

# THE NEW HOUSING STRATEGY

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The New Housing Strategy was prepared by a team of authors within the framework of the Basic Research Programme realized by the National Research University ‘Higher School of Economics’ (HSE). The team comprised of N. Kosareva, Cand. Sc. (Economics), Academic Supervisor of the Graduate School of Urban Studies at the HSE, Senior Research Fellow of the Laboratory of Industrial Market Studies of the Expert Institute at the HSE, President of the Institute for Urban Economics (IUE), T. Polidi, Analyst of the Laboratory of Industrial Market Studies of the Expert Institute at the HSE, Executive Director of IUE, A. Puzanov, Cand. Sc. (Geography), Department Head of the Department of Urban Economics and Municipal Administration at the HSE, Senior Research Fellow of the Laboratory of Industrial Market Studies of the Expert Institute at the HSE, General Director of IUE, Ye. Yasin, D.Sc. (Economics), Academic Supervisor of the HSE.

In 2011, a “Strategy–2020: New Growth Model – New Social Policy” was prepared to absorb the research findings of a broad expert community including the authors of the New Housing Strategy. One of the chapters of the former paper highlights the need for streamlining the housing policy<sup>1)</sup>. The proposed new housing strategy, in many respects, is based upon the Strategy-2020, develops and provides additional substantiation to conclusions and proposals thereto.

It appears that given the complex macroeconomic background there emerges a strong need for discussion of the existing housing problems and their solutions. For a crisis not only brings a lot of problems but also gives a chance for adjusting the strategy for future periods.

The authors hope that conclusions and proposals presented herein shall be of interest to a broad expert community and useful to housing policy makers.

The full text of the New Housing Strategy is available at <http://www.urbaneconomics.ru/en/expert/kosareva/housing-policy-ru>.

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<sup>1</sup> N. Kosareva (head of a team of authors), A. Puzanov, V. Dogadaylo, I. Goryachev, M. Nikolskiy, S. Sivaev, A. Semenyuk. Chapter 14. State Housing Policy // in a book entitled “Strategy 2020: New Growth Model, New Social Policy”. A final report on the outcomes of expert research on pressing issues of social and economic strategy in Russia till 2020 / under expert revision: V. Mau, Ya. Kuzminov. Vol. 2. M.: Delo, 2013. Ch. 14. p. 9-44.

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## INTRODUCTION

State housing policy carried out during the period 1991 – 2014 helped to overcome the Soviet leftovers and advance the housing sector to bring the positive results as set forth hereinafter:

- Main housing market institutions were formed (this implied the lift of major restrictions on private ownership of residential property, the use of a system of state registration of rights to real estate property, and also the appraisal and insurance of real property);
- A three-fold increase, as compared with 2004, in the proportion of the households having the opportunity of purchasing dwellings with own and borrowed funds;
- A system of housing mortgage lending was launched and has been developing at a fast pace. (Only in 2014 alone almost 1 million mortgage loans were issued);
- Housing construction volumes demonstrate an upward trend. In 2014 they grew twice against the year 2004).

In many respects, the efficiency of housing policy, however, may be evaluated as inadequate:

- Virtually beyond the scope of the state housing policy remained the groups of households with incomes insufficient for housing improvements in the market (except for certain categories of people);
- Town planning and land use system, which underlies the development of housing construction, appears to be unable to facilitate the creation of either comfortable living environment or transparent legal framework for investors and developers so far;
- Housing construction market exhibits a high degree of dependence on administrative bodies, demonstrates anemic competition, high levels of red tape, high risks and low transparency for investment and lending, and adherence to obsolete technologies and architectural design solutions. It also

brings about high lending risks, provides poor lending transparency and demonstrates high reliance on direct investment made by individuals whom major construction risks are shifted to;

- Utilities sector remains unattractive for private investors;
- The housing stock handed over to individuals for private ownership has never become the subject of full responsibility on the part of the owners; a competitive market for apartment building management has not evolved so far.

To solve the existing problems and determine how to handle them it would be necessary that main trends of Russia's housing landscape and current housing policy be revisited, and major challenges and threats - that necessitate adequate tackling to shape the new housing policy – be reviewed.

The backbone of the proposed new housing strategy prioritizes the need for *improving, primarily, the quality of housing provision to individuals at different income levels and with different needs, rather than simply increasing the number of square meters of floor space.*

## 1 MAIN TRENDS OF RUSSIA'S HOUSING SECTOR

The trends currently dominating the housing sector in Russia are indicative of its unsustainable development.

### *Housing market*

Development of housing market in Russia started with large-scale free privatization which provided the underlying prerequisite for development of housing market institutions. This, however, has been taken place at a different pace and with different efficiency, and some of the institutions have not been developed as yet.

In Russia there are 61.5 mln dwelling units with the total floor space of 3.3 bln sq. m. Each year almost 6% of the total dwelling units undergo purchase-and-sale transactions. This is higher than in developed countries. (In Europe, purchase-and-sale transactions are made, typically, in respect of 2–3% of all the dwelling units each year). This may be accounted for, mainly, by drastic differences in the structure of the housing stock by forms of tenure. In Russia about 75% of the housing stock is occupied by homeowners. In Germany owner occupied housing totals only 46% of the housing stock, in France - 57%, and in Netherlands – 58%.

It is important to note that housing market institutions tend to be better developed in Russian cities with relatively developed economies. In fact, these are almost non-existent in rural settlements where subsistence economy prevails. In rural areas self-built single-family houses account for 85% of the total dwellings, and in urban areas – for 30%.

Transactions made in the primary housing market (a market of new residential buildings) account for 20% of all the purchase-and-sale transactions, and secondary market transactions make up 80% of them. Over the past decade the market institutions involved in financing of housing purchase-and-sale transactions have developed considerably. The proportion of transactions with mortgage loans grew from almost a zero level to 25%. In 2013, mortgage market rose to make up 3.5% of GDP, having survived the first financial crisis of 2009 when the amount of

the mortgage loans issued shrank 4.3 times as compared with that reported for the year 2008. Yet, against the backdrop of soaring money value and growing inflation there emerge risks for a recent trend of fast development of housing mortgage lending.

Corporate sector owns only 3% of the country's housing stock and uses it predominantly as a tied accommodation for employees. By 2014 the market of corporate investment in construction of rental housing has not been developed. Housing rental segment relies on dwellings owned by individuals and takes up a 'shadow zone' of the market (rental income taxes are rarely paid, and the rights of landlords and tenants remain unprotected).

The state invests mostly in housing construction while only occasionally participates in market transactions in respect of purchase and sale of dwellings and their rent or lease. The state and municipalities own 13% of the total housing stock. This includes, for the most part, the dwellings that were previously provided under social rent agreements to individuals who have never privatized them for a variety of reasons.

Price trends are highly dependent on dynamics of household income because individuals are main housing investors and consumers. During the period of economic growth in 2000–2007 real housing prices - much like the economy in general - demonstrated each year an average increase of 7%. Then, considerably moderate rates of growth of GDP (2–3% per year) brought about, among other things, stabilization of housing prices. Having been provoked, mostly, by a mismatch between supply and demand, the growth of real housing prices could not be indicative of the improving quality of housing. There have been no changes in quality of the housing supply. Most transactions, in fact, took place in respect of the dwellings built up as far back as Soviet times, while new buildings were constructed, for the most part, based on technologies and projects designed in the 1980's.

In 2014, about 27% of all the households could afford buying dwellings with their own funds or mortgage loan proceeds. Of that proportion less than a quarter

of households participate annually in real transactions. This means that, for the time being, housing market institutions are geared to higher-income households.

Other 73% of all the households had no access to affordable options for improvement of their housing conditions (aside from informal renting in private sector, and long waiting on a list for social housing or for resettlement from an unsafe dwelling).

The above-outlined trends of the housing market represent a general picture which differs considerably across Russia's regions. By housing market development indicators the regions generally fall into four groups:

- Attractive investment destinations with rapidly emerging housing markets (15 regions, 41% of the total population);
- Developing regions with a moderate potential for housing market development (39 regions, 43% of the total population);
- Regions with depressive housing markets and ailing economies (9 regions, 4% of the total population);
- Regions with migration outflow and vague prospects for housing market development (9 regions, 5% of the total population)<sup>2</sup>.

### ***Housing construction***

The volumes of housing construction have been on a continuous rise from 2001 (except for the period of 2009–2010). According to data provided by the Federal Service for State Statistics (Rosstat), in 2014, the volumes of the housing commissioned made up 84.2 mln sq. m of floor space. This exceeded the maximum values reached in Soviet period (72.8 mln. sq. m in 1987).

As mentioned above, 20% of the total market transactions related to new residential buildings was constructed by professional developers. This figure accounted for about 700 thousand dwelling units (apartments) in 2013 and made up 1.1% of the total housing stock. The processes associated with professional housing construction, thus, have minor effect on the volume and quality of the

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<sup>2</sup> Several regions with less developed economies and housing market institutes were not classified.



housing stock. The overwhelming majority of housing construction projects takes place on greenfield land plots and, hence, does not necessitate demolition or renovation of dilapidated and obsolete housing.

In recent years, while operating, mostly, at full capacity the sector of industrialized housing construction produced 40 mln. sq. m of floor space per year (0.28 sq. m per capita). Self-builders produce almost the same volumes (in 2013 – 30.5 mln. sq. m of floor space). The trend was in place in Soviet time before 1958 when transfer to massive industrialized housing construction had started and the proportion of ‘self-built houses’ had seen a drastic decline. This implies that emerging market relations revealed the same market participants (professional developers and ‘self-builders’) in the structure of Russia’s sector of housing construction as 70 years ago.

Before 2000, the development practices in Russian cities relied on ‘pinpoint’ development within the existing residential neighborhoods (prior to introduction of regulation procedures in respect of town planning activities). During the economic boom of 2000–2007 the development practices were dominated by major projects involving a comprehensive ‘green field’ development which implied the construction of standard high-rise buildings in the absence of adequate landscaping and transport accessibility of the neighborhoods.

By the end of the first decade of the 2000’s, the economic constraints to ‘urban sprawl’ had emerged to encourage a comprehensive development of urban fringes (market housing prices no longer can cover the high costs associated with construction of new utilities-, transport-, and social infrastructure). Hence, there emerged a trend for redevelopment of residential neighborhoods implying the construction of new buildings in place of demolition of dilapidated and obsolete housing within the existing residential neighborhoods.

For that reason, urban environment and physical planning of Russian cities are largely reminiscent of Soviet era’s administrative-style urban planning practices. As a result, public access areas are scarce. There are few small retail

businesses in the streets, and uneven density of housing developments in central locations and urban fringes which provokes many-hours-long traffic jams.

Unsustainable market relations in housing construction have extremely adverse effect on the involvement of financial institutions in the housing sector. Indeed, professional developers mobilize 60-70% of the total housing construction investment directly from individuals, thus sharing the ensuing risks with those least prepared to manage them<sup>3</sup>. Banks do not seek to develop project financing options. They evaluate the risk of lending to individual better than that of issuing the loans against the pledge of housing construction projects.

### ***Housing stock management***

Secure and efficient performance of housing sector lies not only and not so much in the sphere of housing construction, which implies the creation of new dwellings, as in the quality of the housing stock management. The situation, in that respect, appears to be most dire.

The major part of apartment buildings (ABs) in the country – almost 98% of the total floor space of dwelling units in the buildings – have living and non-living accommodations owned by different entities (individuals, public authorities). The complexity of organizing a coordinated demand for AB management, on the part of the owners, gives rise to numerous problems.

A competitive market of comprehensive management services to be provided by professional management companies has not been formed so far to satisfy the current demand for housing and utility services and ensure prompt routine and capital repairs of common property in ABs.

This has adverse effect on the state of the housing stock, though, by official estimates, a mere 0.7% of the total housing stock is reported to be unsafe for living, and another 2.3% is recognized as dilapidated housing. The state of the housing stock continues to deteriorate. Annual housing stock depreciation exceeds

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<sup>3</sup> It stands to mention that self-builders produce much the same volumes without any participation on the part of professional developers.

five times the amount of replacement<sup>4</sup> investments. Without getting involved in residential construction lending, financial institutions do not yet embrace the idea of orienting their business activities towards housing stock management, specifically, the loan financing capital repairs in Abs has not yet emerged.

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<sup>4</sup> Hereinafter – investment in redevelopment, reconstruction and capital repair of housing stock and utility infrastructure

## 2 HOUSING POLICY IN 1991 – 2014

A variety of social and economic factors and the state housing policy influenced the above-outlined trends in the housing sector.

Russia's state housing policy of the 1990's encompassed a body of unique historical experience in carrying out large-scale social and economic reforms in the process of transition from the socialist system of housing relations to the market one. Solutions geared at reforming the housing sector by no means proved to be efficient. Many of them were affected by particular circumstances in place at the time. In the 21<sup>st</sup> century the state housing policy in Russia still aims at reforming various types of housing relations. It would be premature, hence, to speak about their stabilization.

Main goals and outcomes of the housing policy carried out in 1991 – 2014 are described below.

1991 – 1993: Creation of a municipal housing stock, public housing privatization and lifting restrictions on private ownership of residential property.

At that stage, public housing stock (which accounted for 25% of the total housing stock in 1990) – previously assigned to 'local soviets' (local authorities) – has been transferred to municipal ownership. Public enterprise housing stock has not been handed over to municipal authorities in the same prompt manner (the divestiture process, in fact, dragged on till 1998), because the process necessitated considerable budgetary expenditures. A large-scale free privatization of public housing started (about 30% of the housing stock subject to privatization went to private hands).

1994 – 1998: Housing and utilities sector reform including the reform of housing and utility payments; creation of the enabling environment for real estate market development; setting strategic objectives for development of housing construction and improvement of housing conditions of the individuals.

In general terms, the reform of rent and utility payments was not carried out within the period of time as had been scheduled before (1998). In fact, it has never

been fully completed to date. Yet, the programme of housing allowances was successfully implemented (in 1996 the programme covered 7% of all the households). Sectoral reforms, as these pertain to housing maintenance and management, and home owners associations, dragged on for many years and has not been completed so far.

Following the collapse of the state construction complex the volumes of housing construction dropped from 49 mln sq. m of floor space in 1991 to 31mln sq. m in 1998. After the extension of the rights to ownership the massive construction of single-family housing began (7.9 mln sq. m was commissioned in 1998 against 5.4 mln sq. m in 1991). A legal framework was designed with the aim of regulating the making and financing of the real estate market.

1998 – 2000: Absence of the new political decisions and slowdown of the reforms launched.

2001 – 2004: Reforming and modernization of housing and utility sector; setting the objective of resettling people from dilapidated and unsafe housing; provision of federally financed housing to servicemen, disaster liquidators, refugees, displaced persons and other categorically eligible persons.

Certain achievements were made in reforming the system of rent and utility payments (users paid up to 90% of the total cost of housing and utility services). Implementation of other state policy measures, primarily those related to provision of housing to eligible groups of people, had no substantial influence on the situation in the housing sector.

2005 – 2008: Implementation of the national priority project “Affordable and Comfortable Housing for the Citizens of Russia”.

Priority areas of the state housing policy included the increase in the amount of mortgage loans, better housing affordability for young families, the increase in the volume of housing construction, rehabilitation of utilities infrastructure, housing provision to retired servicemen, residents of Far North, displaced persons and other groups of people according to state obligations.

Federal laws were largely amended (the new Housing Code of the RF, Town Planning Code of the RF, and other federal laws were adopted and amended).

The Agency for Housing Mortgage Lending (AHML) endeavored to encourage the development of residential mortgage lending. To promote the use of federal lands for the purpose of housing construction the Russian Housing Development Foundation (RHDF) was established. Creation of the Housing and Utilities Reform Fund (HURF) aimed to support the resettlement of people from dilapidated and unsafe housing, and monitor the implementation of capital repairs in ABs.

In 2008, as compared with 2004, the proportion of households who can afford to buy dwellings with own or borrowed funds increased from 9% to 17.8% of the total households. Over the same period the volume of housing commissioned grew from 41.6 mln sq. m to 63.8 mln sq. m, and the amount of mortgage loans issued soared from 20 bln rubles to 650 bln rubles. Renovation of utilities infrastructure has seen only minor advances.

2009 – 2011: Implementation of anti-crisis measures, strengthening state demand and consumer demand in the market of large-scale construction of economy class housing.

Anti-crisis measures had positive influence in terms of mitigating the impact of the crisis. Yet, the potential of the measures was not realized in full because of poor coordination, and slow decision-making process. In 2011, the country recovered from the crisis as the figures below indicate:

- 1) Volumes of housing construction made up 63.8 mln. sq. m in 2008, 59.8 mln. sq. m in 2009, and 62.3 mln. sq. m in 2011;
- 2) Amount of mortgage loans issued was 656 bln rubles in 2008, 153 bln. rubles in 2009, and 717 bln. rubles in 2011.

State development institutions – the AHML, the HURF, and the RHDF played a substantial role in helping overcome the crisis.

2012 – 2014: In recent times, the most complete formulation of major objectives and target indicators of the state housing policy is given in Decree of the

President of the RF ‘On Measures for Provision of Affordable and Comfortable Housing to the Citizens of the Russian Federation and Improvement of the Quality of Housing and Utility Services’ (Decree No. 600 adopted on May 7<sup>th</sup>, 2012):

- Reducing the cost of a square meter of housing by way of boosting the supply of housing construction, primarily, in respect of the economy-class housing;
- Developing the market of affordable rental housing and not-for-profit housing for low-income households;
- Supporting certain groups of people who need to have their housing conditions improved in the absence of an opportunity, for objective reasons, for saving money to buy dwellings;
- Further improving the conditions of housing purchase on market terms, including via the mechanisms of mortgage lending;
- Improving the quality of the housing stock and enhancing living conditions;
- Renovating and enhancing energy performance of utility facilities.

The foregoing goals of the state housing policy summarize the previously set goals and include the new ones (such as construction of economy class housing, development of rental housing market).

Key measures geared at tackling the aforesaid objectives are implemented within the framework of a state program “Provision of Affordable and Comfortable Housing and Utility Services to Citizens of the Russian Federation”. The measures encompass the construction of economy class housing – as part of the program “Housing for a Russian Family”, resettlement of people from dilapidated and unsafe housing – within the scope of work of the HURF, the use of federal lands for housing construction – as promoted by the RHDF, and improving the affordability of residential mortgage loans, along with developing the rental housing market and providing economy class construction projects with utilities infrastructure – within the scope of work of the AHML.

### 3 MAJOR CHALLENGES AND THREATS FACING THE HOUSING SECTOR

In developing the new housing strategy it might be necessary that the following challenges and threats be taken into consideration.

#### ***Growing economic imbalances in the pattern of spending on production of housing amenities***

Analysis of structure of expenditures on production and consumption of housing goods shall consider spending on current consumption of housing and utility services, and investments on replacement of the housing stock and utilities infrastructure and those on creation of additional assets, i.e. not accounting for financing of the housing market turnover.

In 2002-2012 Russia's economy saw an increase in annual spending on production and consumption of housing goods, in nominal terms, from 0.5 trillion rubles to 4 trillion rubles. Yet, the annual spending, as a proportion of GDP, reduced from 6.7% to 6.4%. The positive changes in the structure of spending has been recorded – the proportion of investment grew from 38% to 54%.

However, the investment was directed mostly on increasing the volume of housing assets (primarily on housing construction on the new, previously undeveloped land plots), rather than on improving their quality. This not only made the trend persistent but even worsened the situation. Starting from 1955, the rate of increase in the volume of housing stock continuously outstripped the rate of increase in the amount of replacement investment. The shortfall in replacement investment - steadily growing because of the increased volume of the housing stock – resulted in deteriorated structure of the housing stock and utilities infrastructure as it relates to uncompensated depreciation.

Conclusion about growing economic imbalances (distortions) in composition of investment in production of housing amenities relies on the estimates as follows:

- 1) Amount of investment in replacement of the housing stock (capital repairs, renovation, construction of new residential buildings to replace the demolished dilapidated buildings) – as a proportion of the total investment



in creation of additional housing stock, which implies the construction of new residential buildings in undeveloped (greenfield) areas, shrank from 30% in 2000 to 13% in 2012;

- 2) The gap between the required annual amount of replacement investment in compensation (reproduction) of annual depreciation of the housing stock and utilities network and the actual amount of the foregoing investment rose steadily. The shortfall in replacement investment soared from 60% of the required annual amount of the investment in 2000, to 72% of that amount in 2012. The annual deficit in housing stock replacement investment grew from 67 to 77%, and that in utilities network replacement investment rose from 47 to 50%, respectively;
- 3) The steadily growing shortfall in the amount of replacement investment resulted in their accumulated deficit. In 2000, the accumulated deficit of replacement investment made up 2.2 trillion rubles, or 30.1% of GDP, and in 2012 – 23.2 trillion rubles, or 37% of GDP;
- 4) The gap between the accumulated deficit of replacement investment and current demand for the investment increased from 13 times in 2000 to 20 times in 2012. Of that amount, the gap in respect of housing stock replacement investment rose from 18 times to 22 times, and the gap relating to utilities network replacement investment grew from 6 times to 9 times, respectively;
- 5) Proportion of the used housing stock – intended either for rehabilitation or withdrawal, and existing only nominally, that is, without providing housing amenities – increased. This caused a situation when nominal availability of housing outpaced the effective one. While over a twelve-year period nominal housing consumption rose from 19 sq. m to 23 sq. m of floor space per person (a 21% increase), the effective one (not accounting for the ‘consumed’ housing stock) grew from 16 sq. m to 19 sq. m of floor space per person (which stands for a 18% increase);

- 6) Increase in the proportion of the used - and qualified for rehabilitation or withdrawal - utilities networks, provoked growing losses of utility resources in the process of their transportation via the networks on average from 11% to 17% of the total production output of utility resources.

Amid the fundamental imbalances perturbing the housing landscape and urging to provide for 'extra investment' in the amount of 23.2 trillion rubles (which accounts for 37% of GDP as of 2012) in the existing housing stock and utility infrastructure, a further increase in volumes of additional housing stock, in the absence of extra replacement investment, may have disastrous effect on social and economic situation in the country.

Further increasing the volume of the housing stock while neglecting its depreciation, as has been the case over the past seven decades, would steadily increase a financial burden on future generations who should finance the maintenance of the housing stock and utilities infrastructure. In the course of time the efficiency of the instrument designed to increase the average per-capita floor space reduces, as the proportion and mass of the used housing stock grows. This model also adds to the problem with unsafe and dilapidated housing, because construction of additional housing - in the absence of replacement of the used housing - would only provoke an increase in the volume of unsafe and dilapidated housing.

***Ineffective pattern of spending on production and consumption of housing amenities by sources of finance***

Households are the main source of financing the expenditures towards production and consumption of housing amenities (not accounting for financing of the housing market turnover). In 2000-2012, the proportion of expenditures financed by households rose from 61% to 73% in the total expenditures on production and consumption of housing amenities. Of that amount, operating expenditures account for 47% of the total household-financed expenditures and investment expenditures – for 53% thereof.

Investment in additional housing stock accounted for 95% of the households' investment expenditures (1.4 trillion rubles in 2012). This means that households financed a mere 5% of the total investment expenditures – which accounts for 79 bln rubles – to maintain the required state of the housing stock. Of that amount, 6 bln rubles went to finance capital repairs in ABs, while 73 bln rubles were destined for replacement housing construction.

Proportion of business financing of expenditures on production and consumption of housing amenities – including via the use of borrowed funds – remained nearly steady at about 10%. The state role in financing the expenditures reduced, over the same period, from 29% to 19%. State spending, thus, was replaced with private expenditures financed by households, while the amount of business contribution remained unchanged.

Total annual budgetary expenditures relating to housing sector include spending on production and consumption of housing amenities (not accounting for financing of the housing market turnover) in the amount of 746 bln. rubles, or 1.2% of Russia's GDP. Together with budgetary expenditures towards the support of demand in the housing market (453 bln. rubles) and tax exemptions granted in case of a purchase of housing (212 bln. Rubles of budgetary revenues shortfall), all the expenditures and shortfalls make up, by estimates, 2.3% of GDP (about 1.4 trillion rubles per year). This is comparable with the estimates of the share of budgetary expenditures reported for European countries with similar housing models (Sweden – 2.01% of GDP, Netherlands – 2.31% of GDP).

Substantial part of budget housing spending goes to finance the operating expenditures towards the support of consumption of housing and utility services (34% or 411 bln. rubles). Key budget items keep focusing on untargeted categorical benefits granted to help cover housing and utility payments (61%) and subsidies to utility resource providers (25%). Targeted subsidies to low-income households account only for 14% of the total budgetary expenditures. This pattern of budget spending aimed at financing the operating housing expenditures is indicative of the persisting transitional nature of housing relations as these pertain

to housing and utility payments and demonstrate inefficiency in the use of budgetary funds.

Budgetary expenditures on provision of housing to people account for 66% of the total housing expenditures (788 bln. rubles). This encompasses 28% (335 bln. rubles) towards investment in production of housing amenities – including the creation of the new and maintenance of the existing residential buildings and utility facilities, and 38% (453 bln. rubles) – towards financing the support of demand in the housing market.

Most budgetary expenditures allocated to support the demand are directed to help purchase own dwellings via subsidies to certain categories (young families etc.), maternity (household) capital, savings and mortgage system for provision of subsidies to military servicemen. The state hardly supports any other forms of housing provision so far.

Along with direct budgetary expenditures, and shortfall in budget income due income tax deductions granted in case of a purchase of housing (in 2012 the deductions were granted in the amount of 212 bln rubles to individuals who could afford buying their own accommodation even in the absence of the deductions), the total annual expenditures on supporting the purchase of own housing may be estimated at least at 665 bln rubles.

The actual priority set on supporting the purchase of own housing discourages the development of other forms of housing provision (renting, housing construction cooperatives).

Most budgetary investment (60%) in production of housing amenities is directed for construction of additional housing stock, and only 40% goes to finance capital repairs in ABs and rehabilitation of deteriorated utilities.

*Limited options for improving housing conditions for individuals at different income levels and with different needs*

Russia's housing policy may boast a limited set of instruments for improving housing availability to their people.

Up to the present day housing policy prioritized the purchase of own housing and improvement of housing availability to people via mortgage loans and various state subsidies. Only 27% of all the households can afford buying a dwelling via mortgage loans so far. A target indicator at 50% of the households, as planned for 2020, may be achieved only in case of a favorable development scenario (this implies an increase in real income of people, decline in the value of money, improved terms of mortgage lending, and construction of economy class housing on a larger scale). But even in that case the households with the income below the median level have no prospects for improving their housing conditions.

Making a purchase of own dwellings more affordable in a forced manner, that is, by way of improving the access to mortgage loans might be too risky a policy as proved the mortgage crisis in the U.S. To improve housing affordability via higher affordability of mortgage loans it is necessary, on the one hand, that price growth rates in the housing market be below the growth of household income, and, on the other hand, there should be general economic trends in place, such as growing real income of the population, decline in the value of money in the economy, reduced inflation, expanding long-term capital market (retirement and insurance savings), reduced mortgage margin (improved efficiency of bank's operating expenses and reduced risks).

Free privatization gave rise to emergence of 'poor owners' unable to carry the burden of ownership, which also implies the financing of the costs associated with maintenance and rehabilitation of the property, as well as with a purchase of new dwellings in case of a complete wear-out of the existing accommodation, and with the payment of taxes based on market price of the housing asset.

The focus of the housing policy's priority on the purchase of dwellings for ownership predetermined an almost complete absence of a formal market of rental housing in Russia. The absence of rental housing stock, including long-term not-for-profit rental housing supported by state- and municipal authorities, discourages the creation of the enabling environment for tackling the housing problem of low-income households. In addition, a better housing mobility with the aim of

promoting migration labor activity of the population is constrained by the lack of supply of comfortable conditions for temporary and, sometimes, long-term living in rental housing, especially in major cities.

To improve the affordability of housing there may be used an option of housing construction by not-for-profit association of people, including housing construction cooperatives, because the option allows removing the profit of a commercial developer from the housing price.

Provision of social housing (under social rent agreement) to categorically eligible persons waiting on a list to get their dwellings (2.7 mln households in 2012) appears to be not a real priority of the housing policy as extremely burdensome for local budgets. The proportion of households and single persons waiting on the list for over a decade, eventually, increased during the period of 2000 – 2012 from 40% to 47.8%, and in some constituent entities of the RF the proportion is close to 80%.

#### ***Revising the requirements to quality of housing and urban environment***

The achieved volumes of housing construction may not solve high housing needs, especially in dynamically developing regions of Russia. The scope of a potential market of housing construction shall be consistent with people's high needs for housing improvements.

Unlike western countries, the housing availability in Russia at the average floor space of 23 sq. m per capita appears to be unsatisfactory. To reach a target of 35 sq. m of floor space per capita Russia shall increase 1.5 times the volume of the housing stock. And given the need for replacing unsafe, dilapidated, obsolete housing, and dwellings insufficiently fit for living, the volume of the required housing construction shall account for 70-80% of the existing housing stock.

Amid weak economic growth and the ensuing limited incomes the task could be solved not before 2030. It necessitates that priorities be defined and arranged in an attainment program. The accumulated deficit in replacement investment necessitates that improved quality of the housing stock be set as a priority until

2030 and envisaged capital repairs, improved housing amenities, and replacement of unsafe, dilapidated and obsolete housing with newly-built dwellings.

To improve the quality of the housing stock and increase construction volumes it is essential that the new requirements to the quality of housing and urban environment be complied with. A dwelling is no more just 'a roof under the head'. The number of square meters of the total floor space and basic housing amenities cease to comprise main housing characteristic.

Today new requirements are placed on the quality of housing and urban environment. The new housing standards provide for a separate living of a household, availability of at least one room for each member of a household. Higher standards envisage the availability of a common room and additional toilets. Requirements to the type and quality of housing (apartment, single-family house, number of rooms per a dwelling unit, access not only to basic utility services but also to means of communication, etc.), and the relevant urban environment, also grow in number and differentiate.

The quality of urban environment implies not only availability of social facilities and utilities infrastructure but also the availability of multifunctional residential developments, transport interconnection of residential neighborhoods, spatial commensurability, accessibility of workplaces, high performance of utility services and reliability of utility systems, comprehensive environment for workplace and social communication of dwellers, safe and comfortable environment for children and teenagers, accessible environments for disabled persons and, finally, urban aesthetics which ensures visual attractiveness of urban architectural space. Only in this friendly-for-living environment a dwelling acquires value for a person.

Yet, there is a considerable gap between the new housing standards and the quality of housing provision. The quality of the housing stock not only fails to show any signs of improvement but also steadily reduces. As reported for the year 2002, a median household occupied a dwelling built in 1974, which means that the age of the dwelling was 28 years, while in 2012 a median household lived in a

dwelling built in 1978, or 34 years before the year under consideration. If in 2002 about 14% of the total population lived in dwellings built more than 45 years ago, a decade later a third part of the total population occupied such buildings. The level of amenities, particularly in rural areas, remains low. As of the end of 2012, total floor space of dwelling units with simultaneous access to water supply, sanitation and gas supply services, and with floor covering, accounted for 77 and 25% of the total floor space in urban and rural areas, respectively.

At the present state of technological development the use of industrial technologies for production of building structures should be most efficient. Obsolete industrial technologies cannot possibly determine the look of a city as was the case in the second half of the 20<sup>th</sup> century. Modern technologies must serve the implementation of the ideas of town planning and architecture, and not the other way around. Housing production should orient towards a more comfortable and convenient living environment meeting modern requirements rather than relying on obsolete technologies of ‘Soviet’ building construction. It is essential that introduction of new approaches to design and industrialized housing construction of energy-efficient and environmentally safe dwellings in economy-class market segment be promoted. This would allow large-scale housing construction of dwellings – including low-rise buildings such as low-rise ABs, cottages, townhouses, and suchlike - available to people at affordable prices.

While increasing the volumes of housing construction it is necessary to take into consideration the need for increased amount of replacement investment in the existing housing stock. The priority should be placed on construction of new residential buildings in place of the demolished dilapidated and obsolete dwellings as part of built-up areas development projects.

#### ***Low competition in the housing construction market***

The main challenge to increasing the volumes of housing construction consists in low competition between professional developers in this segment of the market. The mismatch between the housing supply and demand determined the rapid growth of real prices in the housing market before the crisis of 2009. The



situation shows the presence of factors contributing to low competition and constraining the growth of housing supply in the market.

Russia's housing construction market demonstrates every sign of an undeveloped market:

- 1) Weak competition which becomes evident from the available estimates of price elasticity of supply in the housing construction market (volumes of housing construction either remain unchanged or show only minor growth amid growing housing prices) and reduced volumes of housing commissioned against the increased household incomes;
- 2) Annual supply in the market of professional housing makes up not above 700 thousand housing units at prices affordable even with mortgage loans to only 27% of the total households (developers focus on getting high rate of profit instead of mass of profit);
- 3) High dependence of professional developers of ABs on direct investment of the individuals who wish to buy a dwelling;
- 4) High proportion (almost a half) of self-built housing (a form of 'subsistence economy' compensating the drawbacks in the professional market).

In local markets the following model of construction project implementation by professional developers was formed. Construction costs are very high. They include expenses on purchase of land plots and construction and assembly work, and also on construction of the required utilities and social infrastructure, and informal payments for overcoming high administrative barriers. Construction time is very long because of the need to overcome high administrative barriers, arising, among other things, during the interaction with utility resource providers, and also due to low efficiency of subcontractors. Developers, however, are highly uncertain about whether they would succeed in overcoming the administrative barriers and be able to compensate for the expenses thereof.

The foregoing model of housing construction projects forms high formal and informal barriers to arrival of potential developers to the market. As a result, there are typically several major developers in the local market who set up separate legal

entities to implement a construction project. Developers mitigate their risks and minimize the amount of own and borrowed funds by realizing the projects mostly at the expense of the people who want to have their dwellings built ('customized' construction on conditions of full advance payment). Given the low-competitive market and low price elasticity of housing supply developers may construct buildings based on obsolete technologies and architectural design solutions, and also dictate high prices in respect of their products, and, hence, choose a strategy pursuing the increased rates of profit amid low rates of housing construction.

There is a yet another factor accountable for low competition: a complexity with getting connected to utility infrastructure.

As provided for by the current law, utility resource providers shall finance the creation of utilities infrastructure, and compensate for the related costs mainly from proceeds from utility charges, and, to a lesser degree, from fees for connection ~~via~~ developers to utilities. The approach relies on a principle of time-distribution of major capital costs rather than consumer-distribution of the costs. Since tariff setting policy is in the domain of the state the tariffs depend on administrative and political decision-making which constrains the growth of utility rates. This discourages utility providers from planning the investment process and borrowing for construction of utilities infrastructure to meet the needs of new construction projects.

The use of private investment and borrowed funds for development of utilities infrastructure, repaid from utility charges, is discouraged by the risk of a possible underuse of the connected capacities.

So there emerges another approach allowing to eliminate both the risk of tariff regulation and the risk of underuse of the connected capacities. This implies financing the related costs at the expense of a developer who includes the costs in housing price. Despite all the efforts made by law makers, the issues of connections to utilities infrastructure are mainly settled at informal negotiations between developers and utility companies.

Another problem arises from high reliance of the housing construction market on administrative bodies and high administrative barriers. There is a resistance on the part of the administrative system to town planning and land use reforms vital for promoting the competition in the market of housing construction. On the one hand, the administrative system privatizes the land rent and the construction rent. On the other hand, developers appear to show little interest in supporting the reforms since they have already got the access to the construction market and established reliable lines of communication with the administrative system.

How the lines of communication function might be considered by the example of land plots allocation procedures relating to housing construction. At present about 80% of lands in human settlements are reported to be in public domain. In major cities the proportion is below the above-stated figure since the rate of privatization there outpaced the national average. The analysis of a tender-based procurement of land plots owned by the state or a municipal government for the purposes of housing construction or comprehensive development shows that, in most cases, the acquisition of the right to land ownership takes place at a price substantially below the possible market-value appraisal of the land plots. Besides, the land plots are frequently burdened with encumbrances which add to the developers' costs, while the tenders fall short of complying with the requirements of the federal law. A discount price of a land plot is both indicative of an additional burden on a developer and possible informal relations between state authorities, local governments and developers.

Excessive administrative barriers impede the arrival of developers to the market. Indeed, a developer has to undergo 100 administrative procedures over a three-year period and spend 25 mln rubles to that effect, including the expenses related to connection to utilities (on average 21 mln rubles). The ensuing expenditures account for an average of 10% of the total construction project cost, and even reach 30% of the cost in some cities. Local and regional authorities are

accountable for establishing an average of two-thirds of the required approvals and permits in violation of the federal law.

### ***Challenges for apartment building management system***

Privatization of housing based on a transfer of the right of ownership to dwelling units in ABs without establishing full responsibility for maintenance of the private property caused many problems with management of the ABs arranged in condominiums.

Homeowners associations embraced everywhere else as a decision-making facility used by the owners of dwellings in condominiums (the proportion of which in the total ABs is reported to be minor around the world precisely because of the complexity of management procedures in respect of condominiums) have never become mandatory and either tend to be established on very rare occasions (they account for 12% of the total ABs) or used by a third party for redistribution of the ABs management market.

Dualism of the current Russian legislation whereby a homeowners association is regulated as an organization based on a voluntary membership of the owners of dwelling units in an AB, and also as an institution of general meeting of the owners of the dwelling units, practically brings to naught the possibility of a reliable performance of the association as an institution of management or as a customer of AB management services.

According to statistics, over the period of 2005-2012, the proportion of private management companies soared from 15% to 93%, while the total number of management companies almost tripled and exceeded 10 thousand. In practice, however, ABs management practice failed to become a competitive sector of economy for private businesses, and operation of private management companies is gradually curtailed despite every effort made at reforming.

Though a choice-based principle of establishing the ABs management method and selecting a management company by owners was technically announced, the buildings were assigned, in fact, to former municipal housing

organizations which previously serviced the buildings. Transformation of municipal housing organizations to private ones has not rectified the situation. The efforts made by the owners with the aim of changing a method of management or a management company meet serious resistance. Moreover, the rights of owners - as these pertain to AB management - are getting more limited. Indeed, in respect of new buildings and ABs with state- and municipally owned dwellings accounting for over a half of the total floor space therein, the only management method available involves a management company selected by a local government.

Utility companies oppose housing management reforms. They clearly pursue their own interests amid the growing amount of receivables owed by a management organization to utility providers for utility services provided to ABs because of overdue and/or partial payments on the part of owners and other users of dwellings units in ABs. Management organizations repay their debts to utility companies from fees charged from landlords and tenants of dwelling units for maintenance and routine repairs of common-use property in ABs. The size of the above-mentioned fees is mainly set by management organization in the amount equal to charges established for tenants of municipal dwelling units. The amount of fees falls short of meeting the actual needs for management, maintenance and routine repairs of common-use property in ABs. This all leads to reduced quality of housing maintenance services.

Starting from 2010-2011 the law consistently strengthened the administrative influence on management organizations including on the part of different regulatory and supervisory bodies. The law also tightened the requirements to management organizations and extended the scope of their responsibilities in addition to those envisaged in contracts. Specifically, irrespective of the scope of works and services ordered by owners from the management organization, the latter shall be held accountable for every service and work assuring a reliable maintenance of the common-use property in the AB. Another move towards exerting more pressure on management organizations involved the introduction of licensing of entrepreneurial activities in AB

management. This step aimed at ‘removing unreliable management organizations from the market’.

The outlined above problems largely discouraged private management organizations from operating under AB management contracts, and provoked the transition to subcontracts for works and services relating to maintenance and routine repairs of common-use property within the framework of direct management of ABs by owners of dwelling units thereof. Against this background state authorities of the constituent entities of the Russian Federation and local governments take steps towards a return to state and municipal housing organizations.

In the absence of a consistent policy on housing stock management the condition of the housing stock deteriorates, while people and entrepreneurs show less confidence in the reforms.

#### 4NEW HOUSING STRATEGY

##### ***Goals and key priorities of the new housing strategy***

The above-described main challenges and threats prompt to determine *the improving of the quality of housing provision to individuals at different income levels and with different needs* as a major goal of the new housing strategy.

In achieving the general strategic goal it is necessary to be governed by the main strategic priorities as set forth hereinafter below:

- 1) *Creation of social prospects with the aim of improving housing conditions for various groups of people*, expansion and differentiation of measures designed to develop a variety of forms for satisfying the housing needs of individuals according to their income level, a stage of life, a place of residence, including through facilitating the development of economy-class housing and rental housing – for-profit, not-for-profit, and social rental housing – and also housing cooperatives and other forms of housing rather than giving a priority to only one form of housing improvements – a purchase of own dwellings;
- 2) *Improvement of the quality of urban environment* in order to assure a comfortable living environment enabling in terms of both meeting the housing needs and enhancing the quality of life on the whole, primarily, via rehabilitation, modernization and provision of better amenities in respect of dilapidated and obsolete residential buildings, and also via capital repairs in ABs, and by way of organizing an effective performance of the housing and utilities sector and ensuring an efficient housing stock management (to replace the priority of increasing the volumes of housing construction – in the first place only as part of a comprehensive development of new areas – and improving the housing availability as a proportion of the total floor space of the housing stock).

##### ***New housing strategy implementation proposals***

### *1. Spatial differentiation and decentralization of housing policy*

To attain a national-scale common strategic goal in line with identified priorities it is essential that the principles of the housing policy implementation be changed. The policy should rest upon the underlying principles of spatial differentiation arranged with due account for the prospects of socio-economic and demographic development of regions, cities and other settlements (instead of relying on unified implementation principles), and decentralization implying the strengthened role of local governments in adopting and implementing town-planning and other solutions with the focus on creation of a favorable living environment within a city or any other settlement and opportunities for facilitating the improvement of housing conditions by various groups of people.

Urban design and planning with respect to a city or any other settlement should envisage measures towards improving the quality of housing provision and urban environment by way of smoothing over the mismatch between the scale of new residential developments and rehabilitation of residential areas – including capital repairs and modernization of the existing housing stock and infrastructure – and the efforts at assuring a sustainable framework for improving the quality of the existing residential areas, further developing the built-up areas and new areas with due regard for the needs for modernization and development of utilities and social infrastructure. Sound distribution of resources across urban areas should mainly focus on orderly building-up of central areas and, if necessary, with moderate development of periphery areas. Yet, there should not take place an unreasonable expansion of boundaries of the built-up areas since municipal governments lack the finance required for their proper maintenance.

Decentralization down to the level of each particular city or some other settlement, as it relates to identification of priority areas and implementation of the housing policy, should rely on consistency between housing construction and modernization of the housing stock, architectural design solutions and construction technologies, and urban design and planning landscape which is essential for determining the spatial structure and parameters of each particular city or other



settlement, convenient and comfortable for living and focusing on meeting the needs with due account for demand and people's preferences.

The proposed spatial differentiation and decentralization of housing policy may do as follows:

1) Considerably change the pattern of common needs in respect of housing construction, capital repairs of the housing stock, demolition of unsafe, dilapidated and obsolete housing, creation and modernization of infrastructure, and in a new and more balanced way define the policy in respect of various forms of housing improvements such as outlined below:

- Volumes and types of housing construction: low-rise or high-rise buildings, comprehensive development of new areas or further development of previously built-up areas, capital repairs of the housing stock, development of new utilities infrastructure or rehabilitation of the existing one, and so forth;
- Various forms of housing improvements: own dwellings, for-profit, not-for-profit, and social rental housing, cooperative housing;
- Price targets in the housing markets: incentives towards price reduction or increase/maintenance of the value of housing assets of owners of residential property, and so forth;

2) Assure the involvement of a local community: residents of cities and some other settlements, who are direct users of housing amenities and services, and local public associations of individuals, in town planning decision-making process undertaken by local governments, and also in identifying the priorities of housing policy with due account for the interests of the local communities.

Implementation of the approach necessitates drastic changes to the system of local self-governance, including its financial self-sufficiency, and realization of town planning and housing policies at the local level. The changes shall entail the outcome as follows:

- 1) Substantial broadening of powers of local governments in respect of the issues relating to regulation of land use and residential development, implementation of town planning-, land-, infrastructure (including tariff infrastructure), and housing policies at subordinated territories, and cancelling the unjustified withdrawal of powers from local governments by the authorities of the constituent entities of the RF<sup>5</sup>);
- 2) A drastic improvement of the quality of town planning and land use zoning at the local level, the use of town-planning regulation framework as a real mechanism for regulation of land use and development practices in urban and rural settlements, professional training and skills upgrading of town planners and design engineers;
- 3) Enlarging the powers of local governments on creation of social municipal housing stock (for social and not-for-profit lease), facilitating the development of social private housing stock (for not-for-profit lease), housing construction cooperatives, granting subsidies to individuals for rent of private housing and using other forms of housing provision to moderate- and low-income households;
- 4) A substantial increase in the amount of municipal financial resources which are absolutely necessary for development of comfortable urban environment and creation of different options for housing provision to individuals with moderate and low incomes, including via introduction of a local property tax in respect of unified immovable property objects (in place of land tax, individual property tax, and corporate property tax);
- 5) Granting federal and/or regional subsidies to municipalities with insufficient fiscal capacity for financing different housing provision options for individuals with moderate or low incomes without specifying the

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<sup>5</sup> See, for example, federal law “On Amending Article 26.3 of Federal Law ‘On General Principles of Organization of Legislative (Representative) and Executive Bodies of State Power of the Constituent Entities of the Russian Federation’” (No.136-FZ adopted on May 27, 2014) and federal law “On General Principles of Organization of Local Self-Governance in the Russian Federation” in accordance with which the laws of a constituent entities of the Russian Federation may provide for redistribution of powers between local governments and bodies of state power of constituent entities of the Russian Federation, including those on the adoption of all the town-planning decisions.

mechanisms to be applied by the municipalities for the purpose of housing improvement.

Main risks ensuing from implementation of the approach consist in preserving the dominant role of private business interests, including those of developers, and private interests of government officers, including those who work in local governments, over the interests relating to the sphere of public town planning and housing. The risk may be mitigated only by way of strengthening the democratic principles of local self-governance, widening the requirements to public transparency of town planning, land and housing relations at the local level, and developing the institution of public hearings and other forms of direct involvement of individuals and public associations in making the relevant town planning decisions, expanding the powers and the scope of responsibility on the part of associations of owners of residential property, including homeowners associations, housing construction cooperatives and so forth. The policy of strengthening the top-down pattern of state supervision, in spite of a seemingly enhanced protection of people, regrettably, revives counterproductive bureaucracy procedures which are easily bypassed by interested persons, while the weakening of local governments and reassignment of its responsibilities to constituent entities of the Russian Federation clearly lead to a decision-making which falls short of meeting the interests of the dwellers of particular cities and other settlements.

*2. Development of the institutions of long-term residential lease and housing construction cooperatives, and support to first-time homebuyers*

Along with solving a problem of improving the affordability of homeownership dwellings and furthering the development of mortgage lending, it is necessary to change the pattern of the available housing improvement approaches available to households at different income levels.

Main objectives thereof shall focus on:

- 1) Development of an institution of long-term residential lease (on for-profit terms, not-for-profit terms, and more preferential – social terms);

- 2) Development of an institution of housing construction cooperatives and other forms of housing construction by not-for-profit associations of individuals;
- 3) Support to first-time homebuyers.

Table 1 summarizes the estimates of housing affordability according to a household's income level (assuming the availability of all the forms of housing provision) and the proposed target indicators of changes in affordability for the year 2030.

As Table 1 shows, an insufficient household income is hardly the sole obstacle to solution of the housing problem. Many of the institutions that could have supported the improvement of housing conditions remain undeveloped in the country. About 40% of all the households who despite of not being qualified as low-income households cannot, however, afford buying homeownership dwellings might have satisfied their housing needs even today, given the opportunity, via participation in housing construction cooperatives, or legal and protected residential lease on for-profit and not-for-profit terms.

Increasing the proportion of for profit and not-for-profit rental housing and cooperative housing in the total housing stock necessitates drastic changes in the housing construction pattern<sup>6)</sup>. Even with such changes in place the proportion of rental and cooperative dwellings may reach only 8% of the total floor space in ABs by 2030. This would allow meeting housing needs of only 12% of all the households.

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<sup>6</sup> Forecast of the changes relied on the following assumptions with respect to volume and pattern of housing construction and withdrawal of dwelling units:

Estimated volume of housing construction from 70.5 mln. sq. m in 2013 to 102 mln. sq. m by 2020 and 105 mln. sq. m in 2030;

Estimated proportion of floor space of single-family buildings in the total floor space of newly-built dwellings from 44% in 2013 to 50% by 2020 and to about 60% by 2030;

Estimated proportion of floor space of cooperative dwellings in the total floor space of new ABs may account for 8% by 2020, and about 20% by 2030;

Estimated proportion of floor space of rental dwellings in the total floor space of new ABs may account for about 20% by 2020 and 40% by 2030;

Sharp increase in estimated rates of withdrawal of the existing housing stock (from 0.3% in 2013 to 0.8% in 2020 and 1% in 2030, with the highest rates expected in respect of ABs – condominiums in dilapidated and unsafe housing).

Table 1: Evaluation of the available forms of housing affordability according to a household's income level in 2013 (given the presence of all such forms of housing affordability) and target estimates for 2030<sup>7</sup>).

Housing affordability options according to groups of people	Proportion of households with access to housing improvements in the total number of households, %	
	In 2013	In 2030
Affordable purchase of ownership dwellings via a mortgage loan or residential lease on market terms	27	50
Affordable participation in a housing construction cooperative given the provision of a land plot on preferential terms	26	10
Affordable residential lease under a social residential lease agreements given the provision of a land plot on preferential terms and the grant of property tax exemption to the owner of rental dwellings	14	25
Unaffordable housing improvements via either of the above-mentioned options, and there is a need in provision of social rental housing	33	15
All the groups of people	100	100

<sup>7</sup> The target estimates are based on the average floor space per capita at 18 sq. m per member of a household.

Development of new market segments with focus on rental housing and housing construction cooperation necessitates that the following arrangements be done:

- 1) Enhance legislative regulation with the aim of legalizing the existing residential rental market, protecting the rights of landlords and tenants, developing the legal framework in respect of housing construction cooperatives - whereby sharing commitments remain well after the members of a cooperative repay their shares – and other not-for-profit associations of individuals set up for the purpose of housing construction;
- 2) Reduce the rate of income tax for landlords in order to encourage their passage from a ‘shadow zone’ of the residential rental market;
- 3) Organize the support in establishment and performance of not-for-profit lessors and housing construction cooperatives on the part of the bodies of state power of the constituent entities of the RF and local governments;
- 4) Provide social rental buildings to developers and land plots to housing construction cooperatives and other not-for-profit associations of individuals, on preferential terms, for the purpose of construction;
- 5) Ensure the above-mentioned organizations have access to long-term loans to be repaid either from rental fees or from cooperative shares;
- 6) Provide financial assistance to implementation of the foregoing construction schemes via the grant of tax privileges to developers, owners, and landlords of residential rental dwellings and housing construction cooperatives in respect of regional corporate property tax, local land tax, profit tax – as it pertains to the standard share of the tax assigned to budgets of the constituent entities of the RF; allocate funds for partial financing of construction of social rental dwellings and buildings relating to housing construction cooperative, including for compensation of utilities connection costs and interest charges on the loans issued for the above-mentioned purposes, and so forth);

- 7) Provide social benefits to individuals to help compensate for rental fees, on for-profit and not-for-profit terms, with due account for their income level, and also for primary contribution by new members of housing construction cooperatives.

Actual introduction of the new housing institution on a large scale always necessitates financial support. In this respect, it is advisable that federal funds be used for co-financing of the ensuing costs. Yet, the main part of the costs shall be financed by constituent entities of the RF, municipal governments, and enterprises after they determine particular forms and size of support tailored to the needs of the groups of people at different income level who live in the assigned territories because the demand for development of residential rental sector and housing construction cooperative sector varies across regions and cities.

Russia's megacities (Moscow, St.-Petersburg and capital cities of the constituent entities of the RF) and large cities, and also other cities with high migration rates, high numbers of individuals on a waiting list for social housing, and a large gap between residential construction cost and market price of residential dwellings, show the highest demand for development of the foregoing sectors. Provision of partial financing by the constituent entities of the RF and local governments for the purposes of construction of social rental buildings and housing cooperative dwellings in those cities and also for the purpose of support to tenants and members of housing construction cooperatives will help solve the problem of housing improvements to low-income households at a lesser cost - in terms of public funds including budgetary funds of various tiers of government - than typically entails construction and provision of social rental dwellings, and the grant of homeownership subsidies in the amount equivalent to the cost of dwellings in the market.

A part of the costs towards the development of residential rental and cooperative housing stocks could have undertaken by the enterprises motivated to mobilize labour resources on terms of co-financing with regional and/or municipal governments.

Federal government should place high priority on using long-term loans, as a form of support, for construction of social rental buildings and housing cooperative dwellings with participation of a state development institution, the Agency for Housing Mortgage Lending (AHML). The institution succeeded in creating a system of residential mortgage lending in the country. Now the AHML can be assigned with developing residential rental and cooperative housing stocks. This may entail the development of a market of mortgage securities backed by loans issued against the pledge of the housing stock. At the first stage, while the mortgage securities market has not yet been developed it is necessary that state guarantees of the RF be extended to back the loans taken out by the AHML for the above-stated purposes.

With the aim of creating the opportunity for provision of housing to low-income citizens it is necessary to promote the development of social rental housing stock with a subsequent provision of build-up dwellings under social rent agreement. The approach should be used only as a form of social protection of the housing rights of low-income households – as these relate to newly provided dwellings – since it appears to be most costly for budgets because a tenant does not compensate for housing construction costs.

The urgency of developing the instruments for support to first-time homebuyers and new members of housing construction cooperatives stems from the fact that these groups of people lack the finance for a downpayment which typically comes from a sale of homeownership dwellings (the so-called ‘alternative transactions’). The support to first-time homebuyers is a common practice in countries with developed housing market. The elements of the practice are currently implemented in Russia within the framework of programmes of housing provision to young families. Yet, the scope of the instruments for support to first-time homebuyers must be extended and the instruments must be streamlined, while the target group of people must be defined in a more precise manner.

The institution of social rental housing necessitates drastic reforms to be held with the aim at:



- 1) Stopping free privatization of state or municipal housing stock;
- 2) Envisaging the options for ‘de-privatization’ – termination of privatized ownership (this means not only privatized housing but also homeownership dwellings acquired in some other way) by low-income owners with a subsequent passing of de-privatized dwellings to former owners under a social rent agreement;
- 3) Switching to fixed-term social rent agreements (this should not apply to previously concluded agreements or ‘de-privatization’ agreements) and providing for a cancellation option in case that tenants stop to be qualified as low-income and have other dwellings;
- 4) Prohibiting a sublease of social dwellings as a form of inappropriate use;
- 5) Relying on other forms of support in respect of ‘waiting list’ households not qualified as low-income (partial social payments for purchase of dwellings, participation in housing construction cooperatives, not-for-profit lease of dwellings).

Even under the conditions as outlined above the provision of housing to ‘waiting list’ low-income households would require a huge amount of budgetary funds. Current ‘waiting list’ eligibility requirements, standards for housing provision under social rent agreements and free privatization of social dwellings create unreasonably high expectations. The foregoing standards and requirements should be brought in line with financial capacities of the assigned governments in order to ensure that the eligible households’ waiting time be less than five years.

The institution of housing provision to individuals resettled from unsafe dwellings also needs to undergo reforms. Reliance on the approaches envisaging a withdrawal of dwellings for state and municipal needs shall not help rectifying the situation to the benefit of the owners since this comes into conflict with social nature of the institution and entails enormous budget commitments and inadequate use of budgetary funds. Support measures to individuals resettled from unsafe housing consist in social assistance in tackling life difficulties. The social assistance shall be provided exclusively to individuals for whom the unsafe

dwelling are the one and only housing. The support measures shall take the form of not-for-profit provision of rental dwellings to the above-mentioned individuals, and provision of social rental dwellings to low-income households.

Main risks for development of new housing provision institutions are as outlined hereinafter.

Macroeconomic risk: increased availability of homeownership dwellings and rental dwellings will largely depend on the growth of real income of people, rate of inflation, economic value of money, and access to 'cheap and long-term finance' which are, in fact, essential for determining the rates of bank deposits and interest rates on residential loans;

Institutional risk: development of new housing institutions will necessitate a lot of time and many financial resources, and also requires that consumer behavior in respect of residential lease and membership in housing and construction cooperatives be adjusted;

There also exists a risk of insufficient finance for development of the institutions at the local level and the ensuing need for a considerable enhancement in fiscal capacity of local budgets.

### *3. Modernization of residential neighborhoods and development of comfortable urban environment*

The need for a drastic shift from the policy of ordinary increases in volumes of the housing stock to improvement of its quality, level of amenities, state of utilities infrastructure and quality of urban environment determines the following objectives:

- 1) Development of mechanisms for renovation of and capital repairs in ABs;
- 2) Redevelopment of dilapidated and obsolete residential neighborhoods, and industrial areas inadequately used in central and middle urban locations;
- 3) Rehabilitation of utilities infrastructure and provision of public amenities with respect of single-family housing stock;
- 4) Enhancement of efficiency in management of ABs and new cottage housing developments.

It is advisable that capital repairs and renovation of housing stock – with increase in the grade of energy efficiency – be carried out, in the first place, in respect of ABs constructed in 1960-1980, rather than ABs estimated to be in the worst state (unsafe, dilapidated) or obsolete state. The housing stock makes up almost 50% of the total urban housing stock in Russia. Quality improvement in respect of those housing assets necessitates lesser costs per each dwelling unit, and would partially reduce the need for construction of new dwellings for the purpose of housing improvements, and increase the liquidity of the housing stock in the market.

A system of bank lending shall be developed to finance capital repairs and renovation of the ABs. The banks with special accounts for capital repairs in ABs shall issue the loans. Mandatory payments to those accounts shall reliably (since they are mandatory) guarantee the repayment of a loan. The owners of dwelling units in ABs shall, virtually, be interested in a loan financing scheme (as compared with a savings scheme), because amid high rates of inflation the former scheme allows them to obtain housing amenities at an earlier time and at the same cost (equal to the amount of mandatory payments). To encourage the owners to embrace the scheme they may be granted a subsidy for partial financing of a downpayment for capital repairs. The subsidy shall be financed from regional and/or local budgets.

Unsafe and obsolete dwellings in urban areas shall be subject to demolition or renovation under the projects of built-up areas development. The housing stock under consideration is typically located in central and middle urban areas. The projects which involve demolition, renovation and construction (including residential construction) under the condition of increased density of residential areas (even given the required increase in the proportion of land plots under transport infrastructure) shall be economically attractive to private investors.

By estimates, in 73 of Russian cities with the population of over 250 thousand persons a potential volume of housing construction – within the framework of built-up areas development projects – shall be 262 mln sq. m.

In addition, it is necessary to redevelop industrial zones in urban areas, primarily, ‘abandoned’ zones and other inadequately used territories with a view to planting the zones in the urban landscape as part of the projects of housing construction (and other types of construction), expansion of road and transport infrastructure, and development of public spaces.

The projects with focus on redevelopment of residential neighborhoods and inadequately used areas necessitate substantial legislative amendments to be done. Firstly, clearly defined criteria shall inform the local governments’ decision-making process in respect of the projects implementation. Secondly, it appears that a withdrawal of dwellings for state and municipal needs (except as otherwise provided by the law) shall not be used in implementing the projects. Owners of any immovable property including dwellings located in the above-stated areas shall get their share of economic benefits from redevelopment of the areas. Public and owners’ interests, however, shall not be reconciled via individual negotiations. International practice shows specific institutional mechanisms for reconciliation of the interests. Thirdly, it is necessary that an enabling environment be created to facilitate the introduction of new organizational and financial models of public private partnerships in order to mobilize the funds from private investors and creditors for implementation of redevelopment projects.

To encourage the transformation of urban areas the local governments shall embrace a wider use of town planning and land use zoning instruments, specify the requirements to effective town planning patterns, and also promote the formation of architectural expressiveness of the new residential developments. Tax regulation, as it relates to unified real estate tax rate differentiation according to territory or type of use of a real estate, may become an effective instrument.

The quality of housing largely depends on the level of amenities, and also on the quality and reliability of utility services. Rehabilitation of heat supply systems and, in a greater degree, water supply and sanitation systems in Russian cities remains high on the agenda during the last several decades. Over the past twenty years, the state has never managed to create the enabling environment for arrival of

public-private partnerships (PPP) as a vehicle for driving private investment to utilities sector rehabilitation projects. The use of private investment (including long-term borrowings) for rehabilitation of utilities infrastructure necessitates substantial mitigation of investment risks. In regard to implementation of utilities infrastructure rehabilitation projects a public partner under a PPP contract (concession, long-term lease, and any other form whatsoever) shall undertake the following responsibilities:

- 1) To eliminate the risk of tariff regulation a PPP contract shall envisage protection mechanisms (by setting a tariff formula and public partner's guarantees in respect to adherence to the formula);
- 2) To eliminate the risk of insufficient demand for utility services it is necessary to ensure the use of a complex approach to identifying the needs for rehabilitation and development of all the utility systems under municipal programs for comprehensive development of utilities infrastructure designed on the basis of long-term socio-economic and town planning development, and provide for a public partner's guarantees within a PPP contract in the event that consumption of utility resources falls short of the volumes as established in the contract.

Of course, the choice of a PPP option shall be governed by financial possibilities of consumers in terms of payment for utility resources and services. The projects that cannot be financed only from users' utility charges shall be co-financed by a public partner in the form of budget investment, subsidies, compensation of loan interest rates, and so forth. Unless a public partner under a PPP contract can commit to protection of private investment from the risks (or this appears to be beyond the partner's jurisdiction and/or has funds to co-finance the projects, a public authority or dedicated state institution of development may act on behalf of the partner.

A key obstacle to implementation of the options consists in social and economic constraints on the growth of utility charges. Unless there is a way to overcome the constraints, the state shall undertake to finance the rehabilitation of

the utilities infrastructure, including via state borrowings, or provide state guarantees on the loans.

State investment (guarantees) in improving the quality of utilities infrastructure in Russian cities and in enhancing the level of housing amenities in urban settlements financed from taxpayers' money from across the country (from federal budget), from selected regions (from regional budgets), and major cities (local budgets), appear to be well justified amid social and economic circumstances since these are investments in improving the long-lived assets of utilities infrastructure to the benefit of all the taxpayers relating to the foregoing budgets (among them the future ones). The relevant decision-making procedure necessitates a change of priorities and pattern of budget spending on housing issues.

By 2030, even under most positive conditions the projected proportion of ABs (arranged in condominiums), in terms of floor space, is expected to reduce from 98% of the current total floor space in all the ABs down to only 92%, or from current 67.5% down to 58% of the total floor space of the housing stock in Russia. Since reference conditions for improvement of the quality of the AB management have been specified, the outcome shall be directly related to the consistency of the policy with a view to encouraging the owners of dwelling units in ABs to maintain the state of their property, and also to effective performance of the institution of homeowners associations, and to development of competitive environment in the market of management companies. In this respect, it is necessary that the following be done:

- 1) Introduce amendments on legal organizational form of homeowners associations which should be based on a share in common equity ownership in respect of the common-use property in an AB rather than on a voluntary membership. Meanwhile, the owners of dwelling units shall have an option in respect of the form of a homeowners association – with or without the right of forming a legal entity;

- 2) Establish administrative responsibility in respect of the owners of dwelling units in an AB for a technical state of the AB;
- 3) Provide for a consistent introduction of compulsory insurance of dwelling units and common-use property in an AB;
- 4) Strengthen the antimonopoly control in the AB management market;
- 5) Ensure an equitable distribution of risks - associated with inadequate collection of utility payments – between the participants of utility service provision (payers, management companies and utility resource providers), and increase the amount of late payment charges in respect of the utility services provided.

Effective management of a group of residential buildings in suburban townships around big cities necessitates special mechanisms. Road and traffic infrastructure, and other amenities, in such townships, typically makes up common property used by owners and other tenants of the dwellings. There is a need for legislative regulation in respect of the institution of common-use property in low-rise buildings, possible composition of common-use property, and also creation and management of common-use property. The property may either be in common equity ownership of the owners of residential buildings and land plots which the buildings are erected on, or in ownership of homeowners associations, self-builders associations, or cooperatives in low-rise residential neighborhoods.

Key risks of implementing the proposals on modernization of residential neighborhoods and development of comfortable urban environment emerge from:

- Unwillingness of the owners of dwelling units in ABs in respect of decision-making about creation of capital repair funds on special accounts and mobilization of loan funds for capital repairs, which results in accumulation of monetary resources in regional funds of capital repairs and finances and inefficient use of the finance for capital repairs in dilapidated and obsolete housing stock;

- Impossibility of opposing the interests of developers in respect of residential developments in the new territories, or potential reduction in the volumes of housing construction caused by the complexity in implementing the redevelopment projects, including the need for achieving the balance of interests of different groups involved in the process;
- Impossibility of overcoming social and political constraints to the growth of charges for housing and utility services and the ongoing rhetoric about the need for encouraging the arrival of private investment for the purpose of rehabilitating the utilities infrastructure in the absence of actual efforts at creating the enabling environment thereto;
- Strengthening of the protectionist policy in respect of the owners of dwelling units and the revival of state and municipal housing organizations as providers of AB management services.

#### *4. Promotion of competition in the housing construction market*

Low competition in the housing construction market necessitates streamlining the state regulation and management in order to overcome the shortcomings of the market segment.

Main housing construction task encompasses the promotion of competition with a view to increasing the supply of the economy class housing at such a reasonable price that half the population could either purchase it or use on condition of long-term lease. This requires that main institutional barriers be removed to open up the opportunities for supply of new housing by professional developers and arrival of new developers in the market by way of doing as follows:

- 1) Liquidating excessive administrative barriers in the housing construction market;
- 2) Reducing basic developers' costs, primarily those relating to connection of the utilities infrastructure and construction of new social facilities;



- 3) Introducing various models of implementation of PPP projects in the housing construction market;
- 4) Developing project lending through the issuance of loans against the pledge of land (against a leasehold estate), under-construction property and other assets of project companies;
- 5) Legislative regulation of the processes relating to organization of construction and management of low-rise housing estates.

To remove excessive administrative barriers the following measures shall be undertaken:

- Ensuring the consistency between the financial planning and budgeting processes as these pertain to urban and infrastructure development at the level of municipal governments and utility resource providers;
- Prioritizing the relevance of land use and development rules adopted by municipal governments and thoroughly specify every development requirement included into town-planning regulations as provided for by the foregoing rules and openly getting acquainted all the developers with the rules prior to carrying out the construction projects;
- Reassigning the major part of state supervisory responsibilities – specifically, those relating to expertise of design documentation and construction supervision – to insurance agencies in cases when the expertise and supervision are essential instruments for insurance risk assessment;
- Increasing the liabilities on the part of both developers and bodies of state power in relation to two main administrative procedures – issuance of building- and commissioning permits.

The amount of the developer's costs shall be reduced, mainly, via curtailing the cost of connection to utilities infrastructure. In future, utilities infrastructure development projects relating to housing construction may be financed through borrowings mobilized by utility providers (or dedicated developers) and repaid from utility charges by newly connected users. To that end, a schedule for increase

of utility rates shall be established. The schedule shall be linked to the amount and cost of borrowings – among them the funds raised through issuance of collateralised bonds (collateral may come in the form of accounts receivables relating to utility resources or services).

Amid the absence of ‘long-term and cheap’ borrowings in the market it appears that most transparent and appropriate to the situation approach encompasses the regulation of a developer’s utilities connection charges (specifically, those for connection to heat-, water supply and sanitation systems) in the amount sufficient for financing the construction or rehabilitation of the utilities infrastructure. Rather than reduce the direct costs of a developer the approach mitigates the uncertainty in determining the amount of the costs at the initial stage of the project implementation.

To reduce the costs and mitigate the risks of a developer in respect of implementing the projects with the focus on development of built-up areas or comprehensive development of new areas there may be used a variety of PPP models providing for distribution of responsibilities between private and public partners on the basis of a contract. The reliance on PPP models gives an opportunity of raising private investment for the purposes of housing construction and solving pressing social tasks provided that there is a partial support to implementation of the projects on the part of the state or a municipal government.

When it comes to implementation of PPP projects in the sphere of housing construction the interest of a public partner may entail a resettlement of people from unsafe, dilapidated or obsolete dwellings or redevelopment of built-up areas, or construction and fixed-price sale of economy-class housing to eligible groups of people, construction of social rental dwellings, allocation of a part of land plots to housing construction cooperatives, and so forth. In return, the public partner is prepared, in one form or another, to participate in financing the costs towards connection to utilities infrastructure, creation of social facilities, resettlement of dwellers, and so forth (for example, in the form of subsidies, direct investment,

guarantees, compensation of interest charges on the loans, buy-out or lease of developers' social facilities).

To ensure a balance between public interests and spending, on the one hand, and private interests and developer's spending, on the other hand, there may be used a tender for award of a dedicated contract. The tender may seek to maximize a target indicator describing the public interest, or minimize public involvement, or maximize a bid price for award of the contract at a fixed target indicator associated with the public interest.

The promotion of competition in the housing construction market necessitates a wider access of small- and medium-sized developers to loan financing of housing construction projects. There shall be made a shift from self-financing of construction projects by individuals to bank lending to developers for financing housing construction projects. Relevant international practice in organizing a sale of under-construction dwellings at the minimum risk for buyers by way of making a downpayment accounting for 10% of the total housing price and paying out the remaining part after completion of the construction project – via mortgage loans among other things - shall be used to mitigate the ensuing credit risks and support the demand for under-construction projects. On the one hand, the purchase-and-sale agreement with respect to a dwelling unit in the building under construction shall guarantee to a developer and a bank originating the loan that a buyer purchases the dwelling after completion of the construction project. On the other hand, the agreement shall minimize the risks to buyers and help eradicate the problem of 'cheated co-investors'.

In this regard, there should be created an enabling environment for a consistent replacement of self-built houses, in the first place, in suburban residential neighborhoods, with single-family buildings constructed by professional developers. This necessitates streamlining the procedures for development and management of low-rise housing estates including common-use property thereof.

Facilitating the development of competition in the housing construction market may also be achieved through state support of the new segments such as housing construction cooperatives and for-profit and not-for-profit rental housing.

Only by promoting competition there shall be possible to improve the quality of the housing supplied in the market which implies the introduction of innovative and energy-efficient technologies, new planning concepts and architectural design solutions with regard to residential developments. Any forced measures aimed at encouraging the changes in the quality of the above-mentioned housing, amid low competition, shall prove futile.

Main risks associated with implementation of the foregoing proposals may be driven by the following factors:

- Necessity to overcome a hard resistance on the part of the existing administrative system assigned with land use and development functions and closely related to developers, especially in regions with attractive investment climate and developing housing markets;
- High reliance of the proposed fund-raising facility for financing the construction of utilities infrastructure intended for new residential developments, on the availability of ‘long-term and cheap’ finance at the capital market and on the system of tariff regulation.

### ***Housing financial framework for the new housing strategy***

Table 2 gives the estimates in respect of the amount and the pattern of expenditures towards production and consumption of housing amenities, and also provides a breakdown by finance sources needed for implementation of the proposals within the framework of the new housing, as well as compares the pattern with the existing one. Table 3 shows the amount and the pattern of budget spending on housing in 2012 (actual spending) and 2030 (optimal forecast).

In 2012, the total expenditures on production and consumption of housing amenities in Russia, together with the investment and current expenditures relating

to consumption of housing and utility services made up 4 trillion rubles which accounts for 6.4% of GDP. Governments of various tiers financed 19% of the expenditures which account for 745 billion rubles. Of that amount, 45% of the finance was directed for investment and another 55% - for supporting the consumption of housing and utility services. Additionally, the state spends 453 billion rubles for homeownership subsidies and for other forms of supporting the demand in the housing market. At the same time, the state is reported to have a shortfall in the amount budget revenues of 212 billion rubles due to income tax tax deductions granted in case of a purchase of housing<sup>8)</sup>.

With a view to growing GDP and improving competition in the housing market by 2030 the amount of expenditure towards the production and consumption of housing amenities may see a 55% increase and make up 6.2 trillion rubles<sup>9)</sup>. Given an average upward trend of GDP at the level of 2% per year till 2030 the expected expenditures shall grow by 42.5%, or by 1.7 trillion rubles. If take into account the growing amount of construction investment amid stronger competition– the expected growth shall make up 12.5 % or 500 billion rubles.

As previously mentioned, a steady shortfall in replacement investment resulted in a substantial deterioration of the housing stock and utilities infrastructure. Poorly developed market institutions engaged in mobilizing the investment funds for housing purposes are unlikely to provide for adequate streamlining of the investment processes. Rather high state spending falls short of achieving the objectives in view of their low effectiveness.

The new housing strategy necessitates streamlining the pattern of housing investments and current expenditures, and also the related budget spending in accordance with the following main principles and parameters:

- Ensure a 7.6 times increase in the amount of replacement investment – from 327 billion rubles in 2012 up to 2.5 billion rubles by 2030 and

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<sup>8</sup> It should be noted that rather than being related to investment and current consumption of housing and utility services the state expenditures focus on financing housing transactions and supporting the housing market turnover. For that reason, the expenditures are considered herein separately from the expenditures towards consumption and production of housing amenities.

<sup>9</sup> Hereinafter in the subsection the estimates for 2030 are given at the prices of 2012.

provide for an increase in their proportion in the total expenditures towards production and consumption of housing amenities from 8% to 39%. This will require a reduction in the proportion of investment for creation of additional housing stock from 46% to 29% and a curtail of current expenditures from 46% to 32% of the total expenditures towards production and consumption of housing amenities;

- Prioritize the relevance of market economy institutions for developing the housing landscape in order to strengthen the role of financial and non-financial corporations in investment financing (a 5.2 times increase – from 287 billion rubles in 2012 up to 1.5 trillion rubles by 2030);
  - Improve the effectiveness of budgetary spending in the housing sector (shortfall in revenues included) via removal of non-specific benefits and subsidies related to financing of housing and utilities services, and also by way of stopping the grant of property-related tax deductions for purchase of dwellings and also through extending the program of housing allowances including those for tenants in for-profit and not-for-profit rental housing (a 2.8 times increase – from 57 billion rubles in 2012 to 161 billion rubles by 2030), and raise budget expenditures towards the support of housing demand and supply via increasing the amount of subsidies for first-time homebuyers (a 2.1 times increase up to 953 billion rubles) and replacement investment (a 3.7 times growth up to 365 billion rubles).

The proposed change in the pattern of housing investments again necessitates extending the financial and credit framework via developing the sources for mobilizing ‘long-term and cheap’ housing finance, including by way of creating the enabling environment for a wider public involvement in the schemes relating to insurance, private pension savings, and various forms of collective investments and so forth.

A revised pattern of spending on production and consumption of housing amenities, along with an increase in its absolute volume, a more active participation of the business community in financing the expenditures, and improved effectiveness of budget spending will pave the way for enhancing the quality of the housing stock, urban environment and utilities infrastructure and also improve the availability of housing amenities.

Table 2: Amount and pattern of spending on production and consumption of housing amenities, with a breakdown by finance sources, in 2012 and 2030 (at the prices of 2012)

Indicator	Proportion, %		Source of finance	2012		2030	
	2012	2030		Bln, rub	%	Bln, rub	%
Investment in redevelopment, reconstruction and capital repair of the housing stock and utilities infrastructure	8%	39%	Households	79	24	839	24
			Non-financial and financial corporations	113	35	1094	45
			State	135	41	500	21
			Total	327	100	2433	100
Investment in development of the additional housing stock and utilities infrastructure	46%	29%	Households	1441	79	880	48%
			Non-financial and financial corporations	174	10	680	37%
			State	200	11	255	14
			Total	1815	100	1815	100
Current expenditures towards consumption of housing and utility services	46%	32%	Households	1345	73	1771	92
			Non-financial and financial corporations	80	4	0	0%
			State	411	22	161	8%
			Total	1836	100	1932	100
TOTAL housing investment and current expenditures	100%	100%	Households	2865	72	3342	56
			Non-financial and financial corporations	367	9%	1923	29%
			State	745	19%	915	15%
			Total	3977	100%	6180	100%



Table 3: Amount and pattern of budget spending on housing in 2012 and 2030 (at the prices of 2012)

Indicator	2012		2030	
	Bln., rub	%	Bln., rub	%
Investment expenditures	335	28%	755	40%
Expenditures towards the support of demand in the housing market	453	38%	953	49%
Expenditures on supporting housing maintenance and utility services	411	34%	161	9%
<i>Total budget spending on housing</i>	<i>1199</i>	<i>100%</i>	<i>1869</i>	<i>100%</i>
Shortfall in budget income due to personal income tax because of property-related tax deductions granted in case of a purchase of housing, mortgage interest rate payment	212	-	0	-
<i>Total budget spending on housing and shortfall in budget revenues</i>	<i>1411</i>	<i>-</i>	<i>1926</i>	<i>-</i>
Total direct public expenditures and shortfall in budget revenues as a proportion of GDP	-	2.3%	-	2.2%

### *Main expected outcomes of the new housing strategy*

By 2030, the new housing strategy shall bring the outcome as follows:

- 1) Create social prospects for improving housing conditions for various groups of people according to their income level, a stage of life, and a place of residence. In this regard, 85% of the total households shall have access to different forms of affordable housing (50% of the total households with higher income shall be able to purchase homeownership dwellings while relying on mortgage loans or choose a for-profit rental option, and 35% of the total households with lower income shall be able to become the members of housing construction cooperatives or lease dwellings for profit). The low-income households, who are qualified as being in need for improved housing conditions, may be eligible for getting social housing during a five-year period;
- 2) Improve the quality of housing provision (state of the housing stock, level of amenities and quality of housing services), and enhance standard conditions for living in dwellings (on average, at least one room for each member of a household);
- 3) Improve the state of Russian cities and other settlements which provide a comfortable and attractive living environment to people;
  - 4) Liquidate a shortfall in replacement investment and reduce the proportion of the accumulated shortfall from 36% to 15% of GDP. This will help rectify the situation with the growing shortfall in the amount of the foregoing investment and embrace a new development without shifting the burden of removing the shortfall to future generations.