

The State of the Residential Real Estate Market of the Russian Federation: Problems and Prospects of Development

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Abstract: Indicators that characterize the current state and dynamics of the development of the residential real estate market are not considered by a number of subjects of the Russian Federation when developing regional development programs as factors that not only determine the level of business activity and social stability of the territory, but also carry systemic risks for the stability of the regional system. The article analyzes the state and development of the residential real estate market of the Russian Federation in the pre-pandemic period, when the transition to project financing using escrow accounts was carried out, and the conditions of the crisis of 2020. The article reveals the possibilities of using the results of the analysis of the indicators of the residential real estate market, based on the established relationship between the indicators of project financing, price, mortgage rates and sales volumes of primary market objects, to regulate the level of social stability and business activity in the region, to minimize the risks caused by the uncertainty of the external environment.

1 INTRODUCTION

Be advised that papers in a technically unsuitable form will be returned for retyping. After returned the manuscript must be appropriately modified. Based on the opinion of Atif Mian, professor of Economics, public policy and Finance at Princeton University, and a number of other foreign and domestic scientists (Mian, Sufi, 2009., Barrell, Davis, Karim, Liadze, 2010., Kotlyarov, 2015), the residential real estate market should be considered as a complex and very significant element of the economic system. The degree of development of the residential real estate market is an indicator of the level of business activity in the country and its regions, the social attractiveness of a particular territory, as well as the trends emerging in the development of the economy, which is especially relevant for Russia, since "it is the real estate market that creates the material basis for the functioning of the labor, capital, goods and services markets" (Tretyachenko, Pivovarova, 2020). Objects of the residential real estate market are immediately erected where only the birth of social or economic activity becomes barely noticeable. The importance of the residential real estate market, which acts as an effective indicator of the state of the economic system of the region, an additional assessment of the level of

development of the subject of the Federation and its stability, requires a study of the state and dynamics of its development not only on a permanent basis, but also from the standpoint of the system paradigm. The COVID-19 pandemic has had a negative impact on the implementation of infrastructure projects in many consumer-oriented industries. For the residential real estate sector, 2020 was not only difficult, but also far from unambiguous. Unlike other industry markets, the Russian residential real estate market was influenced not only by restrictive measures caused by the new coronavirus infection, but also by new requirements for organizing financial relations with buyers of construction-in-progress objects. These circumstances determine the necessity and relevance of this study.

The article reveals the opportunities that are laid down in the norms of Federal Law No. 214, which determine the transition of the construction industry to project financing using escrow accounts; their impact on the indicators of the residential real estate market in the pre-pandemic period and in the context of the crisis associated with the spread of the new coronavirus infection COVID-19, taking into account the state support measures provided in this regard. It contains proposals for the introduction of regulatory instruments based on the indicators of the development of the residential real estate market in

the activities of the subjects of the Russian Federation.

2 MATERIALS AND METHODS

Issues of the real estate market have become the subject of attention of many Russian scientists, a systematic approach to its development was considered in the works of A. N. Asaul, V. A. Goremykin, V. V. Grigoriev, A. I. Ostrin, A.V. Rudnev, V. I. Buzyrev, (Asaul, 2017, Buzyrev, 2016, Goremykin, 2018, Grigoriev, 2001). N. Ya. Kovalenko (Kovalenko, 2018.), A. M. Platonova (Platonov, 2004.).

In his work "Analysis of the real estate market for professionals", the chief analyst of the Russian Guild of Realtors, G. M. Sternik, defines the real estate market as "a sector of the national economy that combines the elements of "subjects", "objects", "processes" and "functions" of their management" into a complex socio-economic system " (Sternik, 2009).

In the textbook "Analysis and evaluation of income-generating real estate", the authors D. Friedman and N. Ordway define the real estate market as "an interconnected system of market mechanisms that ensure the creation, transfer, operation and financing of real estate objects" (Friedman, Ordway , 1997).

The opinion of scientists about the real estate market only confirms the authors ' idea of the need to apply a systematic approach to the analysis of the residential real estate market, considering the state and level of its development in relation to internal and external factors that have both direct and indirect influence on it. This approach will allow us to more accurately assess the opportunities that are inherent in the real estate market indicators for analyzing and forecasting the economic development of the subject and minimizing the risks associated with social stability and business activity in the region.

3 RESULTS AND DISCUSSION

For the mutual benefit and protection of Authors and Publishers, it is necessary that Authors provide formal written Consent to Publish and Transfer of Copyright before publication of the Book. In this study, the authors focus on two factors that have a significant impact on the state of the residential real estate market and sales volumes in its primary

segment: the introduced project financing is the first factor, and the level of mortgage rates is the second factor, distinguishing them from the system of indicators as significant in the conditions of 2020.

The misuse of equity holders 'funds in the construction of residential real estate has led to the appearance of "defrauded equity holders". The intensity of the issue of "deceived shareholders", which is of a social nature, reached a peak by 2019, and the mechanism for protecting participants in shared-equity construction was fixed by amendments to the law on participation in shared-equity construction of apartment buildings and other real estate objects in July of the same year. According to the new interpretation of the 214-FZ, the developer can conduct its activities using the bank's credit funds, and access to the money of shareholders accumulated in escrow accounts will appear after the developer fulfills its obligations to the shareholders, i.e. puts the object into operation. The introduction of project financing and escrow accounts caused a lot of discussion in the professional community, the central issues of which were the possible increase in the costs of developers under the new rules and the associated decline in sales. According to the parties, the use of credit funds should definitely lead to an increase in the cost of construction projects and an increase in the offer price, which, in turn, will affect the volume of sales and cause changes in the state of the residential real estate market, up to its stagnation. The experts ' conclusions were partially confirmed in the behavior of the residential real estate market: the observed changes in prices for residential real estate on the primary market during 2020 differed from the price dynamics during 2019. At the end of 2019, the price growth of 1 m² in the primary housing market was 5.52%, and in 2020-already 10.48%. However, the market has not stagnated, but continues to develop dynamically.

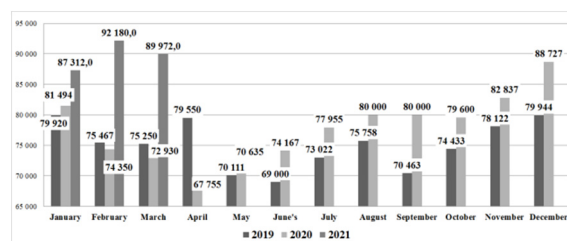


Figure 1: Dynamics of changes in the price of 1 sq. m. in the Russian Federation as a whole for new buildings in the quarterly section for 2019-2021 (Fedstat, 2021).

The dynamics of changes in the offer price in the domestic residential real estate market for 2019-2021 is shown in Figure1.

Analysis of quarterly changes in the median price of 1 m² in the domestic primary housing market showed that in the first quarter of 2020, the price increased by 17.78%, in the second quarter of 2020, the price growth was 19.18%, in the third quarter – 21.1%, in the fourth quarter – 23.32% compared to the same periods in 2019. It is worth noting that in 2019, the price growth in the second quarter relative to the indicators of the Second Quarter was 1.5%, in the third quarter relative to the second quarter – 2.06%, in the fourth quarter relative to the third quarter – 1.85%; and in the first quarter of 2020, the price growth was 11.62% relative to the fourth quarter of 2019. Price growth in the second quarter of 2020 relative to the second Quarter – 2.7%, in the third quarter-3.7%, in the fourth quarter-3.7% (Fig. 2).

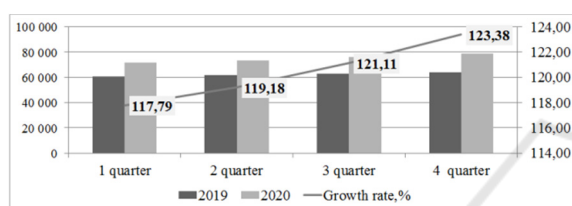


Figure 2: Dynamics of changes in the price of 1 sq. m. in the Russian Federation as a whole for new buildings in the quarterly section for 2019-2020. (Fedstat, 2021).

It becomes legitimate to ask how the price increase will affect sales volumes, given that the demand in the real estate market is elastic, and potential customers are very sensitive to price changes. According to Rosreestr, the share of registered equity participation agreements (hereinafter referred to as DDS) in the Russian Federation with the involvement of escrow accounts in 2018 was 0.04 %, in 2019 – 5.59%, in 2020-37.35%. The percentage of registered DDS using escrow accounts, broken down by federal district, is shown in Figure 3.

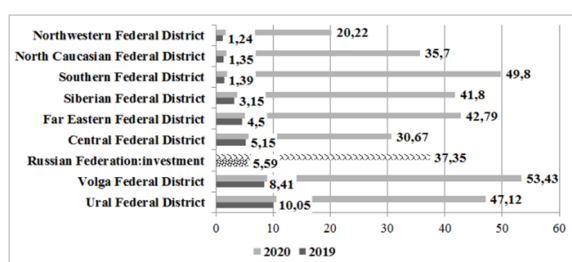


Figure 3: Share of equity participation agreements using escrow accounts in the total volume of registered equity participation agreements by federal districts for 2019-2020, % (Federal Service of State Registration, Cadastre and Cartography, 2021)

As follows from the data shown in Figure 3, from July 2019 to December 2020, the share of using escrow accounts in the Russian Federation was 37.55%; the maximum value was recorded in the Volga Federal District – 53.43%, the minimum value – in the North-Western Federal District – 20.22%. Ensuring the protection of the interests of shareholders is, of course, an important issue, but the issue of housing affordability for the citizens of the country who need it is no less important. To understand the results of the transition to escrow accounts in terms of its impact on the degree of housing affordability, it is necessary to analyze the sales of primary market properties. Figure 4 shows information on the number of registered DDS in the Russian Federation for 2019-2020.

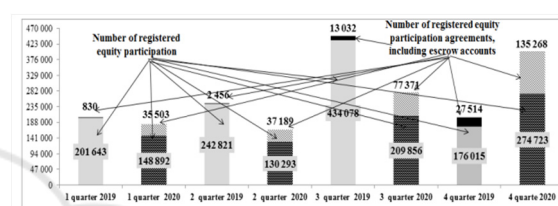


Figure 4: The number of registered contracts for participation in shared-equity construction in the Russian Federation as a whole for 2019-2020 (Fedstat, 2021)

Comparing quarterly 2020 and 2019, we can draw the following conclusions.

In the first quarter of 2020, when the share of escrow accounts was 23.84%, and the price increase was 17.78%, the drop in sales was 26.17% compared to the first quarter of 2019, when the share of escrow accounts was 0.41%.

In the second quarter of 2020, when the share of escrow accounts was 28.54%, and the price increase was 19.18%, the drop in sales was 46.35% compared to the second quarter of 2019, when the share of escrow accounts was 1.01%.

A completely opposite picture can be observed in the third and fourth quarters of 2020. The growth of escrow accounts in the third quarter of 2020 was 460.17% from 8.01 % to 36.66%, price growth-21.1%, and sales volume - 29.01% compared to the same period of 2019; the growth of the share of escrow accounts in the fourth quarter of 2020 was 314.97% from 15.63% to 49.23%, price growth – 23.32%, and sales volume growth was 56.07% compared to the same period of 2019.

What is the reason for this situation, when in the first and second quarters of 2020 there is a sharp drop in sales, and in the third and fourth quarters of 2020 we see their active growth? Is sales activity related to an increase in the share of escrow accounts and a

decrease in risks in the primary market, or is it the influence of other factors?

At the end of the first quarter of 2020, a pandemic of a new coronavirus infection was declared. The global coronavirus outbreak has triggered a global crisis. Sanitary force majeure caused by COVID-19 caused not only a recession in the global economy, but also in national economic systems (Glazyev, 2020). Restrictive measures have also affected the residential real estate market.

The lockdown introduced in April-May 2020 paralyzed development activities, restrictive measures were introduced in 44 regions, and construction activities were completely stopped in Moscow and the Moscow Region. As a result, sales volumes began to fall in the first quarter of 2020; the trend continued in the second quarter. The drop in sales, triggered by the increase in the supply price due to the introduction of project financing, was exacerbated by the restrictive measures associated with the pandemic; and the result of these two factors was a record drop in sales in 2020 – 46.35%. The current situation posed a real threat of bankruptcy of many construction companies and the appearance of "deceived shareholders" on the market.

The point of view expressed by the chief analyst of the RGR, Gennady Sternik, regarding the measures taken by the authorities during the crisis of 2014 is also relevant for the crisis of 2020: "from the point of view of the model of economic development that the authorities are trying to implement, the reaction is competent. It is based on the fact that it is necessary to stimulate not demand, but supply – production and construction. After all, only the real sector can lead to the creation of new jobs, income growth and, ultimately, demand" ((Sternik, 2015). The opinion of the scientist, who has been analyzing and forecasting the situation in the residential real estate market for many years, was supported by Russian President Vladimir Putin, when speaking at a meeting on the construction industry, he noted: "We will definitely support the construction complex. Moreover, at the stage of economic recovery, it is construction that should become one of the engines of growth, which will pull other sectors along with it" (Putin, 2020),

One of the measures of state support for the industry was the implementation of the Program of subsidizing mortgage rates at 6.5% per annum of preferential mortgages. The preferential program was launched in May 2020 and in October of the same year was extended until the end of the first half of 2021 (Decree of the Government of the Russian Federation No. 1732 of October 24, 2020), allowing

citizens to purchase residential real estate on the primary market.

The implementation of the program of subsidizing mortgage rates against the background of the weighted monetary policy of the Bank of Russia, the programs led to a decrease in mortgage market rates, during 2020, the average mortgage rate decreased by 1.64% (from 9.05% at the beginning of the year to 7.36% on 01.01.2021), in the primary housing market, the decrease in the average housing rate for this period was 2.46%. During this period, there was an increase in the weighted average term of mortgage lending from 215 to 222 months, which, along with a decrease in interest rates, led to an increase in the availability of mortgage lending. In 2020, the growth in the number of mortgage loans issued for the purchase of housing in new buildings compared to 2019 amounted to 142.4%, the increase in the amount of loans issued for this period amounted to 62.0%. In 2020, more than 484 thousand rubles were issued. loans in the amount of about 1.5 trillion rubles.

The share of transactions under the Mortgage Rate Subsidy Program, according to the Financial Institute for Housing Development DOM.RF, increased from 51% in 2019 to 66% in 2020. During this period, 348,900 loan agreements for the purchase of housing in new buildings were issued under the preferential mortgage program with a supply of no more than 6.5%, which is 45.8% of the total number of registered DDU (Review of housing markets, housing construction and mortgages in 2020). It is precisely the measures of state support for the construction industry introduced in time in the form of preferential mortgages that explain the recovery in sales volumes in the primary residential real estate market in the third and fourth quarters of 2020.

The anti-crisis measures proposed by the Russian government in the form of a preferential mortgage at 6.5% for the purchase of housing in new buildings reoriented demand from secondary housing to the segment of new buildings, since the weighted average mortgage rate for the secondary housing market was 8.33% in January 2020, and 8.04% in December, with a mortgage rate in the subsidized segment of 8.0% and 5.8%, respectively. The existing preferential mortgage on the secondary housing market is available to a limited number of families – families with children and children with disabilities, which, together with the observed dynamics of real estate prices for months, when prices for primary housing are lower than for secondary housing (especially in Moscow), exacerbates the existing problems and pushes the buyer's demand in the segment of new buildings.

The package of anti-crisis measures announced by the Government of the Russian Federation in mid-March 2020 to support the housing construction sector contained special approaches to the application of financial sanctions under the legislation on shared-equity construction for the failure of developers to meet their obligations during housing construction in 2020. In addition, a temporary moratorium was introduced on the recovery of funds for enforcement proceedings related to improper performance of obligations by the developer, and a temporary ban on the inclusion of apartment buildings in the register of problematic objects was established. The list of strategic organizations included 54 construction organizations that meet such criteria as the volume of construction of residential and non – residential buildings of at least 400.0 thousand square meters and revenue for 2019-at least 10 billion rubles. The total volume of objects under construction at the organizations included in the list amounted to 53.5 million square meters.

Along with the factors that positively affected the recovery of the residential real estate market, there were also negative ones, which, first of all, include the reduction of wages and the loss of jobs. "Real cash income (income minus mandatory payments – taxes and fees, interest on loans, etc., adjusted for inflation) in 2020 fell by 3.5% after an increase of 1.0% in 2019." (Fedstat, 2021).

4 CONCLUSIONS

The current situation in the residential real estate market makes us seriously think about the question that the solution of the social issue with "deceived shareholders" through project financing, which leads to an increase in prices, reduces the availability of housing and regional development. Therefore, for the implementation of the national project "Housing and Urban Environment", according to which it is necessary to ensure the availability of housing for middle-income families using mortgages with a rate of less than 8%, as well as to ensure the construction volume of 120 million square meters. in a year" [20], it is necessary to develop and implement a set of state support measures aimed at both developers and target customers. A striking example was the mortgage at 6.5% per annum, which became the driver of the industry and allowed us to achieve sales volumes almost as in 2019.

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