

The Housing Market in Russia: Disappointing Results

The problems associated with the transition to the market economy in Russia are especially apparent in the housing sector. During the Soviet era, this was closely interwoven with state paternalism. As a result, no housing market existed; instead, apartments were allocated by the state. Rents fell far short of the levels needed to cover operating costs. Against this background, the changes that have been introduced are considerable. However, there are still major tasks ahead: rents still do not cover costs, and the necessary public subsidies towards the housing stock's operating costs are one of the heaviest burdens on public budgets. The lack of a functioning housing market means that the labour market cannot yet develop the flexibility and mobility it requires. Although the – largely unremunerated – privatisation of housing has clearly shifted property structures towards the private sector, private individuals are reluctant to take on the responsibilities of property ownership. Flaws in the legal framework impede investment activities. The financial market is also still too weak to support investment. The highly unequal new distribution of assets and income, as well as entrenched privileges from the Soviet era, are reflected in asymmetrical housing provision that benefits the more prosperous sections of the population.

Until 1991, Russia had a highly regulated housing sector. Housing construction, management and financing were concentrated in the hands of the state. Housing was subsidised, and rents were symbolically low. Apartments were allocated on the basis of waiting lists. The system was inefficient, and there was a permanent shortage of housing.

The transformation of the Russian economy has resulted in only a marginal improvement in housing provision, however. Between 1990 and 1999, the housing stock¹ increased by 13.8% to 2 761 million m² (cf. table 1), whereas population decreased by 1% over the same period. At the same time, the total number of households increased for political reasons (migrants from the CIS and soldiers returning from Central Europe) and social reasons (breakdown of extended families and rising divorce rates). By the end of 1999, there

¹ Diverging from the international standard, Russian housing sector statistics show total living space in m² rather than the number of housing units.

were 55 million housing units, but this included 0.8 million communal apartments whose residents have to share facilities (kitchen, bathroom, hall).² There are 40% fewer households on the housing waiting lists than in 1990, but in absolute terms, this still amounts to 6 million. Furthermore, the statistics underestimate the number of persons seeking housing: at present, there is little point in applying for housing as the allocation of apartments has virtually ceased in many regions (Moscow being one of the exceptions). A third of applicants have already waited for more than ten years.³ A newly emergent housing market and extremely intransigent and even corrupt practices are the key factors determining the allocation of housing.

The continued shortage of housing is also due to poor construction and maintenance. Although almost 90% of the housing stock was built in the last 40 years and is therefore comparatively new, a significant proportion is already in a dilapidated condition.

Living space per person amounted to 19 m² in 1999. This corresponded broadly with housing provision in Poland. However, Polish apartments – with an average area of 62 m² – are larger than Russian apartments, with 50 m². Their amenities differ too: indoor plumbing is standard in apartments in Poland's urban areas but is only available in 86% of Russia's urban apartments (cf. table 2). In rural areas, the difference is even more marked (39% in Russia, 80% in Poland). Although there is still a significant demand for indoor plumbing in Russia's rural areas, the manufacture of water pipes has substantially declined since the early 1990s (cf. table 3).

Tenancy versus ownership

One reason for this continued poor housing provision is that despite – or perhaps because of – the sensitive nature of the housing sector in political and social terms, reform in this area has been very gradual and hesitant. It commenced with the laws 'On Property in the RSFSR' of 1990 and 'On the Privatisation of the Housing Fund in the RSFSR' of 1991. The state-owned share of the housing stock and the associated service infrastructure were divested to the lowest administrative levels, i.e. the local authorities. Enterprises and organisations – especially those already designated for privatisation – were also required to transfer their corporate/social housing stock to the local authorities. Privatisation then took place on a voluntary basis, i.e. tenants could purchase their

² Goskomstat (Russian Statistical Agency): *Sfera uslug v Rossii, Moscow 2000*, p. 155.

³ Goskomstat, *ibid.*, p. 156.

Table 1

Housing Stock and Housing Provision in Russia, 1990 to 1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	in mill. m ²									
Total housing stock	2 425	2 449	2 492	2 546	2 608	2 649	2 680	2 715	2 745	2 761
	in m ²									
Available space per person	16	17	17	17	18	18	18	19	19	19
of which:										
Urban areas	16	16	16	17	18	18	18	19	19	20
Rural areas	18	18	18	18	18	19	19	19	19	20
	in 1000									
Households which have received new or modernised apartments	1 296	1 100	948	897	741	652	492	416	344	282
Households registered as seeking accommodation	9 964	10 029	9 648	9 104	8 487	7 698	7 248	6 760	6 286	5 882
	in %									
Households seeking accommodation as a percentage of total households	20	20	19	18	17	15	14	13	13	12

Source: Rossijskij statisticeskij ežegodnik 2000, Moscow 2000, pp. 172 and 174.

apartments if they wished, but were under no obligation to do so. At the start, a nominal payment was required; later, the transfer took place free of charge.⁴ The wealth tax burden was negligible.⁵ The opportunities for re-sale or letting of the property were intended to offer additional purchase incentives.

Between 1992 and 1994, privatisation progressed very rapidly (cf. table 4), although the lack of supervisory mechanisms mean that the process tended to lack transparency. In particular, the *nomenklatura* and – surprisingly – pensioners purchased or acquired property. Properties in sound condition (brick-built) in areas with good local amenities were preferred. By contrast, tenants of apartments in standard large-panel-construction blocks rarely took advantage of the privatisation option. From their point of view, there was no reason to purchase property, especially as they still enjoy substantial protected tenancy rights in Russia and are unlikely to face eviction even if they fall into arrears with their rent. They can also transfer their occupancy rights to their

children. There were also justified fears that as new owners, they would have to cover the costs of renovation, which were often substantial owing to earlier failure to maintain the property. Significantly, privatisation had no direct impact on cost recovery, as privatised apartments have been treated the same as rented apartments for subsidy purposes.

Nonetheless, privatisation has radically altered ownership structures in the housing sector.⁶ By the end of 1999, a total of around 800 million m² had been privatised, amounting to approximately 30% of total housing stock in 1999 (cf. table 4). Private ownership doubled to just under 63%, with private individuals owning 56% of living space (cf. table 5 and figure 1). A key factor in this context was the trend in the cities, where ownership by private citizens increased three-fold (1999: 35%). In rural areas, development was slower, especially since many of the houses here were already privately owned during

⁴ Federal'nyj zakon: 'Ob osnovach federal'noj žiliscnoj politiki' ('On the Bases of Federal Housing Policy'), No. 4218-I of 24 December 1992.

⁵ The tax rate of 0.1% of inventoried building and housing value is based on out-of-date assessment criteria from the Soviet era; it was raised to 2% in 1999. Cf. Finansy, No. 3/2000, p. 18.

⁶ During the Soviet era, the state owned 94% of multi-family houses in urban areas. Most single-family houses were privately owned, but this did not include the associated plots of land; cf. Journal of Real Estate Literature, No. 7/1999, p. 66. The rights to plots of land and the rights to the associated buildings were always registered separately in Russia. It was not until the adoption of the law 'On State Registration of Real Estate Rights and Real Estate Transactions' of 21 July 1997 that the framework for a unified land registry system was put in place.

Table 2
Housing Stock in Russia, 1990 to 1999: Amenities¹

	1990	1993	1994	1995	1996	1997	1998	1999
Total								
Indoor plumbing	.	66	70	71	71	72	73	73
Drainage	.	61	65	66	67	67	68	69
Central heating	.	64	67	68	69	70	71	72
Bathroom	.	57	61	61	62	63	63	63
Gas	.	70	69	69	69	69	70	70
Hot water	.	51	54	55	56	57	58	59
Electric cooker	.	14	15	15	16	16	16	16
Urban areas								
Indoor plumbing	81	83	84	84	85	85	86	86
Drainage	78	80	81	82	82	83	84	84
Central heating	82	84	85	85	86	86	87	87
Bathroom	73	75	77	77	78	79	79	79
Gas	69	68	68	67	67	68	68	68
Hot water	67	69	71	72	73	73	74	75
Electric cooker	17	19	20	20	21	21	21	21
Rural areas								
Indoor plumbing	.	30	33	35	36	37	38	39
Drainage	.	19	22	24	25	26	26	28
Central heating	.	20	22	23	25	26	28	34
Bathroom	.	16	19	20	21	22	22	23
Gas	.	73	72	73	74	74	74	73
Hot water	.	9	11	12	14	14	14	16
Electric cooker	.	2	2	2	2	2	2	2

¹ Percentage of apartments with these amenities as a percentage of total housing.
Source: Rossijskij statističeskij ežegodnik 2000, Moscow 2000, S. 173.

the Soviet era. Today, a good 23% of the total housing stock in rural areas is in private hands, including 21% owned by private individuals.

Privatisation has encouraged the development of a lively property market. So far, however, the legislator has not coupled home ownership with the owner's responsibility for his property. There is therefore little mobilisation of private resources for the maintenance and management of apartments. It has been envisaged for some time that individual owners should join together to form owners' associations ('condominiums') with joint responsibility for managing the property.⁷ However, this has rarely been successful owing to the lack of legal clarity surrounding the ownership of land.⁸

⁷ Decree: 'Ob utverždenii vremennogo položenija o kondominiume' (On the Confirmation of the Provisional Regulation on Condominiums, No. 2275 of 23 December 1993. – Federal'nyj zakon: 'O tovarišestvach sobstvennikov žil'ja' (On the Home-Owners' Association), No. 72 of 15 June 1996.

⁸ The 3200 condominiums account for less than 1% of the housing stock. Cf. Rossijskaja gazeta, 13 February 2001.

Rent reform

Rents were exempt from the price liberalisation of 1 January 1992 and initially remained entrenched at 1928 levels.⁹ Indeed, as a result of hyperinflation, cost recovery in the housing sector tended towards zero during 1992 and 1993.¹⁰ Soon, however, housing policy set itself the objective of achieving rents that would cover costs (basic rent and all associated costs).¹¹ The rent increases were introduced on a progressive basis and complied

⁹ At that time, 1 m² cost around 15 kopecks. Cf. Voprosy ekonomiki, No. 11/1997, p. 63.

¹⁰ Voprosy ekonomiki, No. 9/1997, p. 56.

¹¹ Postanovlenie pravitel'stva: 'O perechode na novuju sistemu oplaty žil'ja' ('On the New System of Rent Payments'), No. 935 of 22 September 1993. Decree 'O reforme žiliscno-kommunal'nogo chozjajstva v Rossijskoj Federacii' (On the Reform of the Local Authority Housing Sector in the Russian Federation), No. 425 of 28 April 1997. – Postanovlenie pravitel'stva: 'O federal'nych standardach perechoda na novuju sistemu oplaty žil'ja i komunal'nyh uslug na 2000-2001 gody' ('On Federal Standards for the Transition to the New System of Payment for Rent and Local Authority Services for 2000-2001'), No. 965 of 15 December 2000.

Table 3

Key Figures on Rural Infrastructure in Russia, 1990 to 1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	in km									
Manufacture of water pipes	5 902	5 782	2 940	2 545	1 633	1 608	727	778	578	616
drainage pipes	333	221	93	78	64	82	70	63	.	.
	in 1000 km									
gas pipes	7	9	8	12	13	17	17	20	19	17
electricity cables										
0.4 kW	11	12	11	11	7	6	6	6	4	4
6-20 kW	25	17	16	13	7	7	7	9	5	4
surfaced roads	12	9	6	7	6	7	5	4	4	5
	in %									
Proportion of rural settlements without link to fixed road network	.	.	41	39	38	35	34	33	33	32

Source: Rossijskij statisticeskij ežegodnik 2000, Moscow 2000, p. 173.

with specific 'normative laws'.¹² Since 1994, the social impact of these increases has been cushioned by the introduction of housing benefit. In 1999, 6.5% of Russian families received housing benefit, on average 62 roubles a month (average monthly wage: 1 523 roubles). Nonetheless, cost recovery is not achieved in many cases. This is due to a key feature of the Russian housing sector, i.e. certain social groups are entitled to a 50% rent rebate. They include government employees, the security forces, disabled persons, and settlers from the northern part of the country. In total, such groups make up 40% of the population. These entitlements were enshrined in law between 1993 and 1995, without establishing who should bear the costs. Efforts to curtail these privileges have so far been unsuccessful.

¹² The following factors are taken into account: number of persons, specific regional features, and federal norms for associated costs per m² and, since 1977, also for maintenance and general repairs.

Last year, rents should already have covered 70% of the costs envisaged under the normative laws, with rent still restricted to 20% of the family budget. In reality, however, actual rents only covered around 40% of the costs. More than one-third of the costs were absorbed by the federal and local authority budgets; the financial shortfall (payment arrears and debts) thus amounted to around one-fifth.¹³ There is little cost awareness within the administrations or among consumers, which exacerbates the waste of resources. This applies especially to local authority services, notably the supply of water,¹⁴ hot water and district heating. In the Soviet era, buildings were constructed without meters, thermostats or shut-off valves. Subsequent installation is generally

¹³ *Ekonomika i žizn'*, No. 6/2001, p. 31.

¹⁴ In 1999, the leakage from water pipes amounted to 15%. Cf. Goskomstat: *Sfera uslug v Rossii*, Moscow 2000, p. 156.

Table 4

Privatisation of Housing in Russia, 1992 to 1999

	1992	1993	1994	1995	1996	1997	1998	1999	1992 to 1999
Privatised apartments									
Number in 1000	2 631	5 770	2 396	1 529	1 203	1 198	959	896	16 582
Area in million m ²	132	282	114	72	57	56	46	39	798

Source: *Rossija v cifrach 2000*, Moscow 2000, pp. 181 and 182.

Table 5

Housing Stock in Russia, 1990 to 1999: Types of Property Ownership

in %

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total housing stock	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which:										
Private ownership	32.6	32.7	35.6	46.7	50.3	52.8	54.7	56.7	58.9	63.1
of which: ownership by private citizens	26.4	26.6	30.1	37.0	41.3	44.0	46.0	48.3	51.7	55.7
State ownership	41.7	41.0	38.1	19.5	13.4	10.2	8.7	7.3	6.1	5.6
Local authority ownership	25.2	25.7	25.3	26.1	28.1	29.7	30.9	31.5	31.4	29.2
Corporate/social ownership ¹	0.5	0.5	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Mixed ownership ²	–	–	–	7.6	8.1	7.2	5.7	4.5	3.2	2.0
Urban areas	70.9	71.4	71.4	72.1	72.2	72.3	72.4	72.4	72.5	72.5
of which:										
Private ownership	14.6	14.5	16.8	24.9	27.8	30.1	32.1	33.9	36.2	39.7
of which: ownership by private citizens	10.7	10.7	12.9	18.9	22.1	24.4	26.2	28.1	31.1	34.6
State ownership	31.5	31.6	29.6	15.8	10.6	7.9	6.7	5.6	4.6	4.3
Local authority ownership	24.5	25.0	24.5	25.1	26.7	28.0	28.8	29.2	29.0	26.9
Corporate/social ownership ¹	0.3	0.3	0.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Mixed ownership ²	–	–	–	6.3	6.9	6.3	4.9	3.7	2.7	1.6
Rural areas	29.1	28.6	28.6	27.9	27.8	27.7	27.6	27.6	27.5	27.5
of which:										
private ownership	18.1	18.2	18.8	21.8	22.5	22.7	22.6	22.8	23.1	23.4
of which: ownership by private citizens	15.7	15.9	17.2	18.9	19.2	19.6	19.8	20.2	20.5	21.2
State ownership	10.1	9.5	8.5	3.7	2.8	2.3	1.9	1.8	1.5	1.3
Local authority ownership	0.7	0.7	0.8	1.0	1.3	1.7	2.2	2.2	2.4	2.4
Corporate/social ownership ¹	0.2	0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mixed ownership ²	–	–	–	1.3	1.2	1.0	0.9	0.7	0.5	0.4

1 Enterprises, organisations. — 2 State, local authority, private and corporate/social ownership.

Source: Rossijskij statisticeskij ežegodnik 2000, Moscow 2000, p. 172.

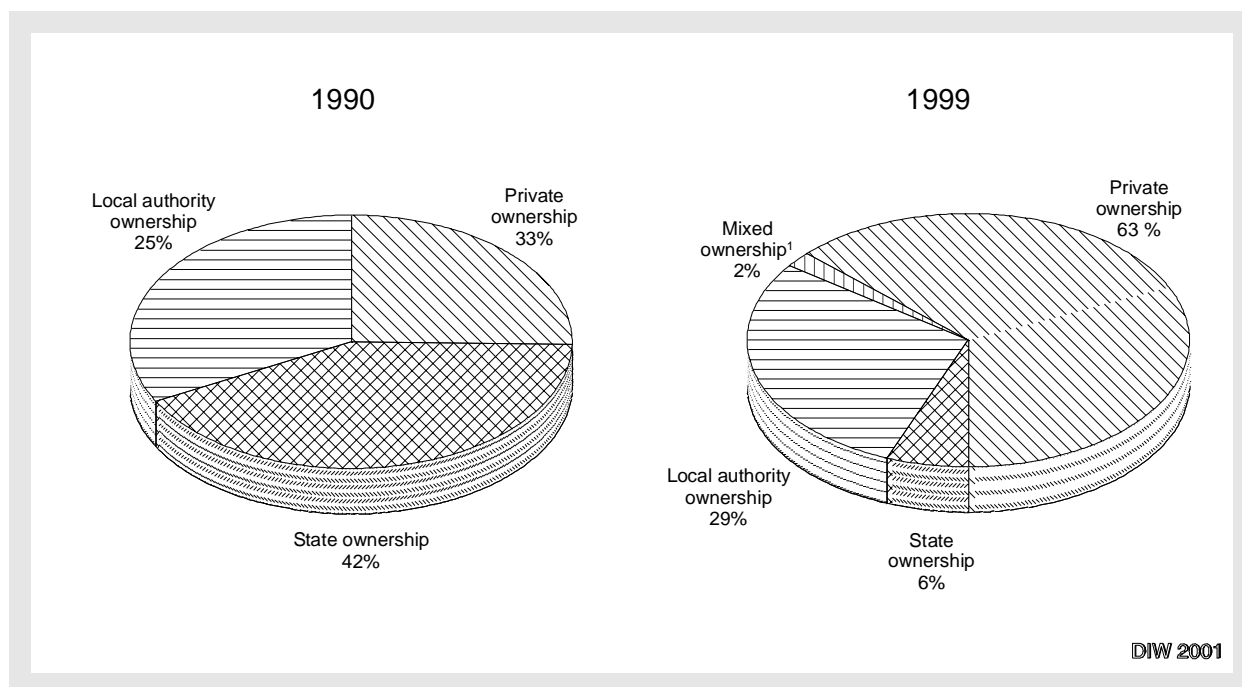
cost-intensive, and is often not included in renovations even now. The flat-rate payments for water and energy do not reflect consumption, and encourage waste. The Moscow Municipal Executive budget offers a prime example of the generous subsidies provided by local authorities for energy consumption: one-sixth of all expenditure is earmarked for subsidies to the housing sector; of this figure, 25% (i.e. 4% of the total budget) is allocated for heating costs. This balances out the differences between the supply price and the payments made by households.¹⁵

¹⁵ Finansy, No. 2/2001, p. 3.

The key feature of the local authorities' financial situation is their declining share of revenue from Russia's consolidated budget without any change in their share of expenditure. The tax reform of 1 January 2001 heightened this trend.¹⁶

¹⁶ The 1.5% corporate turnover tax, which was used to benefit the local authority housing sector, has been abolished. To compensate for this loss, local authorities now receive 5% of profit tax. Cf. Finansy, No. 2/2001, p. 8. For details of the tax reform, cf. German Institute of Economic Research (DIW) and the Institute of World Economics (IfW), Kiel University: Russlands Aufschwung in Gefahr. In: Wochenbericht des DIW, No. 50/2000, p. 50.

Figure 1
Housing Stock 1990 and 1999: Types of Ownership



¹ State, local authority, private and corporate/social ownership.
Source: Rossijskij statisticeskij ežegodnik 2000, Moscow 2000, p. 172.

This has resulted in increased pressure for a rise in rents and charges for amenities in the housing sector. In particular, there are now plans to review the normative costs and bring them into line with the actual costs of the relevant services.

For 1999, average expenditure on housing for all private households – including home-owning households – is still just 5% (cf. table 6). Nonetheless, this rose to 7% last year. The price increase in the housing sector thus amounted to 43%, i.e. more than double the average

Table 6
Expenditure on Housing in Russia, 1990 to 1999

share of total expenditure of private households (as %)

	1990	1993	1994	1995	1996	1997	1998	1999
Expenditure on housing	3.1	0.7	1.8	4.3	5.7	5.1	5.2	4.7
of which:								
Basic rent	1.0	0.1	0.5	1.3	1.7	1.6	1.5	1.6
Associated costs	.	0.1	0.4	1.1	.	1.3	1.4	1.2
Electricity	.	0.2	0.4	0.7	.	0.8	0.8	0.7
Gas	.	0.2	0.2	0.3	.	0.6	0.7	0.6
Central heating	.	0.1	0.3	0.9	.	0.8	0.8	0.6
memo item: Expenditure on:								
Food ²	31.5	43.5	43.9	49.0	47.2	43.0	51.3	52.0
Services	13.1	8.2	10.1	13.7	16.0	14.9	13.9	13.0
Consumer goods	45.8	42.4	40.2	31.8	31.3	36.5	30.2	30.8
Fuel	0.1	0.1	0.3	1.1	1.1	1.1	1.0	1.3

¹ As reported by representative households. — ² Excluding alcoholic drinks and expenditure in restaurants, etc.

Sources: Goskomstat: Rossiija v cifrach 2000, Moscow 2000, pp. 117 and 118; Rossijskij statisticeskij ežegodnik 2000, Moscow 2000, p. 167.

Table 7

Investment in Russia, 1990 to 2000

real changes compared with previous year (as %)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 ¹
Total investment	0.1	-15.0	-40.0	-12.0	-24.0	-10.0	-18.1	-5.0	-6.7	5.3	17.7
Investments in housing construction ²	.	-7.3	-28.1	-6.3	-24.0	-11.2	-27.1	-21.8	-7.2	-9.2	-11.9
memo item:											
Investment in housing construction as a percentage of total investment	16.6	18.1	21.7	23.1	23.1	22.8	20.3	16.7	16.6	14.3	10.7

¹ Provisional. — ² Calculated on the basis of the shares, assuming the same price development for all investment assets.

Sources: Goskomstat: Rossijskij statisticeskij ežegodnik 1997, Moscow 1997, p. 411; Rossijskij statisticeskij ežegodnik 2000, Moscow 2000, p. 546 and 548; Stroitelstvo v Rossii 2000, Moscow 2000, p. 23; Social'no ekonomiceskoje položenie Rossii, January 2001, p. 130.

increase in consumer prices.¹⁷ Even so, there is still a long way to go before full cost recovery is achieved.

Decrease in housing construction

During the period 1990 to 2000, macroeconomic investment in Russia fell by around 80% in real terms. The decrease in housing construction was even greater. Housing construction accounted for just 17% of total investment in 1990, and despite a slight increase in the intervening period, dropped to below 11% by 2000. Housing construction has not benefited from the recovery in overall investment over the last two years (cf. table 7).

The volume of construction (expressed as m² of living space) actually increased by 4.2% in 1999, but fell back by 6.3% last year (cf. table 8). The decrease in housing construction has primarily affected the state and local authority housing sector, which accounted for just one-fifth of the overall result in 1999. There was a far more substantial decrease in rural areas than in the cities (cf. figure 2). Private investors have been unable to offset the decrease, even though their share of new living space reached 62%.¹⁸ There has been a steady increase – to 43% in 1999 – in the amount of construction by private building owners, who generally build single-family houses with a high level of personal

investment. The average area of new apartments has steadily increased from just 60 m² (1990) to 82 m² (1999). The crucial factor in this equation were the newly apartments constructed by private building owners, which have an average area of 121 m².

The amount of modernised living space decreased dramatically over the last decade. Compared with 1990, just one-seventh was renovated in 1999. The five-storey large-panel buildings¹⁹ from the first phase of industrial construction (1956 to 1970) are especially in need of refurbishment. A total of 400 million m² of living space was created in this way, corresponding to 15% of Russia's current total housing stock. In Moscow City, the five-storey buildings account for 26.5 million m² of living space; the blocks built during the first phase of construction (6.5 million m²) are ripe for demolition.²⁰

¹⁸ The Russian statistics also classify house-building cooperatives as 'private investors'. The cooperatives decreased in significance in the 1990s; their contribution to housing construction amounted to just 2.2% in 1999.

¹⁹ These buildings were constructed on the initiative of the then first secretary of the Communist Party, Nikita Khrushchev, who called for 'the maximum amount at minimum cost'.

²⁰ Cf. Segodnja, 25 December 2000. Each year, around 1 million m² of living space is completely renovated; in the last three years, a total of 0.5 million m² has been demolished (www.mos.ru/moscowsprav/moscows2000).

¹⁷ Social'no ekonomiceskoje položenie Rossii January 2001, Moscow 2001, p. 145.

Table 8

Housing Construction in Russia, 1990 to 2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	mill. m ²										
Total	61.7	49.4	41.5	41.8	39.2	41.0	34.3	32.7	30.7	32.0	30.0
Urban areas	43.8	35.1	31.0	32.3	30.7	32.1	26.2	24.6	23.5	24.2	.
Rural areas	17.9	14.3	10.5	9.5	8.5	8.9	8.1	8.1	7.2	7.8	.
of which:											
state	.	.	.	15.0	10.0	9.1	5.9	4.6	3.4	3.3	.
local authority	.	.	.	7.0	4.3	4.0	2.9	2.8	2.6	2.8	.
private investors	.	.	.	10.2	11.8	14.8	14.6	16.1	17.9	19.9	.
of which:											
private building owners	6.0	5.4	4.9	5.6	7.1	9.0	10.0	11.5	12.1	13.7	12.7
house-building cooperatives	2.9	2.4	2.1	1.9	1.9	1.7	1.4	1.3	0.8	0.7	.
mixed ownership ¹	.	.	.	9.5	13.0	13.0	10.8	9.0	6.5	5.8	.
	m ²										
Average size of apartment	59.1	59.7	60.8	61.3	64.2	68.2	71.2	75.9	79.1	82.1	.
	mill. m ²										
Modernised apartments	29.1	19.7	22.2	22.8	9.0	11.7	7.3	6.4	4.9	4.1	.
of which:											
local authority	8.5	6.3	6.4	10.1	5.1	5.8	4.0	3.8	3.9	2.7	.
state	20.6	13.4	15.8	12.7	3.9	5.9	3.3	2.6	1.0	1.4	.
	structure (%)										
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Urban areas	71.0	71.1	74.7	77.3	78.3	78.3	76.4	75.2	76.5	75.6	.
Rural areas	29.0	28.9	25.3	22.7	21.7	21.7	23.6	24.8	23.5	24.4	.
of which:											
state	.	.	.	35.9	25.5	22.2	17.2	14.1	11.1	10.3	.
local authority	.	.	.	16.7	11.0	9.8	8.5	8.6	8.5	8.8	.
private investors	.	.	.	24.4	30.1	36.1	42.6	49.2	58.3	62.2	.
of which:											
private building owners	9.7	10.9	11.8	13.4	18.1	22.0	29.2	35.2	39.4	42.8	42.3
house-building cooperatives	4.7	4.9	5.1	4.5	4.8	4.1	4.1	4.0	2.6	2.2	.
mixed ownership ¹	.	.	.	22.7	33.2	31.7	31.5	27.5	21.2	18.1	.
Modernised apartments	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	.
of which:											
local authority	29.2	32.0	28.8	44.3	56.7	49.6	54.8	59.4	79.6	65.9	.
state	70.8	68.0	71.2	55.7	43.3	50.4	45.2	40.6	20.4	34.1	.

¹ State, local authority, private and corporate/social ownership without foreign shareholders.

Sources: Stroitelstvo v Rossii 1998, Moscow 1998, p. 57; Rossijskij statisticeskij ežegodnik 1996, Moscow 1996, p. 458; Rossijskij statisticeskij ežegodnik 2000, Moscow 2000, p. 174, 409 and 410; Social'no ekonomiceskoje položenie Rossii 2000 g., Moscow 2000, pp. 52 and 53; Sfera uslug v Rossii, Moscow 2000, p. 182.

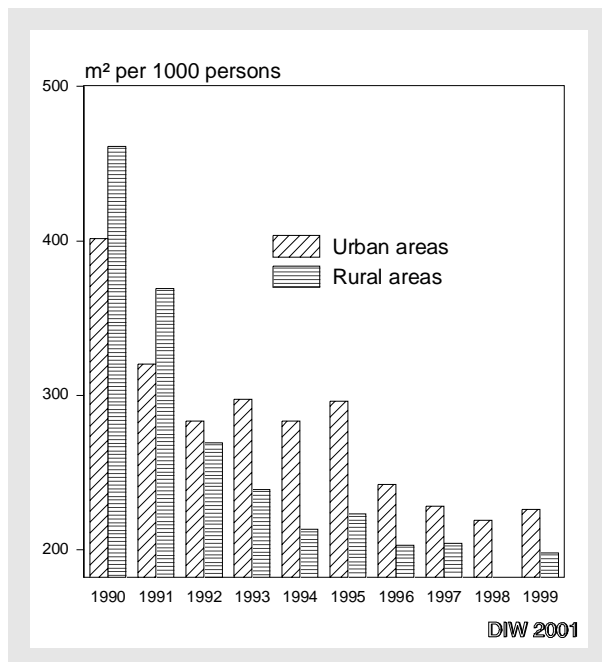
Financing

The state has largely ceased to finance housing construction; its share fell from 85% in 1990 to just 15% in 1999.²¹ Support is now granted only to the social groups

²¹ <http://www.government.gov.ru/institutions/committees/Gosstroj-9.02.html>

named above, who are also entitled to rent subsidies. Status-dependent flat-rate payments are made available for the purchase of housing, local authority housing is offered, or low-interest loans granted. The construction of social housing, for which the local authorities are responsible, has also been greatly reduced owing to financial difficulties. Moscow, which is in a fairly strong financial position, is an exception: in 1999, around 10%

Figure 2
Housing Construction, 1990 to 1999 – Urban and Rural Populations



Source: Goskomstat Rossijskij statističeskij ežegodnik 2000, Moscow 2000, p. 53 and 410.

of total new housing constructed by the local authority went to low-income persons at cost price,²² and a further 3% was allocated to persons on the waiting list. This latter group was able to purchase apartments at cost price minus a subsidy for entitled persons, in accordance with a normative law.

For the majority of the population, there is a lack of secure and affordable financing options. Owing to the numerous legislative loopholes and the weakness of the banking system, other financial institutions and insurance companies, it has only been possible to launch a very rudimentary range of financial products so far. From 1994 to 1997, for example, mortgages were initially granted on the basis of lien and a Presidential Decree. The mortgage generally only covered half the property's value and was calculated to run for a few years. This meant that take-up was only possible for persons with a high income, often from the shadow economy.²³ The Mortgage Law of July 1998 has also failed to guarantee adequate security to credit institutions.²⁴ In general, mortgages are therefore still uncommon, and are only available in 20 regions of the Russian Federation. However, with the forthcoming legalisation

²² <http://www.mos.ru/moscowsprav/moscows2000>

²³ Dengi i kredit, No. 5/2000, p. 42.

of private ownership of non-agricultural land, a rise in the number of mortgages is anticipated.

The lack of classical financial products is partly offset through credit substitutes. For example, investors and construction companies purchase jointly owned housing securities in the form of certificates. House purchase is possible once a specific number of certificates, e.g. totalling one-third of the property's value, have been collected. After the crisis of 1998, no financing at all was available for several months. As a rule, new financing models are now offered in hard currency, e.g. mortgages in conjunction with life insurance. After one-third has been paid in, a property purchase is possible. The interest rate on the loan should then amount to 8% in hard currency, which makes it lower than the current market rate of 15-18%.²⁵

Other financing models, which also contain elements drawn from the German building society system (*Bausparkassensystem*), are currently under discussion.²⁶ Tax incentives to encourage housing construction are also on the increase. As a result of amendments to income tax legislation, which came into effect on 1 January 2001, expenditure relating to the sale or purchase of housing – with the exception of 'weekend cottages' – are eligible for a higher level of tax deduction. The tax-free allowance has been increased to 250 000 roubles. However, a tax on the increase in value is levied on the sale of property that has been in the seller's possession for less than five years.

Prices

Compared with wages, purchase prices for apartments are high. For new housing (without private building owners), the average price per m² of living space was 4 400 roubles (i.e. US-\$ 157) in 2000, whereas the average monthly wage is 2 270 roubles. In major urban areas, the price per m² is even higher (7 950 roubles in Moscow, 5 990 roubles in Murmansk). In Ryazan and Novgorod, on the other hand, the price per m² is just 2 400 roubles.²⁷ The continuing shortage of housing has also resulted in higher prices for older properties.

²⁴ Federal'nyj zakon: 'Ob ipoteke' (On Mortgages), No. 102 of 16 July 1998. The drafting of amendments to the Mortgage Law is on Prime Minister Mikhail Kasjanov's agenda for the first part of 2001. Cf. Rossijskaja gazeta, 11 January 2001.

²⁵ <http://www.ipotekapsk.ru> and Komsomolskaja pravda, 15 March 2001.

²⁶ Ivestija, 22 January 2001.

²⁷ Social'no-ekonomičeskoe položenie Rossii January 2001, Moscow 2001, p. 48.

During the transformation process, the income spread has increased. In Moscow in particular, the wealthy have a wide range of well-appointed and luxury accommodation to choose from.²⁸ Prices start at US-\$500 per m² for new system-built apartments. There is a particularly wide choice of property in the US-\$1000/m² bracket, but prices range far higher than that.

Summary

In the 1990s, state housing construction for social groups with low to average incomes was greatly reduced. There is a shortage of attractive long-term credit arrangements with secure conditions to support the demand for owner-occupied property purchases. A market for private financing for housing construction could not be developed as private investors' risk was not adequately secured.

In the rental sector, the gradual freeing of rents and associated costs should help achieve progress towards cost recovery. In a country where even privatised apartments continue to be subsidised, the abolition of rent rebates for broad sections of the population should offer sufficient scope for a tangible increase in housing benefits for persons who are genuinely in need. It will only be possible to meet the demand for living space more effectively when entry into the rental sector is worthwhile for private investors as well.

Above all, however, a stable economic environment is a prerequisite for a long-term revival of housing construction. This means that institutional shortcomings must be dismantled, especially as regards the legal framework, private ownership of land, and the transparency of the financial sector.

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²⁸ Elitnaja nedvizimost' (Elite Property), No. 4/2001.