

THE REAL ESTATE MARKET IN THE RUSSIAN FEDERATION IN H1 2016

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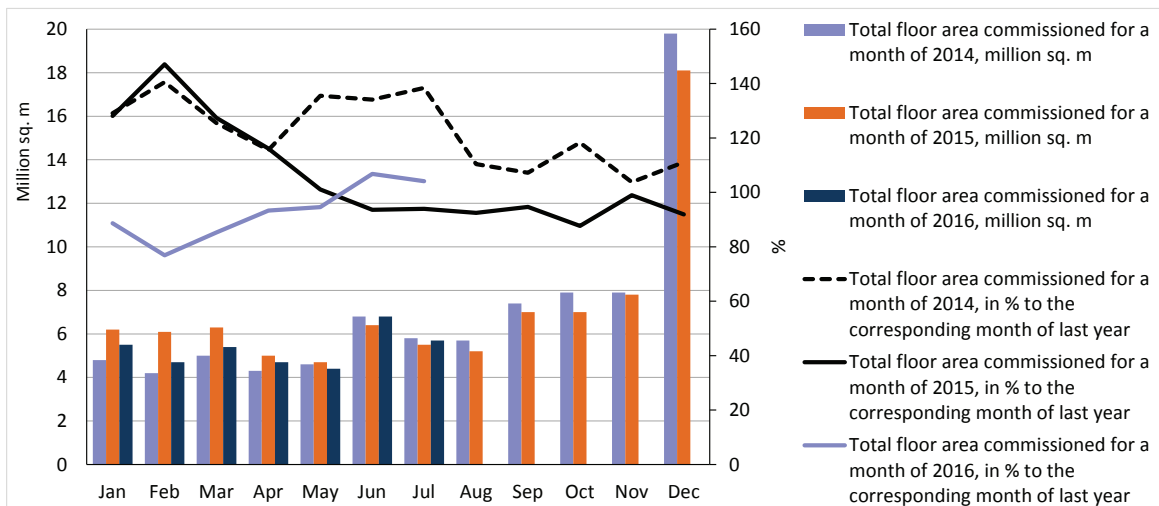
As for 1 August 2016, since the turn of the year 521,600 apartments were built totaling to 37.2 mn sq. m, which constitutes 92.6% of the floor area commissioned during the same period of 2015. Decline in the volumes of commissioned housing in 2016 was owing, first of all, to a reduction of housing floor area constructed by individuals. In H1 2016, the number of registrations of land mortgage loans extended to individuals exceeded by 33.6% the number of registrations of land mortgage loans extended to individuals in H1 2015 and constituted 79.02% of the total number of mortgages extended during 2016. In H1 2016, credit institutions issued 389,800 housing mortgage loans (HML) totaling to Rb 664.5bn, which by 44.2% exceeded the amount of housing mortgage loans originated in H1 2015. As of 1 July 2016, outstanding debt on HML denominated in rubles in percent to residual debt went up by 0.03 p.p. against 2015 and constituted 1.11%. Average weighted interest rate for June 2016 on HML denominated in rubles came to 12.99% exceeding by 0.48 p.p. interest rates of February 2016.

As of 1 August 2016, entities of all patterns of ownership built 521,500 new apartments with total floor area of 37.2 mn sq. m, which amounts to 100.23% of the number of apartments and 92.6% of the housing floor area commissioned for the same period of 2015. As of 1 August 2016, individual developers commissioned 16.3 mn sq. m of housing or 43.9% of the total volume of commissioned housing. This constitutes 83.9% against the same indicator of 2015. As of 1 August 2016, the housing floor area commissioned in apartment blocks constitute 20.9 million sq. m the same as for the first seven months of 2015. According to experts of JSC AHML, growth ruble personal deposits by 4.2% since the turn of 2016 speaks for a possible increase of public demand for housing. Given data (Fig. 1) demonstrate that in June and July 2016 the total volume of commissioned housing for a month exceeded the same results obtained in 2015 totaling to 6.8 and 5.7 million sq. m.

As of 1 August 2016, the average floor area of newly commissioned apartments (71.3 sq. m) down by 7.68% against the corresponding value of 2015. The number of built apartments year-to-date (521,500 sq. m) have exceeded the number of commissioned apartments for the same period of 2015 (Fig. 2).

In H1 2016, the housing sale price of construction cost of 1 sq. m down 1.04 p.p. and came to 130.22% (Fig. 3).

According to the data released by Rosstat, the highest construction cost, which exceeds by 1.5+ times the average national level was observed in the Kamchatka Krai (Rb 74,300), the Sakhalin region (Rb 67,236), the Yamal-Nenets Autonomous Region (Rb 65,846), and in the Republic of Sakha (Yakutiya) (Rb 61,124). In 63 subjects of the Russian Federation, this cost is lower than on average in Russia, of which the lowest is in the Kabardino-Balkaria Republic (Rb 17,993), the Republic of Dagestan (Rb 24,423), and the Kursk region (Rb 25,521).

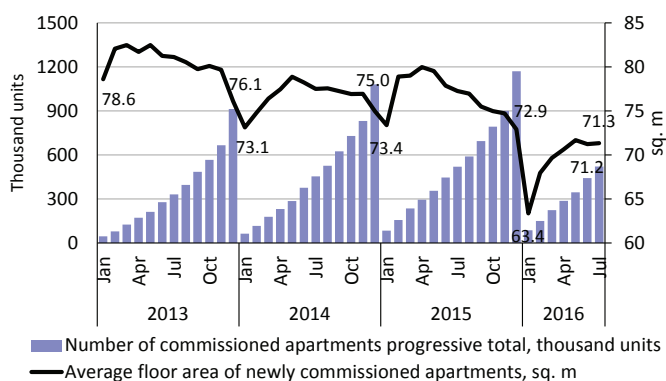


Source: data released by Rosstat.

Fig. 1. Dynamics of housing construction for a quarter

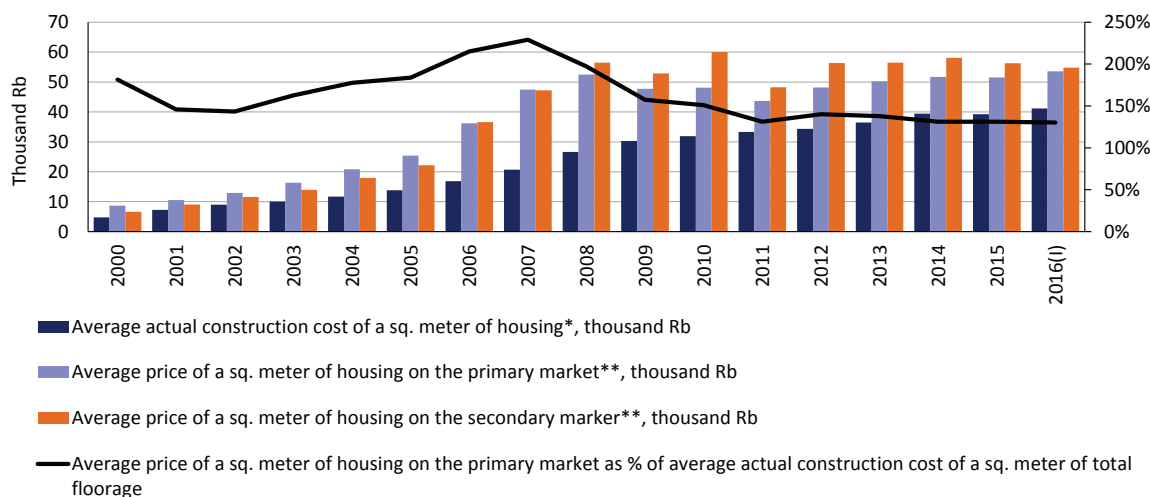
Average price of a sq. meter of housing on the primary market as % of average actual construction cost of a sq. meter of total floorage

According to data released by Rosreestr in H1 2016 the volume of registration of titles to land plots (2,924,708 registered titles) including titles of individuals went down by 7.22% in comparison with the same period of the previous year (Fig. 4)



Source: data released by Rosstat.

Fig. 2. Average floor area of newly commissioned apartments

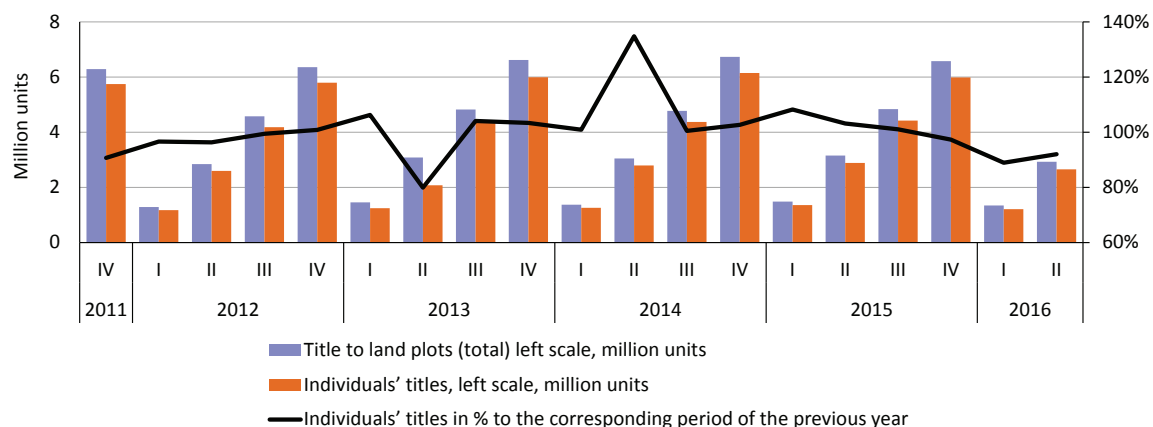


*Average actual construction cost of 1 sq. m of the total floorage in detached houses (all flats) without additions, top-outs, and integral rooms in RF (less built by the population at their own and borrowed funds).

**All apartments.

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)

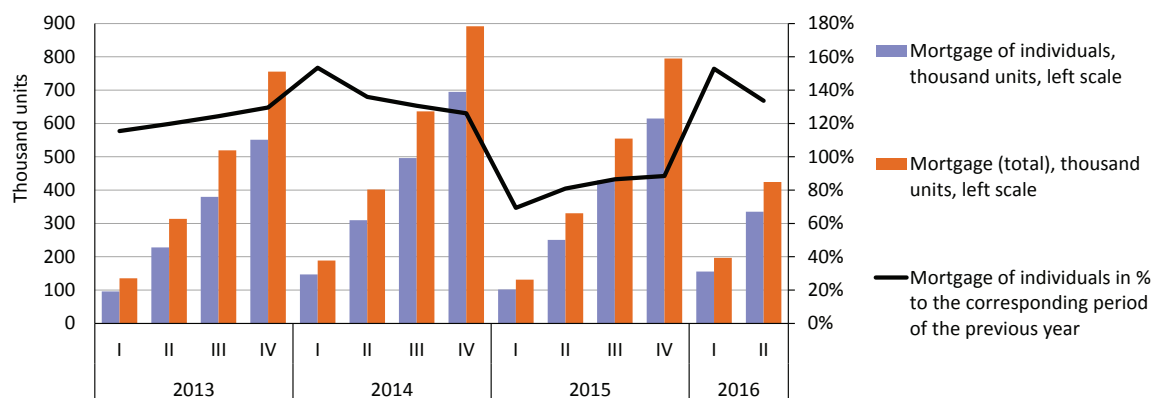
In H1 2016, the number of registrations of land mortgage loans extended to individuals (335,500 units) exceeded data for H1 2015 by 33.64%. In H1 2016, the number of registrations of land mortgage loans extended to individuals constituted 79.02% of the total number of land mortgage loans extended during this half-year (Fig. 5).

According to the data released by the Bank of Russia in H1 2016 credit institutions extended to 389,800 borrowers housing mortgage loans totaling to Rb 664,500, which is more than in H1 2015 by 39% in the quantity and by 44% in volume (Fig. 6). The share of HML originated in Q1 and Q2 2016 came to 21.5 and 19.3%, correspondingly of the volume of consumer lending in Russia exceeding by 1.8 and 2.1 p.p. data for lending for Q1 and Q2 2015.

Past due debt on HML for H1 2016 totaled to Rb 71.53 bn (Rb 45.49 bn on ruble loans and Rb 26.04 bn on foreign currency loans). In H1 2016 against H1 2015, the share of past due debt on HML denominated in rubles to residual debt moved up by 0.14 p.p. and came to 1.11% (Fig. 7).

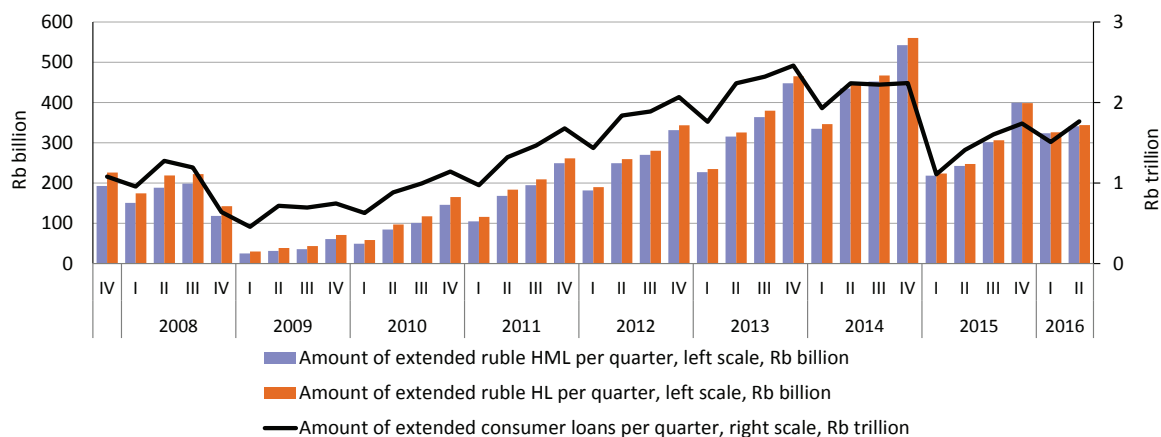
The share of HML denominated in foreign currency in H1 2016 in the total number of extended loans for a quarter in money terms constituted 0.10% against 0.37% in H1 2015.

Foreign currency debt on HML in the total debt on extended loans in H1 2016 came to 2.25% down 0.96 p.p. compared to H1 2015. In H1 2016, past



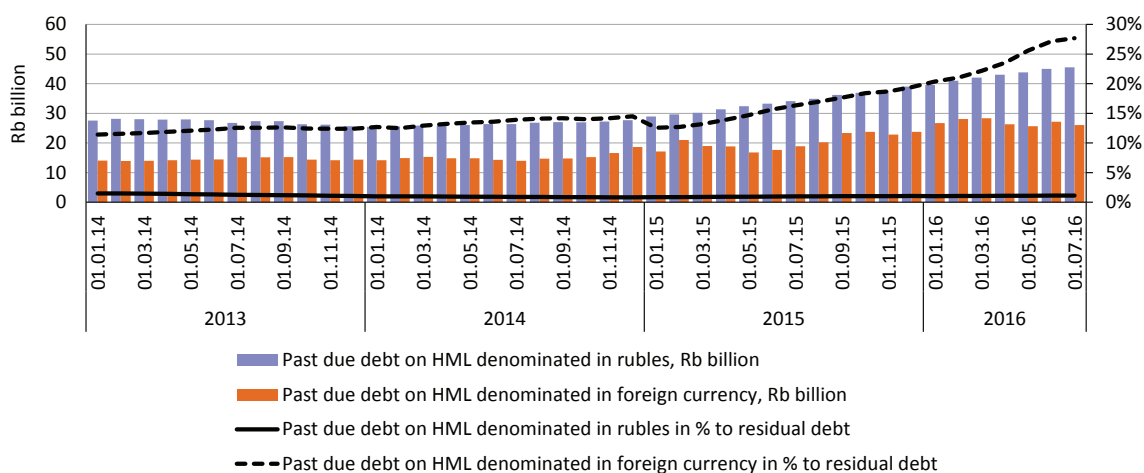
Source: data released by Rosreestr.

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

due debt on HML denominated in foreign currency to residual debt denominated in foreign currency up 11.35 p.p. and constituted 27.68% (Fig. 7).

According to data released by the Bank of Russia as of 1 July 2016, debt on default HML (with 180 and more days past due) constituted Rb 107.05 bn or 2.56% of the total amount of debt, which is by 0.48 p.p. more against 1 July 2015 and by 0.83 p.p. against 1 July 2014. The share of debt on HML without past due payments down 0.26 p.p. compared to 1 July 2015 to 93.76% and down 1.54 p.p. against 1 July 2014.

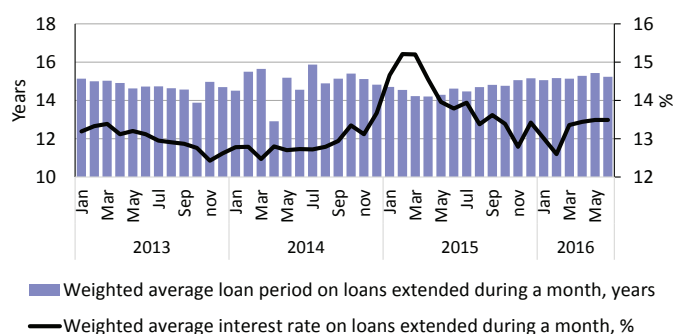
Average HML denominated in rubles in H1 2016 reached Rb 1.70 bn up 4.06% than in H1 2015, and average HML denominated in foreign currency down to Rb 27.83 mn, which constitutes 86.13% of data for H1 2015 exceeding 16 times average value of HML denominated in rubles.

The weighted average interest rate for June 2016 on HML denominated in rubles constituted 12.99% down 1.72 p.p. against the peak value for February 2015. Weighted average loan period on HML for June 2016 came to 15.2 years (Fig. 8).

Weighted average interest rate on HML denominated in foreign currency extended since the turn of the year through H1 2016 constituted 8.15%, which

is by 2.01 p.p. less than the rate value for H1 2015 and by 0.69 p.p. more than for H1 2016. Weighted average loan period for H1 2016 constituted barely 3.4 years against 4.2 years in H1 2015.

On 14 June 2016, the Bank of Russia reduced the key rate by 0.5 p.p to 10.5%, which triggered decrease of the interest rate on the mortgage market. The State program on interest rates subsidization for newly constructed building mortgage loans continues to support HML market (Table 1).



Source: data released by Bank of Russia.

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

Table 1

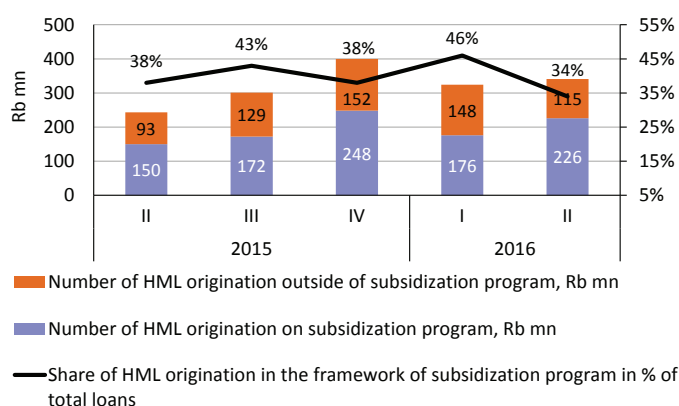
**OUTCOME OF THE IMPLEMENTATION OF STATE SUBSIDIZATION PROGRAM
AS OF 01.07.2016**

Indicators	Since March 2015	Including in H1 2016
Number of extended loans, thousand	355.2	144.7
Share of total extended loans, %	36	37
Amount of extended loans, Rb bn	636.5	262.4
Share of total extended loans, %	38	40
Average loan amount, Rb mn	1.79	1.81
Amount of paid subsidy, Rb bn	7.8	5.7
Floor area of purchased housing, mn sq. m	17.8	7.2
Share of commissioned housing in apartment blocks, %	29	41
Cost of purchased housing, Rb bn	1010	417
Including borrowers' own funds, Rb bn	373	155
Share in cost of purchased housing, %	37	37
Average floor area of apartment, sq. m	50.1	49.8
Average price of apartment, Rb mn	2.84	2.88

Sources: Bank of Russia, Finance Ministry, Rosstat, calculations and estimates of JSC AHML.

The share of state program on interest rate subsidization in the overall number of loans has been shrinking from 46% at Q1-end 2016 to 34% at Q2-end of the same year. It results in a reduction of spread on the primary and secondary market to 1-1.5 p.p. compared to 3 p.p. as of the beginning of the year. The secondary market, more than likely, becomes the leader on the mortgage market (Fig. 9).

The volume of 12 issues of housing mortgage securities (HMS) totaling to Rb 60.7 bn originated in H1 2016 up 29% of HMS volume issued



Source: data released by JSC AHML

Fig. 9. HML origination for a quarter in the framework of subsidization program

in H1 2015. According to estimates of JSC AHML, pension funds and JSC AHML are major investors in HMS (*Table 2*).

Table 2

INVESTORS IN HMS AS OF H1-END 2016

Share	11%	17%	11%	35%	26%
Investors	Issuers	JSC AHML	VEB	Pension funds	Other investors

Note. Data for pension funds investment as of 31.03.2016

Sources: Bank of Russia, Reuters, AHML calculations.

HMS has been developing most in NWFD, UFD and VFD. Ten regions distribute 40% of the total money volume of HMS in the Russian Federation and 48% of the total number of HMS. Moscow distributes 11% of the number of HMS and its share on money constitutes 21% (*Table 3*).

Table 3

DEVELOPMENT OF MORTGAGE LENDING ALONG FEDERAL DISTRICTS AND ALONG REGIONS IN H1 2016

Development of mortgage lending along federal districts			Mortgage loans extension along regions		
Federal districts	Share in volume of issued loans, %	Number of mortgages per 1,000 persons	Region	Sum, %	Amount, %
RF	100	2.7	City of Moscow	13	6
CFD	31	2.4	City of St Petersburg	7	5
NWFD	13	3.5	Moscow region	8	5
SFD	6	2.0	Republic of Tatarstan	3	4
NCFD	2	0.9	Tyumen region	5	4
VFD	20	3.3	Republic of Bashkortostan	3	4
UFD	10	3.5	Chelyabinks region	2	3
NFD	12	2.8	Sverdlovsk region	3	3
FEFD	5	2.6	Krasnodar Krai	2	3
CRFD	0.1	0.1	Krasnoyarsk Krai	2	3
			Other regions	52	60

Sources: Bank of Russia, calculations of JSC AHML.

The Bank of Russia research and forecasting department bulletin for July 2016 briefs that this year budget expenditure on capital investment within the Federal targeted program (FTP) "Housing" have shrunk by 40.8% in comparison with 2015. As of May 2016, the FTP financed around 4% of the annual planned volume. The state of the construction industry is close to the bottom low for the last 10 years. The main reason for that is the lack of both volumes of state order and contracts with developers who are forced to reduce construction volumes due to low consumer demand. ●