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REAL PRICES KEPT FALLING IN MOSCOW SECONDARY HOUSING MARKET IN JANUARY-FEBRUARY 2025

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In January-February 2025, nominal prices in the secondary housing market in Moscow remained fairly stable with no explicit signs of growth over the year. Real prices kept declining over the past year. Relative to July 2023, real prices decreased by about 6%. A rather tight monetary policy aimed at stabilizing inflationary processes in Russia is likely to be a key factor in such dynamics.

The analysis of price dynamics in the secondary housing market in Moscow has a high practical value, as housing remains one of the key items of expenditure for most households. Amid economic instability brought about by global crises, sanctions and internal changes, the real estate market is becoming an important indicator of the well-being of households and Moscow's investment attractiveness. Three indices are used to analyze price dynamics: the average and median price indices, as well as the hedonic price index. As a variable price, we use the price per 1 sq.m. of secondary housing within Moscow's administrative boundaries. Unlike classical ones, hedonic ones make it feasible to estimate price changes cleared from changes in consumer preferences and the structure of market supply over time. For example, if apartments closer to the city center have become popular over time, average prices will rise because apartments there are more expensive. However, this is a sign of a change in the quality of purchased housing, rather than a general increase in real estate prices. Hedonic indexes will not change because of such changes in consumer preferences.

To build price indices, statistical data is collected from the most popular real estate services: Cian, Avito, Yandex Real Estate and other.¹ The empirical analysis is based on the data from July 2023 to February 2025. Shown in *Fig. 1* are the basic nominal indices, with July 2023 taken as the base period. All indexes show a considerable increase in prices over the analyzed time period. As seen from the hedonic index, the price per 1 sq. m. in February 2025 increased by 10% compared to July 2023. The average and median price indices turn out to be close to the hedonic price index by the end of the period, although they show different dynamics over the period under review: they grow strongly by the end of 2023 and decrease in H1 2024.

¹ The author is grateful to WinNER for providing data for the study. URL: <https://w7.baza-winner.ru/about>

Monitoring of Russia's economic outlook

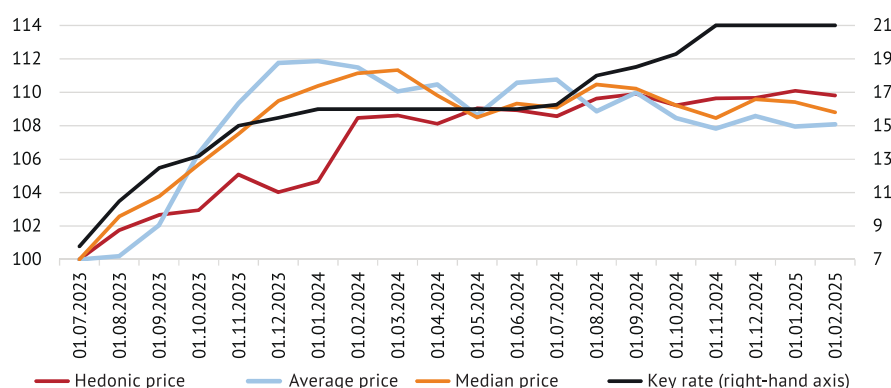


Fig. 1. Dynamics of hedonic indices, average and median prices and the key rate

Source: own calculations

In H2 2024 and January-February 2025, all the constructed price indices indicate that nominal prices in the secondary housing market in Moscow remain stable without explicit signs of growth. This can probably be explained by quite a tough monetary policy (MP) aimed at stabilizing inflationary processes in Russia, which has stopped the growth in nominal prices for secondary real estate. Amid high inflation, this led to a decrease in real prices for secondary real estate. Shown in Fig. 2 is the dynamics of the same indices deflated by the basic CPI of Moscow.

The real hedonic price per 1 sq. m. in February 2025 is at the level of 94% of the price level seen in July 2023, i.e. the real price per 1 sq. m. The price for an apartment in Moscow secondary market, cleared from consumer preferences and changes in the market supply structure, fell by 6%. Overall, by the end of the period under review, simple median and average price indices produce similar results, but they show a different dynamic in H2 2023, namely, they are steadily growing by contrast with the hedonic index. During this period, the key rate went through the first cycle of increase and froze at 16% for a long time. After the next tightening cycle of the monetary policy, which began in July 2024, all indexes began to demonstrate a single downward trajectory.

In general, an increase in prices, at least in nominal terms, for secondary real estate could have been expected in H2 2024. Firstly, this could be facilitated by a steady increase in households' real income, which stimulates demand

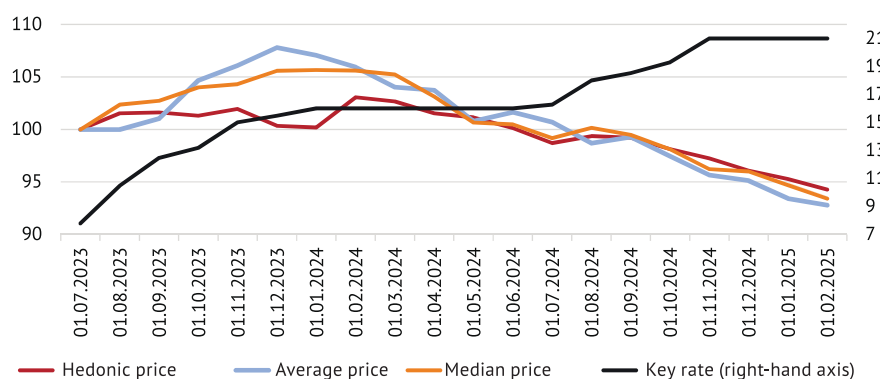


Fig. 2. Dynamics of real hedonic indices, average and median prices and the key rate

Source: own calculations

Real prices kept falling in Moscow secondary housing market

for residential real estate purchased at households' own expense. Secondly, the abolition of preferential mortgages reduces the attractiveness of buying primary real estate at the expense of borrowed funds, which could have contributed to a partial shift in mortgage demand from the primary market to the secondary one. However, there was no increase in prices for secondary real estate, probably, because the negative effect of a decrease in mortgage demand on the back of high interest rates exceeded the positive one produced by an increase in households' real income and a shift in mortgage demand from primary real estate in favor of the secondary one. Also, high interest rates have a negative impact on demand for real estate purchased at own expense, as opportunity costs of investing funds increase, which situation particularly affects the investment demand for apartments, where the expected profitability from renting out an apartment and potential price increases play a decisive role rather than the motive for owning an apartment for one's own use. Further, high yields on bank deposits, bonds and other financial instruments discourage the purchase of real estate for investment purposes. Thus, the key interest rate's current levels are blocking growth in prices per 1 sq.m. of secondary housing in Moscow. ▲