

The Suburban Housing Market in Russia is Having a Blast

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Abstract: The article is especially important due to significant impact of Covid-19 on suburban housing market in Russia as one of the main factors of sales increase on this market. Covid-19 changed the economic landscape of many industries not only in Russia but around the world. The author of this article makes an attempt to investigate how Covid-19 impacted the market of suburban housing in Russia and find an explanation why this market demonstrated growth during the recent years. The author of this article attract research from different sources and make analysis of the trends in this industry. The topic of this research is relatively new and underdeveloped. The author of the article believe that their research will make an input into research of the changes in economy caused by Covid-19 in general and will be developed further.

1 INTRODUCTION

Suburban housing (construction in a mixed-used or residential area existing either as part of the city or urban area or as a separate residential community within commuting distance of a city) demonstrated decline over the years before Covid-19 (Blokhin et al., 2021). According to RBC research in 2018 the suburban housing market could not get over the crisis and the prices for the property were going down constantly. The offer of the suburban housing was significant and a customer had a wide choice which created strong competition among market players. The market situation changed with Covid-19. Russian citizens moved actively to the suburbs and out of cities looking for suitable property either to rent or to buy. Those of them who had their own out of the city property started using it, while others stated looking for property to buy. Experts think that they are not likely to come back to their city apartments after the Covid-19 pandemic is over. Russian suburban housing market had to be reloaded because it is to create a bigger offer at different prices and quality for different segments of customers. Starting from the beginning of 2020 prices on suburban housing market went up in 77 region of Russia out of 84 regions. The


most significant increase by 15-16% took place in the Amursk region, the Khabarovsk region, republics of Komi and Khakasia and the Udmurtia region. The strong increase also happened in resort regions. People having no chance to spend their vacation abroad travel to places like Sochi, Crimea, Causasus region, Altai. They get positive experience there and buy private property in those regions.


According to CIAN, a leading Russian real estate marketplace, suburban real estate gained over 43% in price since the start of the pandemic (April 2020) (Real Estate Market in Numbers, 2021).


The price of a sq.m. rose from 33089 rub. to 47444 rub. outside of the largest metropolitan communities. In Moscow, the rise has been less dramatic, only 31%, mostly because prices had been high enough already. As of October 2021, suburban real estate in Moscow averages 131421 rub. per sq.m.

Although suburban real estate prices rose intact with the rest of the market (apartments gained a similar 28% over the same time period) the reasons behind this rise are more diverse, and some of them have nothing to do with the major force driving the housing market in general – the COVID.

The purpose of this article is to make an attempt to investigate how Covid-19 impacted the market of suburban housing in Russia and find an explanation

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why this market demonstrated growth during the recent years.

2 MATERIALS AND METHODS

To achieve this goal, the following research methods were used: general scientific (dialectical, analysis and synthesis of available literary data, comparisons and analogies, annotating, inspecting and referencing information obtained from modern scientific sources), special (system, comparative analysis, etc.). The main sources of information were publications by Russian and foreign scientists and analysts on various aspects of the development of the real estate market, in particular the suburban housing market; statistical services; special portals and other Internet resources, news and notes published in the media.

3 RESULTS AND DISCUSSION

There is no denying, however, that the COVID pandemic has impacted the lives of Russians in many ways. Families were suddenly spending time together 24/7, and it turned out that many weren't ready. While the pandemic gave us time, it also demanded something most didn't have readily available – space. With schoolchildren and college students forced to learn from home, the one and (usually) only home computer suddenly became a scarce resource. Parents had to buy equipment and rethink their work schedule. However, as reports from the Ministry of Health became the routine go-to morning news, another problem arose, and this one couldn't be cured by a mere visit to MVideo's computer aisle.

It is no secret that most Russians' living conditions are quite cramped. According to Minsstroy, the Russian construction authority, the average Russian citizen owns 26,9 sq.m. (Dumanskaya, 2021).

This is modest compared even to Eastern Europe (35 sq.m.), and especially – to the United States, which boasts 65 sq.m. per person. But who needs the space when you live mostly at work? The pandemic changed the work/home balance for many. Office works suddenly found themselves participating in hours-long meetings from their bedrooms, kitchens, garages and even cars. Family conflicts over who gets the room and for how long became the norm. The obvious, although very expensive, answer was upgrading your living quarters – moving to a larger place. The pandemic had a word here, too. According

to a study by CIAN, most buyers are now looking for an apartment with a dedicated office space and/or a terrace. A better answer yet, however, is a country house. Without a need for a lengthy drive to town, which used to be named as obstacle #1 by prospective house-buyers, suburban real estate suddenly became king.

The pandemic, however, was not the only factor behind the suburban real estate boom. According to a study published on nedvio.com (Nechitaeva et al., 2019; Krylov, 2021).

Air quality in the entire center of Moscow is characterized as “extremely negative” with the rest of the city only slightly better in this respect. In a study conducted by “Strelka”, a city anthropology center, respondents named ecology as the main factor influencing their choice of a country house (Homayko, 2020).

This trend is not only Russian, but rather pan-European. According to Hugo Thistlethwayte, Head of Global Residential Operations at Savills, a leading real estate broker, country houses initially purchased as weekend getaways, have been increasingly becoming primary residences over the last decade.

Relocating to the countryside always involves a longer commute. That, in turn, calls for a separate vehicle for every adult family member. The typical “soccer mom” feels almost like a cab driver, especially should her daily drive involve a 20+km trip to town. However, the number of vehicles in a family sometimes present a cause of relocation in itself. Over the last several years, paid parking has become the norm in Russia – and not only in the capitals. While it did free up some parking space, after years of havoc, it also created an article of expense – for many, this was yet another reason to move out. As of 2021, in Moscow, a monthly parking permit can run as much as 30 000 rub. – an average monthly salary in some of the poorer regions. In Saint Petersburg, a similar permit is 12 000 monthly. Even in a very average city, such as Tula, monthly parking will take 2500 rub. out of your pocket (Rudyk, 2019). At the same time, most separate housing plans now include a built-in garage, often even for 2 cars. It is also quite unthinkable that paid parking will make its way into the suburbia of even the largest cities. Safe to say, this is not something to worry about.

Another factor adding to the rising demand for suburban real estate is the surge in apartment prices. New construction in Moscow added 38%, with the current average price of a sq.m. at 263 000 rub. Apartments have become increasingly expensive for a number of reasons, too. Experts agree on the fact that subsidized mortgages (special government

programs, administered through major Russia banks) have been the major reason. Under such programs, buyers have been able to receive a mortgage loan at an earlier unthinkable rate of 6.5%. The government compensates banks for the difference between the subsidized rate and the actual cost of money. The programs has a limit of 3 mln. roubles , and used to also have a higher limit of 10 mln. for property located in Moscow and St.Petersburg. According to mos.ru, the city administration site, over 90% of all mortgage loans in Russia are currently issued under this program. The program was initiated in 2020 as a means of support for both real estate developers and mortgage borrowers.

According to Rosreestr, Russia's property registration authority, over 107 thousand mortgage loans have been taken out by Russian over the period of April 23. 2020 through November 1. If we multiply that by 3 million, we arrive at a whopping 321 bln. Roubles. With all that liquidity suddenly available to the markets, developers resorted to the major surefire move known since Adam Smith – they started raising prices until supply finally met demand. Unfortunately for buyers, the meeting took place at price points earlier unseen.

This makes buying a larger apartment an unattainable dream for many prospective homebuyers. The suburban market, although also inflated, offers a much more affordable 131 000 rub. even around Moscow, which affords buyers a place almost twice as big for the same money. As a result, prospective homeowners with low and moderate budgets are driven outside the largest metropolitan markets, thereby further increasing the demand.

The market has also answered with an earlier unseen decrease in apartment space. Single-room and studio apartments now account for 53% of all available stock, according to RASK (a rating agency with a focus of construction companies). It is worthy of note here that in Russia a 1-room apartment is not the same as a traditional single bedroom worldwide. A 1-room apartment is comprised of a room, which doubles as a living room and a bedroom, a kitchen and a bathroom. Moreover, in 10 regions of Russia this number is even higher, 60% - the regions include such seemingly wealthier territories as St.Petersburg. In Moscow, where prices are traditionally the highest, 20- and even 11 sq.m. studios (a number which makes even the smallest hotel rooms look luxurious) are no longer an obscure rarity.

As of November 2021, developers in Moscow are offering over 16000 units for sale in the so-called mass sector (economy and comfort class), a 23% increase year-on-year. Of that number, studios

amount to 21% of the supply. The number of studios on sale is greater than the number of 3-room (2 bedroom) apartments. If we add 1-room apartments, the supply arrives at 51%. The major factors behind this trend is cost. While studios do offer a higher sq.m. price, the total check still comes up way lower than even the smallest 1-room apartment.

The decrease in travel also added to the situation. According to ATOR (a tourism association), international travel from Russia decreased by a drastic 77.5% in 2020 (ATOR summed up the tourist results of 2020 and talked about three scenarios in 2021, 2020). This was due to obvious reasons – borders were closed, air travel restricted to “special needs” only. However, internal tourism also suffered, shrinking 35-40%. While some destinations are open, people are increasingly wary of COVID and therefore not ready to travel. An obvious replacement for a trip to the sea has always been the “dacha”, so when it became clear that travel wasn't returning any time soon, many people turned to upgrading their existing dachas to accommodate year-round living – and buy new ones.

Some of the buyers in the suburban market are former owners of foreign real estate, which they have had to get rid of, and COVID only had a partial say in this.

The state, with its position of double citizenship for government employees, influenced the situation as well. Since July 2021 Russian officials are not allowed to hold foreign citizenship, with a few exclusions. This was another step towards ensuring the officials' loyalty, adding to the already common practice of declaring foreign real estate (Gorovtsova, 2021).

It is no secret that many Russian officials, and not only federal, owned an “escape plan” in Italy, Spain or Bulgaria, which they now had to sell, or risk their career. Having done that, however, most directed their money towards buying a beach house in Mother Russia- namely, Sochi or the Crimean Peninsula. They were followed by a horde of others, with no limits on owning foreign homes, but with a very unclear vision of how soon they were going to be able to see them. Most European countries demand that visitors present proof of vaccination by a WHO-accepted vaccine, none of which are available in Russia. As of November 2021, the only countries in Europe ready to accept visitors vaccinated with the Russian Sputnik-V are Hungary (this country also accepts Russians who have chosen the other vaccines – EpiVacKorona and CoviVac), Slovakia, Turkey, Montenegro and Estonia. Even Greece and Bulgaria, historically the most Russian-friendly sites and

favorite vacations spots for many Russians, require a negative PCR-test.

Even if tourists manage to enter a country, leaving it and safely getting home can be an issue in itself. The newly discovered “omicron” variant of COVID-19, characterized by higher contagiousness and theoretically more severe, has caused South Africa to declare a lockdown, which includes blocking incoming and outgoing airtravel. This left a number of tourists, including Russians, wondering how and when they would be able to get home. The omicron variant, according to the earliest studies, may not be blocked as effectively by the known vaccines, as the earlier known variants of COVID.

Adding to increased airfare and rising costs of upkeep, for many this is a clear sign to sell and go back home.

Finally, the construction costs factor. An article by «Kommersant» shows that most construction materials showed an increase in price, sometimes 2 or 3-fold (Rusakov, 2021). Specifically, steel and steel-based materials gained over 100%, and wood – 150%. As a result, the price of a typical brick house (shell only) rose from 1,5 to 5 million rub.

An article by Vesco, a large contractor, gives a clear view of growing prices.

Table 1: Dynamics of prices for construction materials, 2020-2021.

№	Product	Unit	Price, July 2020	Price, Jan 2021	Price, July 2021	6-months growth, %	12 months growth, %
1	Waterproofing	sq. m.	54	75	160	39,4	197,4
2	Plywood	sheet	1615	2400	4600	48,6	187,8
3	Edged wood	m3	8500	12000	18000	41,2	111,8
4	Rebar	T	41000	65300	75200	59,3	83,4
5	Dry wood	m3	12800	18900	22500	47,7	75,8
6	Penoplex	m3	4200	4300	7400	2,4	76,2
7	M 150 Brick	piece	15	20	25	33,3	63,3
8	Full-bodied brick	piece	13	15	21	18,8	62,5
9	Granite rubble	m3	1900	2400	2800	26,3	47,4
10	M350 granite concrete	m3	4200	5400	5650	28,6	34,5
11	Sand	m3	6400	680	750	6,3	17,2

12	M350 gravel concrete	m3	4200	4900	4900	16,7	16,7
13	M500 cement	bag	325	365	365	12	12

If we compare this to the housing prices, the former seems quite modest. However, one must keep in mind that a significant part of the supply is made up of 2000 and even 1990s construction, often characterized by exorbitant sizes (sometimes in excess of 1000 and even 1500 sq.m.), unreasonable floor plans, poor choice of construction materials and highly questionable design. Such houses are expensive to service and uncomfortable to live in. The mistakes made by their original owners can often be corrected, but at a cost, which the prospective buyer will be sure to discount off the asking price. It is safe to say, therefore, that once the market is done with the old supply and the offers with have been up for years are gone, new construction will maybe offer us better options and building quality, but for sure at new, yet higher prices.

The latest statistics prove all of the above. According to a study conducted by Rosselkhozbank, a leading mortgage loan provider, 81% of Russians view moving to the countryside favorably.

The report shows that over half of the above mentioned 81%, over half are people 35 to 50 years of age. Of those, 54% are ready to move to the countryside permanently, and 27% - only for short-term visits. The report also shows men as more decisive in their desire to move, and women – more reluctant. It is also worthy of notice that only 19% of respondents were firmly in favor of city living.

The respondents were also asked about the factors which influence their decision to move out of the city, and came up with the following answers.

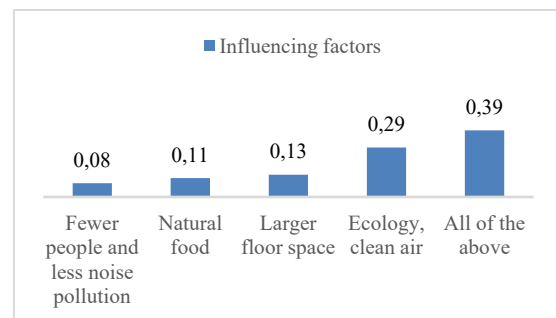


Figure 1: Influencing factors.

“The pandemic changed view of suburban living. Moreover, government policy helps create comfortable living and working conditions in rural

areas. It is no surprise that almost have of the respondents (47%) would like to purchase suburban real estate. Many have a conscious desire to replace the city buzz with the peace and quiet of rural living, work in a new place, perhaps even become a farmer” – says Boris Listov, Chairman of the Board at RSHB.

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4 CONCLUSIONS

While its arguable what weight factors other than the pandemic have had in the rise of the Russian suburban market, it is certain that the buyers’ changing housing needs, along with the newly reinforced ecology trend, limited travel opportunities, growing apartment prices and rising construction costs have all added up to form a new reality, where a house – for the first time since before the 1917 revolution – has become a viable choice for many a Russian.

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