 sq. m, down by 4.5% than the average floor space of flats commissioned in Q1 2015, and in its turn the average floor space of newly commissioned flats for 2015 turned out to be less than in 2014 by 2.8% (Fig. 2).



Source: data released by Rosstat.

Fig. 1. Dynamics of housing construction for a quarter

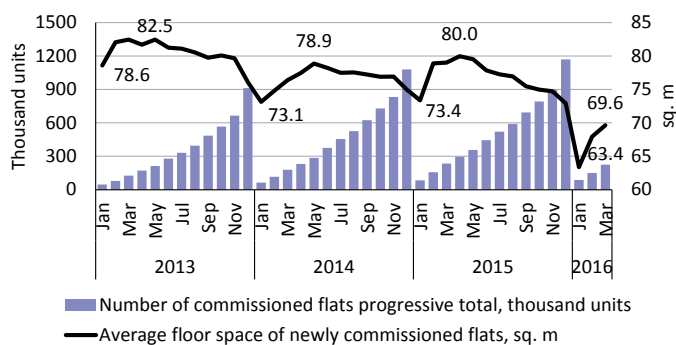
According to the data released by Rosstat, decrease in Q1 2016 of construction cost of 1 sq. m of housing by 1.2% and growth of its sale price by 3.6% has resulted in the increase of the ratio between the sale price in percent of construction cost of 1 sq. m by 4.88% (Fig. 3).

Average actual construction cost of 1 sq. m of total floorage in detached houses (all flats) without additions, top-outs, and integral rooms in RF (less built by the population at their own and borrowed funds).

According to data released by Rosreestr in Q1 2016, the volume of registration of titles to land plots (1,339,588 registered titles) including titles of individuals turned out to be below the results posted in Q1 2015 by 9.7% (Fig. 4). At the same time, registered titles of individuals came to 88.95% of the overall number of registered titles 1,207,867. Reduction of the number of registered titles, which formalize change of title to land plots, testify about a fall of their turnover.

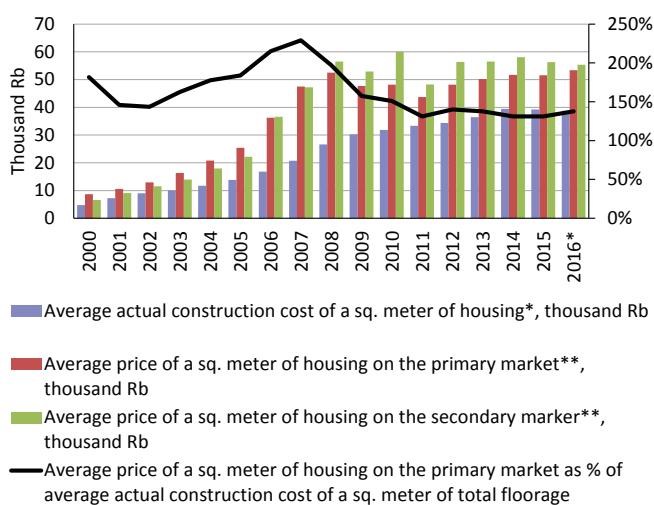
Reduction of the number of registrations of land mortgage loans extended to individuals in 2015 against 2014 gave way to growth in Q1 2016. In Q1 2016, the volume of registration of land mortgage loans extended to individuals exceeded by 52.8% the volume of registration of land mortgage loans extended to individuals in Q1 2015 (Fig. 5). In Q1 2016, the volume of registration of land mortgage loans extended to individuals amounted to 79.13% of the total number of land mortgage loans originated in Q1 2016.

According to the data released by the Bank of Russia, in Q1 2016 credit organizations extended to the borrowers HML totaling to Rb 323.4bn. In Q1 2016, dynamics of HML origination volume was positive. Increment of extended funds in



Source: data released by Rosstat.

Fig. 2. Average floor space of newly commissioned flats



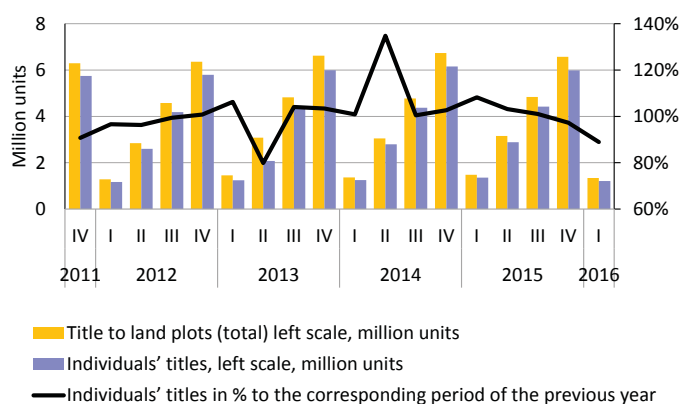
*Average actual cost of construction of 1 sq. m of total floorage of detached houses (all flats) without additions and integral rooms in RF (minus built by the population at their own resources and borrowed funds).

**All flats.

2016* – Q1 2016

Source: data released by Rosstat.

Fig. 3. Dynamic of construction cost of a sq. meter of housing and sale price of a sq. meter of housing on the primary and secondary markets in RF



Source: data released by Rosstat.

Fig. 4. Dynamics of registration of individuals' titles to land plots (year-to-date)

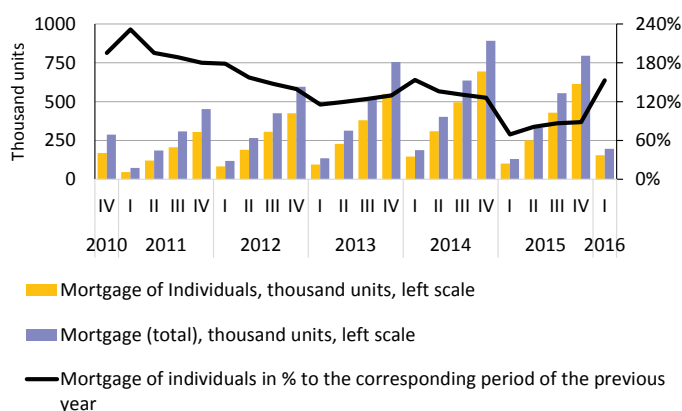
comparison with the corresponding period of 2015 amounted to 48.3%, provided that growth was ensured exclusively by HML denominated in rubles (Fig. 6).

As of 1 April 2016, past due debt on HML amounted to Rb 69.33 bn (Rb 43/02 bn on ruble loans and Rb 26.31 of loans denominated in hard currency). Past due debt on ruble HML in percent to residual debt in Q1 2016 went up by 0.06 p.p. and came to 1.08% against 2015 (Fig. 7). For 2015 outstanding debt denominated in rubles moved up by 0.17 p.p. against 2014 and constituted 1.03%.

The share of HML denominated in foreign currency in Q1 2016 in the total volume of extended loans for a quarter in money terms constituted 0.09% against 0.34% for 2015. Debt of HML denominated in foreign currency in percent to the total debt on extended loans in Q1 2016 amounted to 2.74%, which is below the 2015 value by 0.56 p.p. In Q1 2016, past due debt on HML denominated in foreign currency in percent to residual debt denominated in foreign currency went up by 3.16 p.p. and constituted 23.51%. For 2015 outstanding debt denominated in foreign currency increased by 7.8 p.p. and constituted 20.36% (Fig. 7).

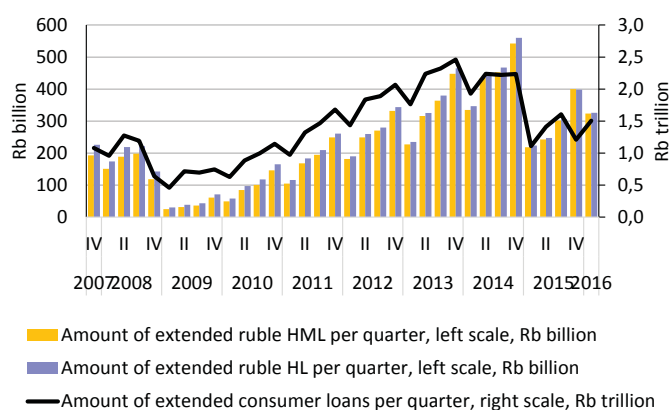
According to data released by Bank of Russia, in Q1 2016 debt on default HML (with 180 and more days past due) constituted Rb 107.95 bn or 2.64% of the total amount of debt, which is by 0.17 p.p. more against 1 January 2016 and by 0.88 p.p. more against 1 January 2015. The share of debt on HML without past due payments for Q1 fell by 1.11 p.p. in comparison with 1 January 2016 to 93.55% and reduced by 1.96 p.p. against 1 January 2015.

Average HML denominated in rubles in Q1 2016 reached Rb 1.72 mn, which is by 4% more than in 2015, and average loan denominated



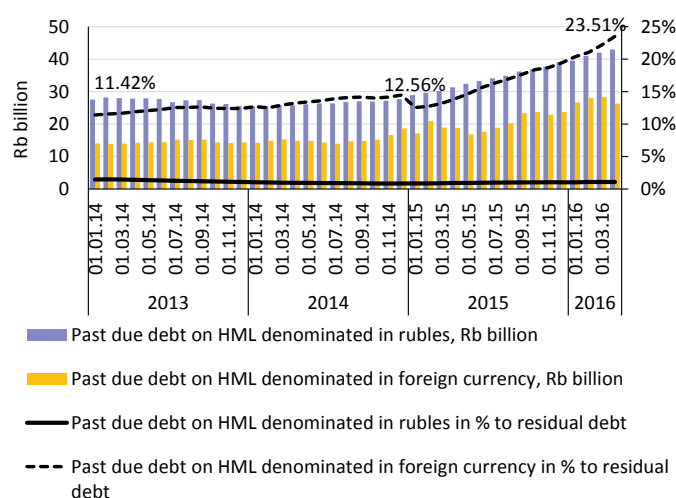
Source: data released by Rosreestr.

Fig. 5. Dynamics of registration of land mortgage loans (year-to-date)



Source: data released by Bank of Russia.

Fig. 6. Dynamics of extended loans to individuals for three months



Source: data released by Bank of Russia.

Fig. 7. Dynamics of past due debt

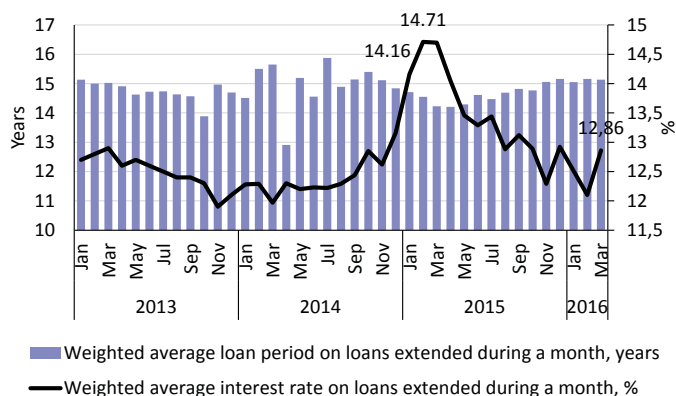
ed in foreign currency constituted Rb 25.82 mn, which comes to 60.2% of data for 2015.

The weighted average interest rate for March 2016 on HML denominated in rubles constituted 12.86% against the maximum value of 14.71% in February 2015. Weighted average loan period on HML denominated in rubles in March 2016 reached 15.1 years (Fig. 8). On HML extended from the turn of the year denominated in foreign currency, weighted average interest rate in Q1 2016 amounted to 7.46%, which is by 2.36 p.p. less than interest rates in 2015.

The volume of early repaid HML by the borrowers' funds during H2 2015 constituted Rb 215.65 bn exceeding corresponding amount for 2014 by 8.3% (Fig. 9) and for 2015 on the whole the volume totaled to Rb 377.72 bn exceeding corresponding amount for 2014 by 6.77%. Annual amount of early repaid HML by the borrowers' funds in percent to the volume of extended HML came to 32.52% in 2015. Total volume of early repaid HML in 2015 in money terms fell by 10.6% and constituted Rb 485.12 bn (Fig. 9).

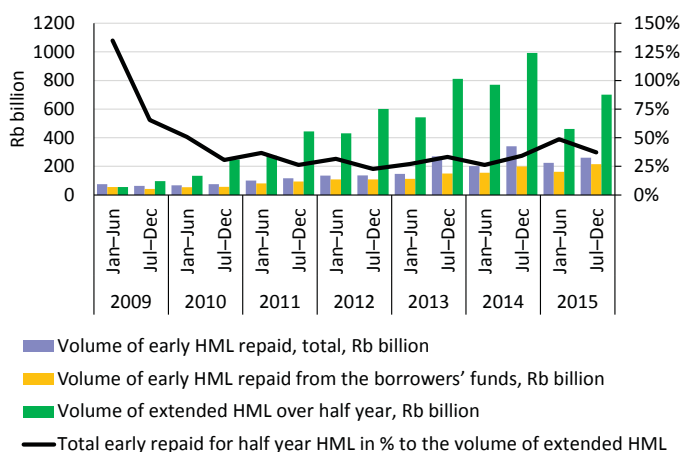
In 2015, the volume of recovered assets from borrowers by selling mortgaged property came to Rb 4.15 bn, which is by 3.91% less than in 2014. In H2 2015, the volume of recovered assets by selling mortgaged property constituted Rb 2.5 bn (Fig. 10) up 6.97% than in H2 2014. During the same period the volume of recovered assets from borrowers in percent to past due debt on HML down 1.29 p.p. and came to 3.78% and in percent to the volume of extended HML up 0.12 p.p. to 0.36% (Fig. 10).

According to the bank of Russia, the volume of refinanced HML including both the sale of loans pool and the retention of asset on



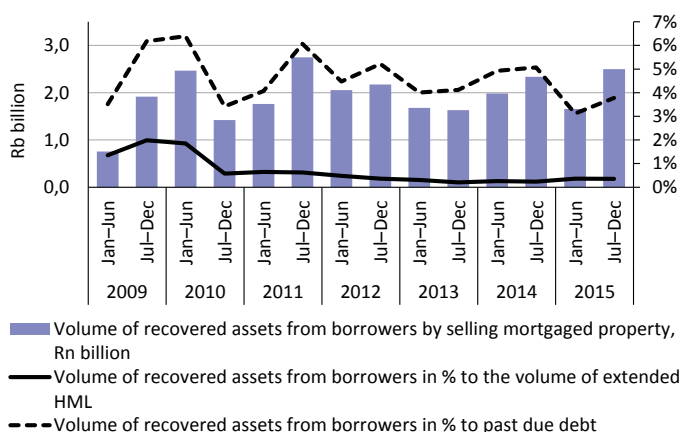
Source: data released by Bank of Russia

Fig. 8. Weighted average periods and weighted average interest rates on HML extended in rubles during month



Source: data released by Bank of Russia.

Fig. 9. Dynamics of early HML repayment



Source: data released by Bank of Russia.

Fig. 10. Dynamics of the volume of recovered assets from borrowers by selling mortgaged property

the balance of lending organization in 2015 constituted Rb 92.63 bn or 7.97% of the amount of extended during that period HML. During H2 2015, the volume of refinanced HML came to Rb 55.69 bn or 7.94% of the amount of extended during the same period HML down 73.02% in terms of the volume of refinanced HML compared to H2 2014 and down 12.85 p.p. in percent of the volume of extended during the same period HML (Fig. 11).

Net profit of the JSC Agency for Housing Mortgage Lending (AHML) according to IFRS went up to Rb 2.9 billion in Q1 2016 up 50% compared to H1 2015.

JSC AHML has summed up the outcome of its ambitious project of extending adjustable-rate mortgages linked to the inflation rate. Since the turn of the year, ten such loans have been originated.

JSC AHML signed agreements with major developers about extension of mortgage loans. These agreements allow individuals after choosing a flat to obtain a housing loan in the office of developer.

Single institute of housing development has developed mortgage bonds guaranteed by JSC AHML, which excludes credit risk for investors in the mortgage sector. The Bank of Russia has coordinated emission of such mortgage-based security in 2016.

In compliance with decisions taken by State Council on issues of development of construction complex and perfection of urban development, the Government of the Russian Federation and the bank of Russia need to work out a resolution of reducing interest rates on mortgage loans without creating addition burden on the budget.

According to the press, migration policy conducted by the federal authorities is the key parameter in the prime cost of housing construction where costs of labor constitute 20% of cost of each sq. m in new housing development. Any restricting measure regarding foreign labor force will impact harder than appreciation of construction materials or anything else. ●

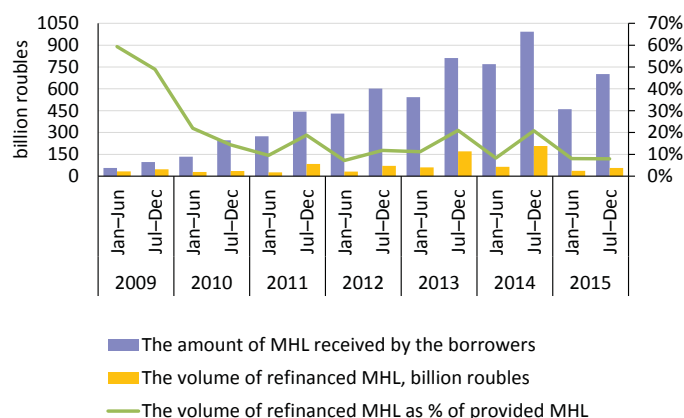


Fig. 11. Dynamics of HML refinancing (right of foreclosure)