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**TRENDS AND OUTLOOKS**

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The review "Russian economy. Trends and outlooks" has been published by the Gaidar Institute since 1991. This is the 45th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 5 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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#### 4.4. The housing market in Russian cities and housing construction in 2023<sup>2</sup>

In 2023, the Russian real estate market was in the stage of strong recovery growth after the 2022 turmoil. Its main driver was the mechanism of state support for mortgages, which boosted demand, ensuring the predominance of mortgage transactions in the total volume of transactions in Russian cities.

Indicators of market consumer activity, especially in terms of mortgage lending, and price dynamic show that predictions of stagnation did not come true. Both primary and secondary segments were marked by an increase in growth rates during the year. Given the unambiguously positive economic situation (GDP growth of 3.6% and the real disposable household income growth of 5.4%), the volume of housing construction grew at a faster pace. At the same time, in contrast to 2022 and several previous years, the increase in the commissioning of apartment buildings was much higher than the results of individual housing construction.

In July-August, the Bank of Russia raised the key rate after a long break, but the market has not yet cooled down. By the end of the year, the effect of the key rate hike (and the resulting reduction in mortgage availability) did not lead to

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1 The high level of parents' education means that both parents (or the only one) received higher education; the medium level means that one parent has higher education and the other one does not; the limited level means that both parents (or the only one) do not have higher education. Families' material well-being and social status were determined by respondents themselves.

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either lower growth rates or higher prices, which is probably due to the delayed nature of the possible reaction of the real estate market.

The regulatory effect of the key rate outpaces prices with a certain lag, which was also observed in 2022, when real estate prices peaked about three months after the key rate peaked. The explanation for this is the combined effect of the factors of the relative inertness of the real estate market and the shift of some future demand to closer time intervals. An increase in the key rate will have a stronger impact on the market as the potential for financing through pre-approved mortgages<sup>1</sup> at lower rates is exhausted. Therefore, the expected slowdown in the housing market did not occur in 2023 and could likely occur in H1 2024.

## 1. Housing market prices

First of all, it should be noted that there are various sources of information on the dynamics of residential real estate prices. On the one hand, these are official reports of Rosstat, and on the other hand, data from real estate agencies.

First of all, let us turn to the Rosstat data. As indicated on the departmental portal,<sup>2</sup> price indices on the primary and secondary housing markets are calculated by Rosstat experts on the basis of registered prices for newly built apartments and for apartments of the operating housing stock in ownership, if they are the objects of market transactions. The observation is conducted for a sample of organizations engaged in real estate transactions in territorial centers and individual cities of the subjects of the Russian Federation. When registering prices for apartments, their quantitative and qualitative properties are taken into account. Average prices in Russia are calculated from average prices in the regions. Data on the number of sold total area of apartments separately in the primary and secondary housing markets are used as weights.

Table 9

### Price indexes on the housing market in 2023. (at quarter-end in % to the end of the previous quarter, across all types of apartments)

Period	Secondary market	Primary market
Q1	101.24	99.41
Q2	101.62	101.27
Q3	102.34	104.09
Q4	103.06	104.67

Sources: Price indices on the housing market by subjects of the Russian Federation in 2023, data on the primary market. URL: [https://rosstat.gov.ru/storage/mediabank/ind\\_perv\\_4kv-2023.xlsx](https://rosstat.gov.ru/storage/mediabank/ind_perv_4kv-2023.xlsx); данные по вторичному рынку. URL: [https://rosstat.gov.ru/storage/mediabank/ind\\_vtor\\_4kv-2023.xlsx](https://rosstat.gov.ru/storage/mediabank/ind_vtor_4kv-2023.xlsx)

Prices grew at the highest rate in Q3 and Q4 2023, when the market played off the effect of an increase in the discount rate, which caused, among other things, the realization of pent-up demand for pre-approved mortgages at lower mortgage rates (Table 9).

1 Mortgage approved by the banks prior to the rise of the CBR key rate.

2 URL: [https://rosstat.gov.ru/storage/mediabank/pr\\_572\\_12082022.pdf](https://rosstat.gov.ru/storage/mediabank/pr_572_12082022.pdf)

It was in the second half of the year that the primary market began to overtake the secondary market in terms of price growth rates again, most noticeably in Q3. The moderate dynamics of the first half of the year (price drop in the primary segment in Q1 and lagging behind the secondary segment in Q2) could not radically affect the results of the year as a whole (*Table 10*).

Table 10

**Price indexes on the market and average prices of living quarters in 2023 across categories of facilities (Q4-end)**

Category of facility	Secondary market		Primary market	
	in % to Q4 2022	Rb thousand per 1 m2 of floor area	in % to Q4 2022	Rb thousand per 1 m2 of floor area
All types of apartments	108.51	97.4	109.68	140.4
Low quality	108.44	77.7	–	–
Average quality (standard)	108.14	91.6	106.83	124.2
Better quality	109.63	108.2	111.56	143.0
Elite apartment	102.03	137.3	107.98	312.3

Source: Rosstat.

In general, at the end of 2023, price growth in the primary market (9.68%) was about 1.14 times higher than in the secondary market (8.51%).

In both segments, the maximum price growth was observed for housing of improved quality with some advantage of the primary segment (11.6% vs. 9.6%). The biggest difference in favor of the primary market was observed for elite housing (8% vs. 2%). On the contrary, the growth rates for medium-quality (standard) apartments on the secondary market were higher than on the primary market (8.1% vs. 6.8%), which is comparable to the price dynamic for low-quality apartments (8.4%).

The price dynamic in the regional breakdown confirms the outperformance of the primary market in terms of price growth rates in the country as a whole. However, in contrast to 2022, when there was a widespread excess of growth rates of the primary market over the secondary market in all regions, the picture of price dynamic has become more mosaic (*Table 11*).

Table 11

**Price indexes on the housing market in 2023 across federal districts (at Q4-end, in % to Q4 2022, across all types of apartments)**

Federal okrug (FO)	Secondary market	Primary market
Russia	108.5	109.7
Central	106.1	112.6
North-Western	107.1	100.9
Southern	108.8	106.4
North-Caucasus	109.7	102.2
Volga	108.1	111.1
Urals	108.0	116.8

Federal okrug (FO)	Secondary market	Primary market
Siberian	114.1	115.3
Far Eastern	106.5	108.0

Sources: Price indices on the housing market across subjects of the Russian Federation in 2023, data on the primary market. URL: [https://rosstat.gov.ru/storage/mediabank/ind\\_perv\\_4kv-2023.xlsx](https://rosstat.gov.ru/storage/mediabank/ind_perv_4kv-2023.xlsx); данные по вторичному рынку. URL: [https://rosstat.gov.ru/storage/mediabank/ind\\_vtor\\_4kv-2023.xlsx](https://rosstat.gov.ru/storage/mediabank/ind_vtor_4kv-2023.xlsx)

In 5 federal okrugs (Central, Volga, Urals, Siberian and Far Eastern) price growth on the primary segment exceeded the same value in the secondary segment, to the maximum extent – in the Central Federal District and in the Urals. In 3 other federal okrugs (North-Western, Southern, North Caucasus) there was an excess of growth rates on the secondary market over the primary market, to the greatest extent in the North-Western Federal District and in the North Caucasus.

More detailed price dynamics, at the level of the subjects of the Federation,<sup>1</sup> is presented in *Table 12*.

Table 12

**Price indexes on the housing market cross oblasts (at Q-end, Q4 2023 on Q4 2022, in % across all types of apartments)**

	Secondary market	Primary market
<b>Russia</b>	108.5	109.7
<b>Federal okrug/ oblast</b>		
<i>Central FO</i>	106.1	112.6
Moscow	105.5	113.8
Moscow oblast	103.1	116.0
Voronezh oblast	101.9	111.9
<i>North-Western FO</i>	107.1	100.9
St Petersburg	95.4	100.4
Leningrad oblast	104.6	94.0
<i>Southern FO</i>	108.8	106.4
Krasnodar krai	106.5	104.5
Volgograd oblast	109.7	113.2
Rostov oblast	109.5	108.0
<i>North-Caucasus FO</i>	109.7	102.2
Dagestan	111.2	109.7
Stavropol krai	113.6	99.8
<i>Volga FO</i>	108.1	111.1
Bashkortostan	110.1	107.0
Tatarstan	100.1	108.2
Perm krai	116.7	113.1
Nizhny Novgorod oblast	116.7	113.3
Samara oblast	110.9	113.1
<i>Urals FO</i>	108.0	116.8
Sverdlovsk oblast	103.5	116.5
Tyumen oblast*	107.1	114.0
Chelyabinsk oblast	124.0	123.2
<i>Siberian FO</i>	114.1	115.3
Krasnoyarsk krai	113.2	116.7

<sup>1</sup> The sample consisted of the oblasts leading in terms of population in the respective federal districts, including all oblasts with cities with a population of more than 1 mn people.

	Secondary market	Primary market
Novosibirsk oblast	121.4	119.4
Omsk oblast	117.5	116.9
<i>Far-Eastern FO</i>	106.5	108.0
Primorsky krai	103.3	106.2
Khabarovsk krai	105.8	108.8

\* Including autonomous okrugs.

*Sources:* Price indices on the housing market by subjects of the Russian Federation in 2023, data on the primary market. URL: [https://rosstat.gov.ru/storage/mediabank/ind\\_perv\\_4kv-2023.xlsx](https://rosstat.gov.ru/storage/mediabank/ind_perv_4kv-2023.xlsx); data on the secondary market. URL: [https://rosstat.gov.ru/storage/mediabank/ind\\_vtor\\_4kv-2023.xlsx](https://rosstat.gov.ru/storage/mediabank/ind_vtor_4kv-2023.xlsx)

The Chelyabinsk oblast (23.2%) became the leading region in terms of price growth (over 20%) on the primary market; with rates over 15% they grew in the Novosibirsk oblast (19.4%), Omsk oblast (16.9%), Sverdlovsk oblast (16.5%), Moscow oblast (16%), as well as in the Krasnoyarsk krai (16.7%). Decrease in the growth rates was observed in all regions, and their number with double-digit growth rates significantly reduced as compared with the situation a year earlier. At the same time, there was a decline in prices in some regions: in the Leningrad oblast they fell by 6%, and in Stavropol krai they demonstrated stagnation.

In the secondary segment, the number of regions with growth rates of over 20% dropped markedly compared to 2022. The Chelyabinsk (24%) and Novosibirsk oblasts (21.4%) joined the group of leaders. Growth rates of more than 10% were observed in the Omsk oblast (17.5%), Nizhny Novgorod oblast (16.7%), Perm (16.7%) and Stavropol (13.6%) kraises, Dagestan (11.2%), and Bashkortostan (10.1%). At the opposite pole were Tatarstan (0.1%), Voronezh (1.9%) and Moscow (3.1%) oblasts, Primorsky Krai (3.3%), and St. Petersburg saw a 4.6% drop in prices.

In general, the number of regions where there was an excess of price growth rates in the primary market compared to the secondary one was approximately equal to the number of regions where the situation was the opposite (12 vs. 11). This makes 2023 significantly different from 2022, when the primary market generally grew more strongly than the secondary market.

In order to analyze the price level in absolute terms, let us consider the data of professional market analysts of a number of well-known companies united by the Russian Guild of Realtors (RGR) (*Table 13*).

*Table 13*

### Prices on apartment buildings in Russian cities in Q3 2023

Federal Okrug/ city	Secondary market, thousand Rb/ m <sup>2</sup>	Primary market, thousand Rb/ m <sup>2</sup>	Price difference, %
<b>Central FO</b>			
Moscow	286.5	365.8	By Rb79,300 (27.7%) in favor of primary market
Ramenskoe (Moscow oblast)	146	149.5	By Rb3,500 (2.4%) in favor of primary market
Istra (Moscow oblast)	180	n/a	
Sergiev Posad (Moscow oblast)	139.5	n/a	

Federal Okrug/ city	Secondary market, thousand Rb/ m <sup>2</sup>	Primary market, thousand Rb/ m <sup>2</sup>	Price difference, %
Voronezh	85	107.5	by Rb22,500 (26.5%) in favor of primary market
Ryazan	126	215.5	By Rb 89,500 (71%) in favor of primary market
Kostroma	100	90	By 10,000 (11.1%) in favor of secondary market
<b>North-Western FO</b>			
Kaliningrad	130	255	By Rb125,000 (96.2%) in favor of primary market
<b>Sothern FO</b>			
Krasnodar	120	129	By Rb9,000 (7.5%) in favor of primary market
Novorossiysk	145	155	By Rb10,000 (6.9%) in favor of primary market
Volgograd	145	130	By Rb15,000 (11.5%) in favor of primary market
<b>Urals FO</b>			
Ekaterinburg	240	235	By Rb5,000 (2.1%) in favor of primary market
Tyumen	172.5	173	By Rb500 (0.3%) in favor of secondary market
Chelyabinsk	72.5	95	By Rb22,500 (31.0%) in favor of primary market
<b>Siberian FO</b>			
Novosibirsk	110	122.5	By Rb12,500 (11.4%) in favor of primary market
<b>Far-Eastern FO</b>			
Khabarovsk	105.5	181.5	By Rb76,000 (72%) in favor of primary market

Sources: Analytical report for Q3 2023. Dynamics of indexes of the market of multi-apartment construction in Russian cities. RGR, 2023. Pp. 7–8; own calculations.

Last year, prices in the primary segment remained higher than in the secondary market in most cities. The most noticeable (almost twice) excess of prices for new buildings was observed in Kaliningrad, followed by Khabarovsk and Ryazan (over 70%). While prices in Tyumen were roughly equal, the opposite ratio was observed in Kostroma, Volgograd and Yekaterinburg, with secondary market prices in the two cities on the Volga River outpacing the primary segment by more than 11%.

## 2. Construction and commissioning of new housing

According to the Rosstat preliminary data, 110.4 mn sq. m. of housing were commissioned in Russia in 2023, which is 7.5% more than in 2022, when the previous maximum was reached (*Table 14*). This figure became a record in the entire domestic history.

Positive dynamics of commissioning was observed in the vast majority of regions,<sup>1</sup> including almost all those with a total volume of housing commissioning of more than 1 mn sq. m. (*Table 15*).

<sup>1</sup> Only 8 regions, including the Moscow oblast, saw a drop in commissioning volumes.



Table 14

**Commissioning of residential buildings in 1999–2023**

Year	Mn m <sup>2</sup> of total area	Growth rates, %	
		Over the previous year	over 2000
1999	32.0	104.2	105.6
2000	30.3	94.7	100.0
2001	31.7	104.6	104.6
2002	33.8	106.6	111.5
2003	36.4	107.7	120.1
2004	41.0	112.6	135.3
2005	43.6	106.3	143.9
2006	50.6	116.0	167.0
2007	61.2	120.9	202.0
2008	64.1	104.7	211.5
2009	59.9	93.4	197.7
2010	58.4	97.5	192.7
2011	62.3	106.6	205.6
2012	65.7	104.7	216.8
2013	70.5	107.3	232.7
2014	84.2	119.4	277.9
2015	85.3	101.3	281.5
2016	80.2	94.0	264.7
2017	79.2	98.8	261.4
2018	75.7	95.1	248.5
2019	82.0/81.0*	108.3/107.0*	270.6/267.3*
2020	82.2/77.1*	100.2/95.2*	271.3/254.5*
2021	92.6	112.7	305.6
2022	102.7	111.0	338.9
2023	110.4	107.5	364.3

\* Excluding commissioning of houses on private plots, the volume of which is given according to the original Rosstat data (2019 – 1.0 mn m<sup>2</sup>, 2020 – 5.1 mn m<sup>2</sup>, no data for 2021–2023).

Sources: Rosstat; own calculations.

Table 15

**Dynamics of housing commissioning in Russian regions in 2023  
(graded along commissioning rates)**

RF subject	Housing commissioning rates, in % to 2022
Republic of Dagestan	160.9
Novosibirsk oblast	134.4
Republic of Crimea	131.5
Kaluga oblast	122.1
Tula oblast	120.9
Irkutsk oblast	119.1
Orenburg oblast	118.9
Udmurt Republic	118.2
Krasnoyarsk Krai	116.8
Primorsk Krai	115.8
Chechen Republic	115.6
Saratov oblast	114.0
Tyumen oblast	112.6

RF subject	Housing commissioning rates, in % to 2022
Chelyabinsk oblast	111.8
Republic of Tatarstan	111.1
Sverdlovsk oblast	110.9
Rostov oblast	109.6
Nizhniy Novgorod oblast	109.3
Stavropol krai	109.2
Republic of Bashkortostan	108.3
Moscow	108.0
Leningrad oblast	105.5
Voronezh oblast	104.8
Samara oblast	103.0
Krasnodar krai	100.6
Saint Petersburg	100.2
Perm krai	97.0
Vladimir oblast	96.8
Kaliningrad oblast	92.3
Moscow oblast	88.6

Source: Socio-economic situation in Russia – 2023. P. 303–304. URL: <http://rosstat.gov.ru/>

The maximum increase in housing commissioning (around 61%) was observed in Dagestan, over 30% – in the Novosibirsk oblast and Crimea, over 20% – in the Kaluga and Tula oblasts. The Irkutsk and Orenburg oblasts, Krasnoyarsk and Primorsky krai, as well as Chechnya demonstrated growth in housing commissioning in the range from 15 to 20%, i.e. growth exceeding the Russian average twice or more. Another 15 regions showed positive dynamics of housing commissioning, but less than the specified figure. In 4 oblasts, including the Moscow oblast, there was a decrease.

Compared to the previous year, there were some changes in the group of leading regions due to a significant reduction in the volume of housing construction in the Moscow oblast, which, despite a drop (11.4% against a growth of more than 1.5 times a year earlier), retained its leadership in terms of the absolute volume of commissioning (about 12.5 mn sq. m.). Moscow with 8% growth closed the top three (more than 7.3 mn sq. m.), leaving behind Krasnodar krai (more than 7.6 mn sq. m.). The top five regions also included the Leningrad oblast (about 4.2 mn sq. m.) and St. Petersburg (about 3.5 mn sq. m.), with the northern capital being behind the neighboring region.<sup>1</sup> The share of the capital region in the total volume of housing construction in the country amounted to 17.9% (including the Moscow oblast – 11.3% and Moscow – 6.6%), decreasing by 2.4 p.p. compared to 2022 at the expense of the Moscow oblast (about 13.7% in 2022).

The total housing input data include both multi-apartment building delivered by professional developers and private housing construction (PHC, i.e., privately built on their land plots).

<sup>1</sup> Also, more than 3 mn sq. m. were commissioned over the year in the Tyumen Region (including autonomous okrugs), Tatarstan, Bashkortostan, Sverdlovsk and Novosibirsk oblasts.

For the third year in a row, the share of housing built by the population independently at their own expense or with the help of borrowed funds exceeded half of the total commissioning (53.2%). Accordingly, the share of multi-apartment buildings, which had been steadily declining after 2016, amounted to 46.8%, being 2.5 p.p. higher than in 2022 (*Table 16*). The latter, however, was not due to the reduction in commissioning as a result of IHC, but due to a sharp increase in multi-apartment delivery (51.7 mn sq. m. vs. 45.5 mn sq. m. a year earlier).

*Table 16*

### Structure of housing commissioning in the Russian Federation in 2010–2023

Year	Total, Mn sq. m	Apartment block construction		Private housing construction from own and borrowed funds	
		Mn sq. m.	Share in total commissioning, %	Mn sq. m.	Share in total commissioning, %
2010	58.4	32.9	56.3	25.5	43.7
2011	62.3	35.5	57.0	26.8	43.0
2012	65.7	37.3	56.8	28.4	43.2
2013	70.5	39.8	56.5	30.7	43.5
2014	84.2	48.0	57.0	36.2	43.0
2015	85.3	50.1	58.7	35.2	41.3
2016	80.2	48.4	60.3	31.8	39.7
2017	79.2	46.2	58.3	33.0	41.7
2018	75.7	43.3	57.2	32.4	42.8
2019	82.0	43.5	53.0	38.5	47.0
2020	82.2	42.4	51.6	39.8	48.4
2021	92.6	43.5	47.0	49.1	53.0
2022	102.7	45.5	44.3	57.2	55.7
2023	110.4	51.7	46.8	58.7	53.2

Sources: Rosstat; own calculations.

According to Rosstat data, the area of private housing construction projects commissioning in Russia in 2023 amounted to 58.7 mn sq. m., which is 2.6% more than in the previous year. The top five leading regions in terms of the absolute volume of housing commissioning by the population included Moscow oblast (around 7.7 mn sq. m.), Krasnodar krai (over 4.2 mn sq. m.), Leningrad oblast (around 2.5 mn sq. m.), Bashkortostan (around 2.1 mn sq. m.), Chechnya (over 2.0 mn sq. m.).

*Table 17*

### Share of housing commissioning by the population in Russian regions with a total volume of housing commissioning over 1 mn sq. m in 2023

RF subject	%
Chechen Republic*	87.3
Republic of Crimea	74.1
Kaluga oblast	73.2
Orenburg oblast	70.3

RF subject	%
Irkutsk oblast*	68.2
Vladimir oblast	67.9
Republic of Dagestan*	67.0
Stavropol krai*	65.1
Perm krai*	64.7
Republic of Bashkortostan*	62.1
Udmurt Republic	62.0
Moscow oblast*	61.5
Nizhny Novgorod oblast*	60.5
Leningrad oblast*	59.5
Samara oblast*	58.9
Rostov oblast*	58.8
Saratov oblast	58.2
Tula oblast	58.2
Krasnodar krai*	55.5
Chelyabinsk oblast*	54.0
Voronezh oblast*	49.7
Republic of Tatarstan*	49.4
Kaliningrad oblast	48.1
Primorsky krai	46.5
Sverdlovsk oblast*	45.2
Krasnoyarsk krai	42.9
Tyumen oblast (including autonomous okrugs)*	42.1
Novosibirsk oblast	29.8
Moscow	11.3
Saint Petersburg	6.3

\* Regions with private housing commissioning over 1 mn sq. m.

Sources: Rosstat; own calculations.

Private housing construction provided from 70 to 90% of commissioning volumes in Chechnya, Republic of Crimea, Kaluga and Orenburg oblasts, from 60% to 70% in Irkutsk and Vladimir oblasts, Dagestan, Stavropol and Perm krajs, Bashkortostan, Udmurtia, Moscow and Nizhny Novgorod oblasts, from 50 to 60% in Leningrad, Samara, Rostov, Saratov, Tula and Chelyabinsk oblasts, as well as in Krasnodar krai.

Moscow and St. Petersburg were expectedly at the other pole, where the contribution of private housing construction amounted to 11.3% and 6.3%, respectively.<sup>1</sup> The intermediate position was held by Voronezh oblast, Tatarstan, Kaliningrad oblast, Primorsky krai, Sverdlovsk oblast, Krasnoyarsk krai and Tyumen oblast, where housing construction accounted for 40 to 50% of commissioning volumes, as well as Novosibirsk oblast, where the contribution of housing construction amounted to 29.8%.

Also convincing was the success in the construction of apartment blocks, where the peak for the last decade was exceeded. More than half (59.8%) of the

1 For comparison: in one more city with federal status – Sevastopol, the share of private housing commissioning amounted to 82.9% (with the total volume of commissioning of about 0.48 mn sq. m.).

volume of housing commissioning (excluding housing built by the population)<sup>1</sup> was accounted for by 12 regions (with commissioning of at least 1 mn sq. m. in each of them), while the share of the top five (Moscow and Moscow oblast, Krasnodar krai, St. Petersburg, Tyumen oblast with autonomous okrugs) accounted for 38.9% of the total volume of apartment blocks commissioning.

The total housing commissioning, which amounted to 110 mn sq. m., exceeded the volume of housing construction envisaged in the passport of the National Project (NP) "Housing and Urban Environment" (in the current version) for 2028 (108 mn sq. m.).<sup>2</sup> However, it should be noted that taking into account a significant increase in the CBR key rate in H2 2023, a reduction in the volume of commissioning in the medium term is feasible. Thus, according to the assessment of the housing market development institute – DOM.RF,<sup>3</sup> 20% less new projects are planned to be launched in 2024, which should lead to a decrease in the volume of commissioning after 2026, i.e. within the time interval when the NP envisages a smooth increase in the volume of housing commissioning from 100 to 120 mn sq. m. in 2029–2030.

### 3. The situation in the construction sector

According to the 2023 year-end results, the portal ERZ.RF did not conduct surveys similar to those conducted the previous year<sup>4</sup> with the participation of the School of Developers,<sup>5</sup> GMK<sup>6</sup> and RBG.<sup>7</sup> At the same time, some market participants<sup>8</sup> share opinion that the identified key trends of 2022 partly remained relevant (in particular, the entry of developers outside the local markets, reduction in floor space of apartments). However, in addition to this, there is an increased uncertainty associated with both the increase in the key rate and the prospects for the expiration of the "preferential mortgage" program.

According to experts of the Russian Guild of Realtors,<sup>9</sup> the previously observed trend towards a decrease in the area of apartments has transformed into a clear imbalance towards small-sized apartments (1–2-room apartments). The limited

1 There is no such indicator in the official reports of the Federal State Statistics Service. However, it can be calculated as the difference between the total volume of housing commissioned and housing commissioned by households at the expense of their own and borrowed funds.

2 URL: <https://minstroyrf.gov.ru/docs/221887/>

3 2023 results in the housing sector. DOM.RF. P. 33.

4 See. Russian economy in 2022. Trends and Outlooks. Issue. 44. Moscow. IEP. 2023. P. 349.

5 Specialized competence center and educational platform for developers and building contractors in Russia and the CIS. URL: <https://www.development-school.com/about>

6 GMK Consulting Agency is one of the top 100 largest consulting groups and companies in Russia, in the marketing and PR segment it ranks first (RAEX rating). The agency specializes in complex consulting in development since 2005, helping developers to create the best micro districts and residential complexes. URL: <https://gmk.ru/>

7 RRG is a professional player on the commercial real estate market since 2005. It is a center of professional expertise in real estate with a knowledge base professional connections and expert partners, which allows to customize products and services to the client's needs and project features. URL: <https://rrg.ru/>

8 URL: <https://erzrf.ru/publikacii/rynok-razvitiya-itogi-2023-goda-i-trendy-2024-go>

9 RRG. Analytical report for Q3 2023. Dynamics of indicators of apartment blocks market in RF cities. 2023. P. 4.

choice of larger apartments (3–4 room apartments) with mortgages with the lowest interest rates for this category of housing could potentially lead to a mismatch between supply and demand, especially given that mortgages with state support are one of the key drivers of the market.

Speaking about the mechanism of housing construction funding, it can be stated that transition to a system using project finance instruments has entered the stage of maturity. By the end of 2023, 95% of apartment blocks under construction were already being built using escrow accounts, compared to 51.5%, 76.8% and 89% at the end of 2020, 2021 and 2022, respectively. The latter is evidenced by the steady increase in the volume of lending utilizing the relevant tools. The amount of credit lines increased to Rb16.5 trillion at year-end 2023 (vs. Rb14 trillion in Q3 2022). At the same time, developers received Rb3.7 trillion from disclosed escrow accounts, and the balances on escrow accounts amounted to Rb5.8 trillion, which, according to DOM.RF estimates, will allow developers to maintain financial stability in 2024.<sup>1</sup> Even amid a key rate increase, the financing system as a whole allowed to maintain and increase construction volumes. Its further sustainability and subsequent development will depend not only on short-term factors of availability of appropriate liquidity, but also on long-term parameters related to a stable balance of supply and demand in the market.

The real construction activity in the housing sector and the industry's prospects are characterized by the following indicators.

According to the Unified Housing Construction Information System (UHCIS), the total area of housing under construction, taking into account all financing mechanisms, amounted to 106 mn sq. m. as of December 31, 2023, being approximately 5% more than a year earlier (100.8 million sq. m.). The bulk of it (101.6 mn sq. m.) accounted for housing built in accordance with the Federal Law No. 214-FZ, which implies the conclusion of share participation agreements (SPAs) by individuals. Record housing sales were balanced by high launches. As a result, the share of sold housing in the total volume under construction (32% as of January 1, 2024) corresponded to the normal project financing model (70% of apartments sold at the time of commissioning). The market, however, began to move towards a supply deficit: in particular, projects with planned commissioning in 2024 have already sold out more than half of the floor space, and about 70% of the volume of unsold housing will be commissioned after 2024.<sup>2</sup>

A notable event in the market was a change in the ranking of apartment blocks construction. PIK Group of Companies (PIK Group), the long-standing leader in development, faced crisis phenomena. The change of management and redistribution of the capital structure with the withdrawal of VTB Bank in Q3 2023 can be considered a serious symptom of the decrease in the investment attractiveness of the developer. The top position went to SC "Samolet".<sup>3</sup>

For a better understanding of the processes that took place in the housing market last year, let us examine the housing market of the capital, which is

1 DOM.RF. 2023 results in the housing sector, p. 15.

2 2023 results in the housing sector // DOM.RF. March 2024. P. 22.

3 URL: <https://erzrf.ru/top-zastroyschikov/rf?topType=0&date=240101>

traditionally a benchmark for regional markets, i.e. the situation there may be typical for other major cities (perhaps with a certain time lag).

#### 4. Moscow's housing market

##### *Primary market*

In Moscow in 2023, according to Metrium<sup>1</sup> company 102,800 co-investment contracts for new construction were concluded, which is 36% higher than in 2022. This being said, 79,500 transactions were mortgage transactions (77%). In the last third of the year, 45% of the total number of transactions for the year were concluded against the background of an increase in the key rate.

Their quantitative growth was accompanied by quite vigorous price growth with a drop in supply volumes, which is explained by both increased demand and low activity of developers in terms of bringing additional supply to the market. In December 2023, the volume of supply in the primary market as a whole fell by 1/4 as compared to the last month of 2022.

In general, the reduced level of supply volume by the end of the year was observed in the mass segment. This phenomenon may also be due to the peculiarities of the policy chosen by developers with regard to launching new lots on the market. In Q1 2024, we can expect the supply volume to recover, at least on the back of a reduced buyer activity.

The trend towards an increase in demand for apartments and small apartments remained relevant, which generally corresponds to the all-Russian trend. In 2023, the share of transactions with apartments and apartments of less than 40 sq. m. amounted to 58%, and average floor area of an apartment purchased under shared-equity construction was 41.3 sq. m., having dropped by 7.5% over the year. Studios and one-bedroom lots prevail in the structure of transactions, and the average floor space of lots purchased is also decreasing. This behavior of buyers is due to the desire to reduce mortgage payments.

2023 demonstrated a widespread growth in real estate prices (*Table 18*).

*Table 18*

#### **Price dynamics in various segments of Moscow's residential market**

Segment	Weighted average price as of December 2023, Rb/sq. m.	Price dynamics, %	
		For Q4 2023	For 12 months (Q4 2023 over Q4 2022)
Moscow (within its former boundaries)	508 220	4	16
Mass	332 480	3	24
Business	442 750	0	6
Premium	634 830	3	10
Big budget	1 935 780	-1	6
New Moscow	242 490	2	8
Total	430 140	3	12

Source: Residential real estate market review of Moscow // Metrium Q4 2023. P. 6. URL: <https://www.metrium.ru/upload/iblock/6c3/t0p1ypox8kf5y6q1tt382rw6efqd905m.pdf>

<sup>1</sup> Residential real estate market review. Q4 2023. URL: <https://www.metrium.ru/upload/iblock/6c3/t0p1ypox8kf5y6q1tt382rw6efqd905m.pdf>

As of December 2023, the weighted average price per square meter amounted to Rb430,140, having increased by 12% in the city as a whole over the year (including Q4 – by 3%). The price growth within the boundaries of Old Moscow (16% over the year) was twice as high as the same indicator in New Moscow (8%).

The most noticeable increase in the cost per square meter of mass segment apartments and apartments within the boundaries of Old Moscow was 24% for the year as a whole. The premium segment rose in price by 10%, which is comparable to the inflation rate (as in New Moscow). The price growth for business class and high-budget real estate was the least significant (by 6%), being below the inflation rate. However, it should be taken into account that the growth rate by segment also depends on the supply structure and exposure.

It is worth noting that over the last few months the share of mortgage transactions has been high across all classes of housing. At the same time, the share of mortgage cost sharing construction in the mass segment market while steadily increasing amounted to 89% in December 2023, which determines the dependence of further dynamics of the real estate market on the terms and conditions of mortgage loans issuance.

Due to an increase in the key rate and expectation of a rise in the down payment on preferential mortgages, since August 2023, the Moscow new buildings market has seen an increased demand driven by the consumers' desire to have time to purchase real estate under affordable mortgage programs.

The postponement of future demand to the end of the year was largely due to the expected tightening of mortgage terms and conditions. Thus, the down payment on a mortgage with state support, whereunder it is possible to purchase housing in new buildings at a rate of 8% per annum, increased from 20 to 30%. And the maximum loan amount for such a mortgage was unified for all regions (Rb6 mn), while previously for Moscow, Moscow oblast, St. Petersburg and Leningrad oblast it amounted to Rb12 mn.

### *Secondary market*

Rosreestr noted three records straightaway on the number of transactions with apartments in the Moscow secondary market. The activity of housing buyers in September in Q3 and in general for nine months of 2023 became an absolute record for the entire history of observations of the department.<sup>1</sup>

Earlier the rush demand in the capital secondary market was also noted by realtors. Experts explain such activity of buyers of ready residential housing by the changing terms and conditions of mortgage lending in connection with the growth of the CBR key rate and most importantly – the prospect of their further deterioration with the growth of mortgage rates to actually prohibitive highs.

The recovery of demand for secondary housing commenced in early 2023. In spring, the demand of buyers increased sharply. Indicators for the first half of the year exceeded expectations of realtors, the demand was higher than even in pre-crisis 2021. Experts explained it by the accumulated pent-up demand in 2022.

<sup>1</sup> URL: <https://realty.rbc.ru/news/65a699f79a79471dbb4f75cf>



Potential buyers realized that mortgage rates would not go down, and were ready to buy real estate again. Interest in the secondary market was also backed by lower prices compared to the primary segment, as well as the end of the period of near-zero mortgage rates on new buildings due to the increase in the CBR key rate.

Following the results of Q3 on the secondary housing market of Moscow 49,440 transactions were registered. This record surpassed indicators of this period in the previous two years: Q3 2022 – by 74.1%, and Q3 2021 – by 17.4%.

## 5. Mortgage lending dynamic and state support measures

Demand for mortgages in 2023 was high and in some months – feverish. The market updated the 2022 record against the background of ruble weakening, the key rate increase, changing terms and conditions on preferential programs and tightening of regulation by the Bank of Russia. Mortgage issuance in 2023 (more than 2 mn loans for Rb7.8 trillion) became the highest in history. The share of mortgages with state support reached record highs: around 46% in the total number of originations (38% in 2022) and around 61% in terms of volume (over 48% in 2022).

In the wake of sharp increase in the key rate and expansion of preferential mortgages, the active growth of banks' mortgage portfolios was accompanied by a weakening of lending standards, in particular, the share of loans with down payment less than 20% and the volume of loans granted to borrowers with a high debt load increased. In order to mitigate risks for the banking system and the

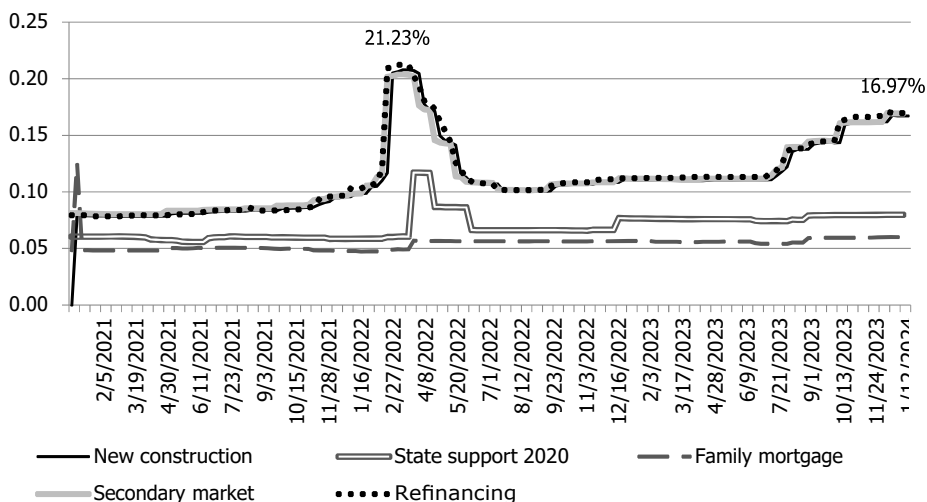


Fig. 12. Dynamics of average weighted rate of main types of mortgage loans in top-20 banks in 2020–2023

Source: DOM.RF (<https://www.xn--d1aqf.xn--p1ai/analytics/mortgage/>)

economy as a whole, the Bank of Russia consistently tightened regulation in 2023. In particular, the CBR raised macro mortgage surcharges, postponing their entry into force until October 1.

Despite a sharp rise in the key rate, which provoked a proportional increase in the weighted average rates on various categories of mortgage loans (*Fig. 12*), there was no decrease in the mortgage portfolio of the banking system in 2023.

During the year, the dynamics of the mortgage portfolio was uneven:

- the beginning of the year was marked by a slight decline in January-February, but from the end of Q1 and in Q2 2023 mortgage originations accelerated on the back of economic recovery, growth in disposable incomes of the population and stable dynamics of housing prices;
- August-September was marked by a frenzied demand for mortgages, which reflected expectations of a sharp increase in the CBR key rate;
- against the background of a highly probable further increase in the key rate, in October-December mortgage originations declined from the September record level. The latter was the result of an increase in market rates amid changes terms and conditions of preferential programs and tighter regulation by the Bank of Russia.

As opposed to 2022, when housing mortgage lending was actually set back by 2–3 years, as the number of loans issued was comparable to pre-pandemic 2019 (1,312,000 units) and their volume was only 8% higher than in 2020 (Rb4.45 trillion), 2023 saw a strong growth. According to the reports of DOM.RF and the Central Bank of Russia, mortgage issuance grew by more than 53% in terms of the number of loans (2,036,000 units) and by about 62% in terms of volume (Rb7.78 trillion) (*Table 19*).

*Table 19*

### Mortgage lending in 2021–2023

Loan category	Number of loans				Total amount of loans originated			
	thousand		%		Rb bn		%	
	2022	2023	2022	2023	2022	2023	2022	2023
Mortgage loans, total	1327	2036	100	100	4813	7779	100	100
Secondary market (including refinancing)	758	1038	57,1	51	2211	3189	45,95	41
Primary market (on security of co-investment agreements CIA)	410	692	30,9	34	2063	3345	42,85	43
IHC and new buildings	160	305	12,05	15	539	1245	11,2	16

*Sources:* Review of the mortgage lending market in 2023 // DOM.RF. February 2024. P. 2. URL: <https://dom.pf>; own calculations.

Changes in the structure of demand for mortgages towards an increase in the share of products with state support resulted in differentiation of the dynamics of different market segments.

The main shifts in the structure of PHC were the increase in the share of the primary market (secured by share equity construction) and the share of private housing construction and ready houses. Quantitative characteristics of these market drivers where preferential programs are as follows: new buildings

(692,000 loans) demonstrated growth by about 69% by 2022, and construction of private houses (305,000 loans) – by 1.9 times.

Having said that, mortgage originations for ready apartments, where market programs prevail, grew at a slower pace (over 1.0 mn loans, up 37% by 2022) amid an increase in market rates (from 11% in the first half of the year to 16-17% at the end of the year). As a result, the share of ready apartments in the total structure of mortgage loans decreased to 51% (by 6 p.p.), while the share of mortgages for new buildings (by 3 p.p.) and residential housing (by 3 p.p.) rose significantly to 34% and 15%, respectively.

The volume of financing of the primary market went up by 62% compared to 2022. This being said, for the first time in the history of observations, this category of loans in the HML structure surpassed the issuance of new loans in the secondary market (about 43% vs. 41% of the total volume). Financing of HML and finished houses grew 2.3 times and for the first time exceeded Rb1.0 trillion (Rb1,245 bn in 2023 vs. Rb539 bn a year earlier).

In general, mortgage debt increased by Rb4.1 trillion (or by more than 29%) over the year. As of the beginning of 2024, its value exceeded Rb18 trillion (taking into account the rights of claim acquired by credit institutions, excluding securitization). At the same time, mortgages accounted for 65% of the growth of all retail loans, and their share reached 54% of the total debt of individuals. As of the beginning of 2024, the share of overdue debt in the mortgage portfolio on banks' balance sheets was no more than 0.6% versus 0.7% a year earlier (0.8% as of the beginning of 2022).

The level of mortgage interest rates fluctuated throughout the past year under the influence of macroeconomic dynamics, expectations of a key rate increase and growth in the share of preferential programs. Despite a sharp increase in the key rate, weighted average rates in the primary market only returned to the 2021 level and amounted to 5.9%, while in the secondary market, on the contrary, they increased by 0.5 p.p. to 10.1%. As a result, the weighted average mortgage rate in 2023 (8.2%) was higher than in 2022 by only 1 p.p. (7.2%).<sup>1</sup>

The gap between primary and secondary market rates by more than 1.5 times determined the popularity of the primary segment and further shift of demand towards new buildings. While in Q4 2022, 39% of residential properties purchased with the help of mortgages were registered with co-investment contracts, in Q4 2023 – 51% already.<sup>2</sup>

Loans originated under preferential programs constitute a record share in the total structure of loans issued (*Table 20*).

Such transactions accounted for more than 4/5 of all signed CIA in 2023 (2022 – 68.4%, 2021 – 56.6%, 2020 – 58.3%), their absolute number grew by almost 73% compared to 2022, while transactions on market conditions went up by less than 11%. The share of market mortgages was once again minimal (5.4%) decreasing by about a quarter compared to 2022 and almost 4 times compared to 2020. The share of CIAs without mortgage fell by more than half compared to

<sup>1</sup> Review of the mortgage lending market in 2023 // DOM.RF. February 2024. P. 1.

<sup>2</sup> Ibid. P. 12.

2022 and was less than in all previous years (11.5%). The absolute number of such transactions over the past year (89,000) relative to 2022 dropped by 1/3, for the first time falling below 100,000.

Table 20

**Dynamics and structure of sales in new buildings in 2020–2022 (by the number of registered by the population CIA for housing)**

Category of transaction	2020		2021		2022		2023	
	thou- sand	%	thou- sand	%	thou- sand	%	thou- sand	%
CIA, total	609	100	676	100	544	100	773	100
Mortgage transactions, total	484	79.5	476	70.4	410	75.4	684	88.5
Concession mortgage programs	355	58.3	383	56.65	372	68.4	642	83.1
Market mortgage programs	129	21.2	93	13.75	38	7.0	42	5.4
Mortgage free	125	20.5	200	29.6	134	24.6	89	11.5

Sources: Review of apartment block construction in the Russian Federation. 2022 // DOM.RF. February 2024. P. 22. URL: <https://дом.рф>; own calculations.

The total volume of state-supported mortgage loans in 2023 was high: about 932,000 loans worth over Rb4.7 trillion (Table 21). Compared to the previous year, it grew by about 85% in terms of the number of loans and more than doubled in terms of their value.

Table 21

**Concessional mortgage lending in 2021–2023 (minus rural mortgage)**

Category of program	Number of loans				Total value			
	thousand		%		Rb bn		%	
	2022	2023	2022	2023	2022	2023	2022	2023
Mortgage loans, total	504	932	100	100	2319	4727	100	100
Family mortgage	181	431	36.0	46.2	858	2160	37.0	45.7
Preferential loans	292	419	58.0	45.0	1299	2014	56.0	42.6
IT-mortgages	5	41	1.0	4.4	46	373	2.0	7.9
Far Eastern and Arctic mortgage	25	41	5.0	4.4	116	180	5.0	3.8

**Note.** Without additional agreements to existing family mortgage loans.

Sources: Review of the mortgage lending market in 2023 // DOM.RF. February 2024. P. 5. URL: <https://дом.рф>; own calculations.

Among specific programs, the leader was “Family Mortgage” (about 46% of the total volume of preferential loans against 36-37% a year earlier), demonstrating a 2.4–2.5-fold growth in the number of loans and their value. A little behind is the concessional mortgage, whose share in terms of the amount of lending fell noticeably: to less than 43% against 56% in 2022. Under this program, the number of loans issued grew by about 43%, and their amount – by 55%.

The Far Eastern Mortgage program, despite its expansion to the Arctic zone, turned out to be an outsider, accounting for about 4% of the volume of concessional lending (5% a year earlier). The share of IT-mortgage increased in the structure of lending by value: from 2% in 2022 to almost 8% in 2023. In terms of the number of loans originated, it became comparable to the Far Eastern and Arctic Mortgage program, surpassing it by more than twice the amount of lending.

DOM.RF, a development institution, continued to actively assist in stimulating the mortgage market in 2023:

- a record volume of mortgage bonds was issued (9 placements for almost Rb670 bn), which was 67.5% higher than in 2022 (Rb400 bn);
- mortgage bonds of sustainable development were placed, for the first time were securitized collateral with pledge of rights under CIA, the share of electronic mortgages went on growing;
- the number of investors in the DOM.RF mortgage-backed securities (MBS) market grew from 7,300 to 8,700 over the year, mainly due to individuals, although banks remained the largest holders of DOM.RF MBS;
- the key driver of DOM.RF MBS liquidity growth was repo transactions, whose volume increased almost threefold to Rb16 trillion. More than 90% of transactions were exchange REPOs with the Russian Treasury.<sup>1</sup>

## 5. Prospects for the housing market in 2023

The current economic situation partly retains the scope of risks for housing construction and sales, which manifested themselves in 2022–2023<sup>2</sup> and were largely mitigated by government economic policy measures including the stimulation of import substitution.

The key factor, however, is the effect of rising mortgage rates triggered by a sharp increase in the key rate in H2 2023. So far, it has not led to either a slowdown in growth rates or a fall in prices, which is probably due to the delayed nature of the possible reaction of the real estate market and the realization of the effect of reduced mortgage affordability with a certain lag (more than two quarters). The expected market slowdown is expected to take place in H1 2024.

An increase in the key rate potentially leads to higher interest costs for developers due to the rising cost of project funding. Satisfaction of a large part of future demand and setting records for the number of transactions in Q4 2023 are fraught with a sharp decline in all housing market indicators in the next two quarters.

As a result, prices and volumes of construction and, consequently, developers' revenues may decline. The simultaneous increase in interest expenses may have a significant negative impact on the profitability of residential real estate developers and their investment attractiveness, which may be preceded by a fall in the quotations of securities and debt instruments, as well as changes in the capital structure of a number of companies. As a result of the fall in the

1 Review of the mortgage securities market in 2023 // DOM.RF. February 2024. P. 1.

2 See. Russian Economy in 2022. Trends and Outlooks. Issue 44. Moscow. IEP. 2023. P. 362.

profitability of development and its convergence with the level of bank deposit rates, there will be a decrease in activity in the construction industry with an increase in the number of bankruptcies and an increase in the burden on the funds for assistance to housing stakeholders.

In terms of price dynamics, we can expect a slowdown in price growth in both the primary and secondary markets, but not across-the-board decline in prices. Instead, additional discounts may appear, particularly in situations related to the need for urgent sales.<sup>1</sup>

Prices in the primary market, in all likelihood, will at least continue to compensate for inflation. There is also a probability of their higher growth on the background of possible reduction in additional supply due to probable purchase of preferential lending, which is focused on the purchase of housing in the primary market. Such a scenario (even in a mild version of introducing additional restrictions under the existing programs) is capable of reducing the price gap between new buildings and the secondary segment of the market. The share of the latter will grow, while buyers' preferences will continue to shift towards more affordable properties of smaller area or located in less popular locations.

In general, real estate will remain an attractive investment, but the drop in demand for housing may come to 10–20%. We should expect a decrease in market activity in terms of the number of transactions, as well as a decrease in price transparency due to the widening gap between supply prices and final transaction prices. Reduced activity and available liquidity may also lead to the emergence of various "hybrid" schemes aimed at structuring more complex transactions (building chains of transactions, use of guarantees, staged mortgages and other more complex and less transparent methods of structuring).

Reduction of the CBR key rate, clarity on future priorities and parameters of preferential housing lending programs will help to determine a new range of market mortgage rates adequate to the situation unfolding in the economy.

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<sup>1</sup> According to the Central Bank of the Russian Federation, developers have become more active in using dubious schemes for selling apartments in new buildings with further mortgage registration. One of them assumes that a significant part of candidate's funds for purchase of housing in a new building is not transferred to an escrow account in a bank, but is formalized as a future payment in the form of a paper guarantee. It determines when and on what terms the developer-seller will receive the money from the buyer. Another scheme is the sale of an apartment at an undervalued price to a person related to the developer and assignment of rights to it at market value. However, it is not yet widespread. Finally, a tranche mortgage provides for the issuance of mortgages in installments when the price of the CIA is paid "in installments".