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**HOUSING CONSTRUCTION DEVELOPMENT TRENDS IN**  
**RUSSIA: CONTEXT OF THE GLOBAL CRISIS**

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**Abstract**

The article is devoted to one of the macroeconomic issues - the growth of construction industry as one of the sources of economic growth and the welfare of the population. Drastic changes in the economy seriously affect the ability to create a normal life-support environment for the country's population. The construction market of residential real estate in Russia in the conditions of deep restructuring of the economic system is analyzed. The authors identified three main stages of the development of the residential real estate market and the factors that had a significant impact on each stage. The authors answer the question if the main task of the national project "Housing and urban environment" - increasing the volume of housing commissioning to 120 million square meters per year by 2024-is fulfilled within the term set by the President of Russia. The results of the study are based on data from the Federal state statistics service. The analysis, synthesis and a systematic approach are the methodological base of the article.

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*Keywords:* The property, crisis, pandemic



## 1. Introduction

A deep restructuring of the system of economic ties in Russia was caused by the pandemic, the fall in oil prices and the depreciation of the national currency (Glazyev, 2020). All sectors of the economy, without exception, were affected by the changes. In this study, the development of the construction industry in the new reality will be considered. The choice of the industry is due to the fact that the construction industry is one of the sources of growth for both the economy and the welfare of the population. Drastic changes in the economy seriously affect the possibilities of creating a normal life-supportive environment for the country's population. Today form a theoretical basis for the adoption of managerial decisions by the state in the housing sector, adequate to the new reality is emergency needed. Within the framework of the study, we will consider whether one of the main task of the national project "Housing and urban environment" - increasing the volume of housing commissioning to 120 million square meters per year by 2024-is fulfilled in the current situation within the term set by the President of Russia, Passport of the national project "Housing and urban environment" approved by the Presidium of the Council under the President of the Russian Federation for strategic development and national projects, 2018.

## 2. Methods

The conceptual foundations for the formation of new conditions for the activities of economic entities that have to constantly survive and ensure forward movement in a particular complex trajectory of the national economy were considered by foreign and domestic scientists Weldon (2012), Glazyev (2013, 2017), Zhuravleva and Manokhina (2013), Kirdina (2013), Livshits (2013), Olsevich (2013). The significance and scale of the problems of the construction industry were raised in the works of such domestic and foreign scientists and practitioners as Cyert and March (1992), Huber (2003), Russell (2003), Zhavoronkov and Shcherbakov, (1996), Stakhanov and Ivakin (2001). Problems of formation and development of the Russian construction market were studied in the works of domestic authors. Guzhova (2015, 2018), Guzhova and Pravdina (2017), Proshkina and Tumashova (2016), Popov (2008). The main emphasis in the presented works is made of the existing territorial differences in the provision of social and industrial infrastructure, the presence of significant risks that are high for the domestic construction industry, even in conditions of stable economic development of the country.

However, there is no systematic consideration of the problem of organizing the activities of the housing construction sector in conditions of extreme instability of the economic system. Problems and existing conditions that could cause degradation and even destruction of the housing sector and the collapse of the housing market should be investigated immediately.

In an unprecedented short period of time, a new economic reality has been created. To understand what will happen to the housing construction sector in the context of the growing crisis, to identify possible risks and to predict the possibility of preventing a sharp fall in the construction of residential real estate, it is necessary to turn to historical analogies.

According to Glazyev (2013,2017), the current situation in terms of the scale of the growing crisis is similar to the world economic crisis, the acute phase of which lasted for three years - from 1929 to 1932,

when the economy could not fully recover from the crisis and recover, and its duration had severe consequences for society.

In our point of view, we have to remember that in the thirties of the last century in our country there was an economy of administrative and command management. Then the tools and approaches which were used were far from market mechanisms. To reach the main goal of the article the authors decided to take into account the consequences of the global crisis of 2008, which was characterized by a complex and comprehensive nature and in which, as in today's situation, the entire world economy, including Russia, was involved

To answer the main question the general scientific methods of cognition, such as analysis, synthesis, system approach and experimental methods, including comparative analytical and situational analysis were used.

### **3. Results**

The residential real estate market of the Russian Federation is a complex element of the country's macroeconomic system. As a part of huge system, it depends on the balance of all elements. There are two sides of the residential real estate market: one of them - the level of development of the primary market is determined by the overall state of the economic system, another one, the level of housing affordability is an important social indicator of the country's development, which determines the quality of life of citizens.

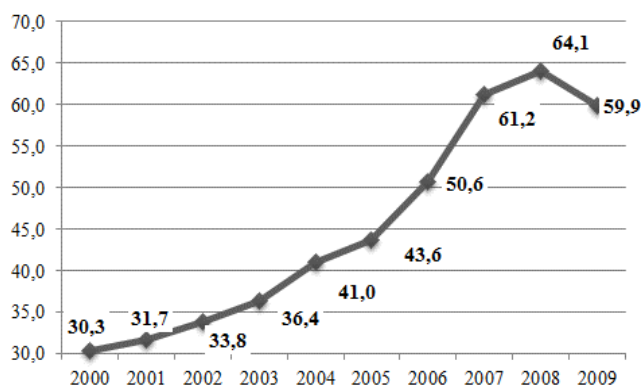
If we talk about the beginning of the development of the residential real estate market, there are two opinions: some researchers associate its beginning with 1991, when the law "on property" was adopted and became fully operational, while others consider it the starting point of 1992, since it was then that the large-scale privatization of apartments began.

It is too early to talk about the full functioning of the real estate market at that time, since the institution of private property was actually created, but legal and financial instruments were not yet developed at that time.

In 1997, the law on registration of real estate rights came into force, and in 1998 - the law on mortgages. These norms of these laws, that have come into effect, allow us to talk about the beginning of the real estate market in the modern sense. This period is associated with the beginning of the first stage of development of the real estate market. The first stage of its development-pre-crisis-1999-2009.

Housing construction developed rapidly before the 2008 crisis, and commissioning volumes almost doubled between 2000 and 2007. A significant event of this period was the adoption in 2004 of the Federal law FZ-214 (Federal law "on participation in shared construction of apartment buildings and other real estate objects and on amendments to certain legislative acts of the Russian Federation", 2004), which regulates the duties of the developer. According to the law in its first version, the developer had the right to take money for an apartment only after obtaining permits for construction. The contract was subject to mandatory registration, which made it possible to exclude double sales, and the contract had to specify the terms and amounts of the penalty for non-compliance. Although this law was not perfect, it was the first step towards the transition to a civilized primary residential real estate market.

The volume of housing commissioning at the first stage of the real estate market development increased from 30.3 million square meters in 2000 to 64.1 million square meters in 2008 (Figure. 1).



**Figure 1.** Commissioning of residential buildings in the Russian Federation in 2000-2009, million square meters (Federal state statistics service, 2020 Official statistics)

Ever-increasing demand for real estate, supported by rising wages, the introduction of a new financial mechanism for acquisition (such as a mortgage) and an insufficient number of offers, and rising real estate prices were the drivers of market development during this period.

In the second half of 2008 the global crisis, that crossed the borders of national economies and covered the entire world economy, (Voronin, 2009), had a pathogenic effect on the Russian economy, which is why the Russian economy's recovery from the depression and the global crisis was much more severe than in other countries.

The average monthly rate of industrial decline in the Russian economy in the second half of 2008 was 3.6%, which theoretically characterizes the acute and deep phase of the recession. By the end of 2008, Russia's external debt was about 30% of GDP. The price of a barrel of Urals oil dropped from 132.1\$ to 39.1 \$. In the summer of 2008, the rate of income growth relative to previous periods decreased significantly, and at year-end average per capita income in the country amounted to RUB 14 863.6 Banks have tightened requirements for borrowers, which led to a slowdown in the mortgage. All these factors had a negative impact on the development of the real estate market. In 2008, 66.0 million square meters were planned to be commissioned, but in fact 64.1 million square meters were commissioned.

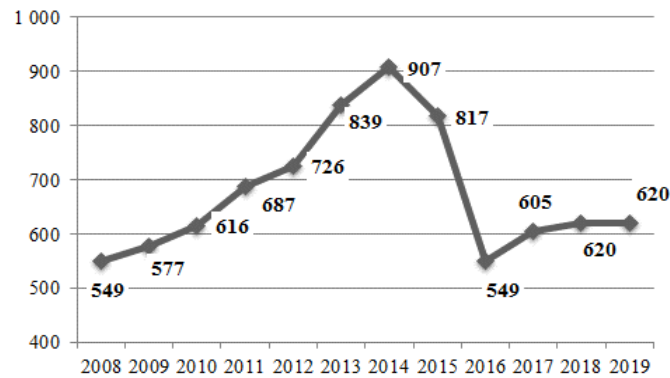
In 2009, 59.8 million square meters were put into operation, which is 6.71% less than in 2008. According to Rosreestr data, 2,326 million purchase and sale transactions between individuals took place in 2007, and in 2008. - 2,367 million transactions, and in 2009, only 1,943 million contracts for the purchase and sale of housing were concluded. In the two years from 2007 to 2009, the number of transactions decreased by 20%.

The second stage of development of the residential real estate market is reconstruction-2010 -2015.

The rapid recovery of the residential real estate market was a feature of the post-crisis period of the 2008 crisis. Against the background of falling housing commissioning (only 58.4 million square meters were commissioned in 2010, which is 2.34% less than in 2009), mortgage loans increased by more than 10 times in 2010. Since 2011, there has also been a positive trend in housing commissioning.

In 2014, the Russian economy was affected by another global economic crisis. Some economists believe that the new recession was a direct continuation of the 2008 crisis. The events in Ukraine and the accompanying foreign policy crisis played a special role in the weakening of the Russian economy.

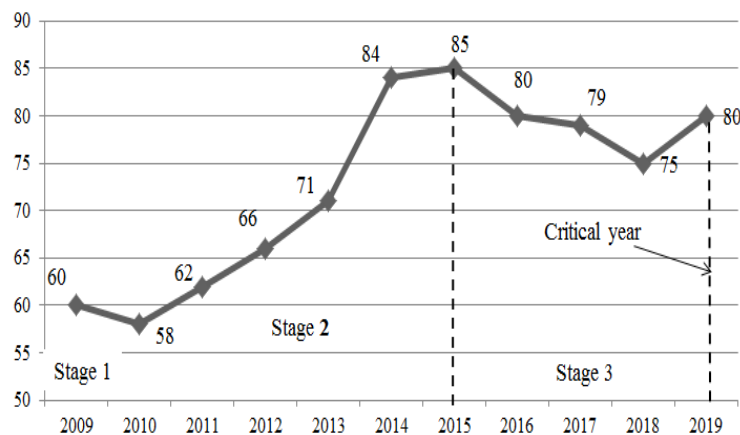
The impact of the 2014 crisis has had a negative impact on the real estate market, and since 2016, which is the beginning of stage 3 of the development of the real estate market, there is a decrease in the volume of housing commissioning: in 2016 - 80.2 million square meters, in 2017-78.6 million square meters, in 2018-75.7 million square meters. Everything has repeated as in 2008: the volume of demand and supply has decreased, prices have fallen slightly, but they are still inaccessible to the majority of the population, whose incomes have declined (Figure 2).



**Figure 2.** Wages in Russia in US dollars for 2009-2019 Wages in Russia in US dollars for 2009-2019 Wages in Russia in US dollars for 2009-2019, (2020).

The mortgages, which in 2014, due to lower rates and government programs, became the driver of the industry, is the difference between these crises.

We can say, that 2019 is a critical year. July 2019 can be called a historical stage in the development of the primary residential real estate market. At this moment, the social problem of “deceived equity holders”, provoked by “bottlenecks” in Federal Law FZ-214, which allowed the developer to use the money of interest holders for other purposes, was especially acute (Figure 3).



**Figure 3.** Wages in Russia in US dollars for 2009-2019 Wages in Russia in US dollars for 2009-2019, (2020).

The amendments, which entered into full force in July 2019, to address this issue. According to new requirements, the bank, which carries out project financing of the construction project, becomes the main participant in the construction process. The builder will only be able to access the money of interest holders after putting the house into operation. This mechanism really allows us to solve the problem of “deceived equity holders”, but at the same time it leads to an increase in the cost of construction, and, therefore, exacerbates the problem of housing inaccessibility for most citizens of Russia. Many developers began to increase housing prices to maintain business profit rates. On average in 2019, despite an increase in construction volumes by 4.9% (80.3 million sq. m were commissioned in 2019), an increase in the price of 1 sq. m of residential real estate in the primary market amounted to 3.62%, which led to a decrease in sales volumes by 1.69% (Pivovarova & Tretyachenko, 2020).

It is not yet possible to fully assess the impact of changes in legislation. Since most of the projects, before the introduction of restrictions related to the pandemic, were implemented according to the old law, but in the medium term it was predicted that toughening of the Federal law -214 will lead to a reduction in the volume of construction, the withdrawal of many companies from the market, monopolization, and as a result - a decrease in competition and the quality of construction (for example, the volume of construction as of 01.04.2020 is 10.7% lower than last year).

We consider that changes in legislation that were adopted in the post-crisis period, when the country's economy did not reach pre-crisis levels, is a very serious test for the real estate market. The current crisis of 2020, which has its own characteristics compared to the crisis of 2008 and 2014 year, makes its development even more difficult.

There are 3 key differences:

1. There was economic growth, before the crisis of 2008, and now we will enter the crisis after a period of economic stagnation, which was accompanied for five years by a fall in real incomes of the population and its indebtedness.

2. Today competition in the market is based on the ratio of price and quality. Taking into account the introduction of amendments to the law -214, which led to an increase in the cost of construction, most developers work with a lower rate of profit, which limits the possibility of price maneuvers, and as a result - will lead to a reduction in market participants.

3. More active role of state support for the industry in the form of subsidizing the mortgage interest rate and developing support programs for certain categories of citizens will, have a positive impact not only on the industry, but also on the solution of the social issue.

Therefore, the possibility of commissioning 120 million square meters per year by 2024 will depend on the degree of influence and balance of economic factors (such as the population's ability to pay, the level of real income, unemployment, construction costs and market competition between developers), as well as administrative factors (such as government measures to support the industry).

#### **4. Discussion**

Today we speak about new realities. The Russian economy is under influence of the new composition of different factors. The brand new one is Covid-19. There are lots of barriers to the development of Russian economy and its residential real estate sector: falling incomes, growth of the

unemployed, estimated by some experts at 15 million people, a multiple reduction in the number of small businesses. To set up growth a lot of financial resources and quite a lot of time are needed.

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