


# Social and Economic Security in the Field of Housing Construction in the Context of the Regional Sustainable Development

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**Keywords:** Social and Economic Security, Housing Construction, Unemployment Rate, Real Income of the Population, Primary Housing Market, Housing Demand, Housing Affordability.

**Abstract:** The solution of the housing problem for citizens is one of the main ones, and housing is one of the basic needs of a person. This paper considers the main provisions of the management of social and economic security in the field of housing construction. Social and economic security has a multifaceted nature, since its analysis includes both housing construction and social indicators. Moreover, the management of social and economic security involves the participation of the state, application of the whole range of measures aimed at both the development in the field of the housing construction and related areas, and the social sphere in terms of increasing the level of housing affordability for the population. The management of this field is especially relevant in the context of economic shocks that arise both in the country and in the whole world.

## 1 INTRODUCTION

One of the basic human needs is the housing demand. It is located at the base of A. Maslow's pyramid of needs and refers to physiological needs along with food, water and sleep. The housing affordability for the population is one of the main social and economic indicators reflecting the demographic, social, and economic characteristics of current living standards. At the same time, periodically arising economic shocks lead to an aggravation of the problem of social and economic security in the field of housing construction (Sadykova, 2020).

Social and economic security in the field of housing construction is multifaceted, since it affects not only economic, but also social aspects. On the one side, the development of housing construction contributes to the development of not only the construction industry, but also related areas (production of building materials, metal structures, etc.), on the other side, the growth of housing being commissioned should be supported by effective demand from the population. The latter is directly related to the analysis of the level of real income of citizens, employment and poverty, availability of mechanisms for financing the purchase of housing in


the primary market (government support, mortgage lending, etc.). Obviously, in this aspect, the economy cannot be regulated independently and the participation of the state is necessary.

## 2 RESEARCH METHODOLOGY

This study uses the method of analyzing indicators of social and economic security in the field of housing construction. Statistical data from official sources are analyzed, as well as expert opinions.

The following indicators were identified for the analysis:

- the amount of housing commissioning;
- the average actual cost of building one square meter of housing;
- the average price for 1 sq. m of housing in the primary and secondary markets;
- the level of real income of the population;
- the average per capita income of citizens;
- the level of the subsistence minimum;
- the unemployment rate;
- the share of the population with monetary incomes below the subsistence level.

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One of the main indicators for assessing social and economic security in the field of housing construction is the housing affordability index, which reflects the number of years it takes an average family to acquire accommodation. This indicator is primarily influenced by the level of per capita income of the population.

### 3 RESEARCH RESULTS

According to experts, “an increase in housing affordability is possible only due to an increase in the

real level of income of the population by at least 5% per year in the period 2020–2024. At the same time, the achievement of such a result is possible only by accelerating the potential growth rates of the economy.” (Akhmetov et al., 2020).

In the second quarter of 2020, there was a record decline in the level of real income of the population by 8%. In the third quarter of 2020, the decline in real incomes of the population continued. Figure 1 shows data on the dynamics of the real income level of the population in Russia for the period of 2017–2020. In general, for the analyzed period, the maximum growth in real income was observed only in the third quarter of 2019 and amounted to 3%.

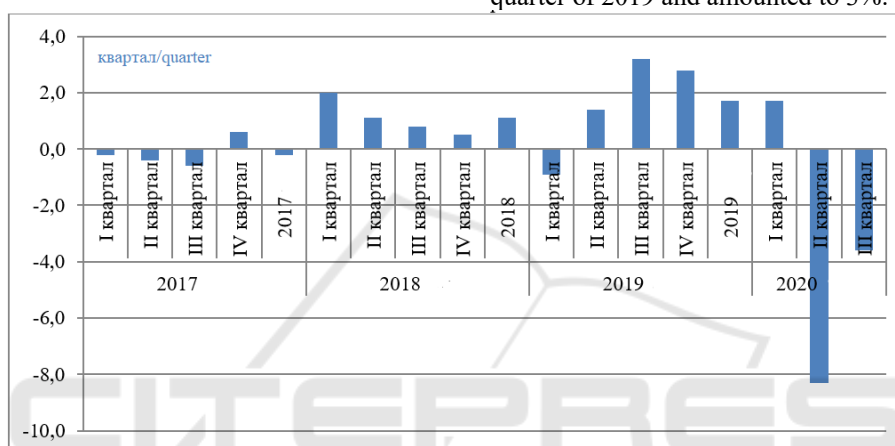


Figure 1: Dynamics of the real income level of the population in the RF, in % to the corresponding period (Federal State Statistics Service).

Table 1 shows the main indicators for the analysis of social and economic security in the field of housing construction.

During the analyzed period, the maximum rate of housing commissioning was observed in 2019. In 2020, probably due to the pandemic of the new coronavirus infection and the temporary suspension of construction sites, housing commissioning decreased by 1.7% and amounted to 80.6 mln. sq. m. At the same time, the volumes of housing commissioning in 2020 are the result of the received building permits 2-3 years ago. Thus, it can be assumed that the consequences of the pandemic will affect the work of the construction industry in the next 2-3 years. Note that, according to the national project “Housing and Urban Environment”, it is expected that the volume of housing construction will grow by about 1.5 times, up to 120 million sq. m. by 2024.

Table 1: Indicators of social and economic security in the field of housing construction in Russia for the period of 2017–2020.

Indicators	2017	2018	2019	2020
Housing commissioning	79.2	75.7	82	80.6
The average actual cost of construction of one square meter of the total area of residential premises, in rubles.	41,459	41,358	42,551	44,142
The average price of 1 sq. m of the total area of apartments in the secondary housing market, in rubles.	52,350	54,924	58,528	61,712
The average price of 1 sq. m of the total area of apartments in the primary	56,882	61,832	64,059	79,003

housing market, in rubles.				
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Continuation of Table 1.

The average per capita income of the population, total, rubles per month	31,897	33,178	35,249	35,043
The subsistence minimum level, in rubles.	10,088	10,287	10,890	11,301
The unemployment rate, in %	5.2	4.8	4.6	6.4
The share of the population with monetary income below the subsistence minimum	12.9	12.6	12.3	13.5

Source: Federal State Statistics Service

During the analyzed period, there was also an increase in the average actual cost of housing construction. For the period of 2017-2020 it increased by 6%. The average price for primary housing increased by 40% during the analyzed period and averaged 79 thousand rubles/sq.m., and for secondary housing by 18% and amounted to 61.7 thousand rubles/sq.m. At the same time, if the increase in the secondary housing market was gradual, then in the primary housing market, a sharp increase occurred over the period of 2019-2020 (23%). This change, to a greater extent, was influenced by the introduction of a concessional mortgage lending program at a rate of 6.5% for the purchase of primary housing, which was intended not only to increase the level of housing affordability for the population, but also to support the housing construction industry.

It is noteworthy that up to 2016, housing prices in the primary market were lower than in the secondary

market. Secondary housing attracted buyers, first of all, because there was no need to wait for it, after property registration, you can immediately move in, while the apartment has already been renovated. When buying a housing during the construction phase, it was possible to save up to 30% of the entire apartment cost. Primary housing was more affordable if there was housing for the construction period, although it assumed the expectation of transferring it into operation within 1-2 years. It should be noted that the purchase of accommodation in the primary market was also accompanied by a number of risks, such as: the developer's possible bankruptcy, as a result of which the housing could not be completed, and the equity holders could be left without an apartment and money already invested in construction (Kurmanova and Sadykova, 2018).

Since the end of 2019, after the introduction of project financing for housing construction, the risks of construction in progress have been removed from equity holders, since now developers will attract financing from banks, and not from equity holders directly. At the same time, the funds of equity holders are accumulated on special escrow accounts, from where they are transferred to the developer only after the completion of construction and commissioning of housing (Sadykova, 2019).

At the end of 2016, prices in the primary and secondary markets leveled off, and, starting in 2017, the price for 1 sq.m. primary housing already outstripped prices in the secondary market. Probably, such a change occurred in connection with the implementation, starting in 2015, of programs to subsidize mortgage rates for the purchase of primary housing, which stimulated demand for it and pushed up prices (see Figure 2) (Federal State Statistics Service).

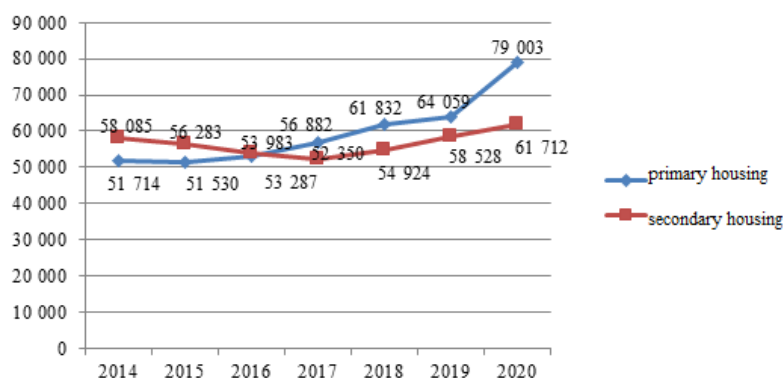


Figure 2: Dynamics of prices in the primary and secondary housing markets for the period of 2014-2020

With regard to social indicators, the average per capita income of the over the past 2 years has remained practically unchanged, although the real level, as noted earlier, has been declining throughout 2020. At the same time, it should be noted that the level of per capita income does not reflect the actual state. For a more detailed analysis, it is necessary to additionally consider the median and modal levels of per capita income. The income level most often found in the country (modal income) is slightly higher than the subsistence level established in the region. In fact, it is difficult for such families to acquire their own housing even in the long term.

In 2020, the share of citizens with income below the subsistence minimum, established in the region, increased up to 13.5% (Rosstat recorded an increase in poverty at the peak of the pandemic, 2020). Note that, according to experts' estimates, during the pandemic, 4.5 million individual entrepreneurs, as well as small and medium businesses, have ceased to exist. About 60% of enterprises were forced to reduce their turnover during the pandemic (The number of enterprises that went bankrupt during the pandemic in the Russian Federation is named, 2020).

The unemployment rate for the analyzed period increased by almost 2%. This is due to close-downs and staffing cuts (Ajupov et al., 2017).

#### 4 DISCUSSION OF RESULTS

The housing affordability index in Russia averages 5-6 years, in some regions it reaches 10-12 years. According to the methodology of the United Nations Human Settlements Development Program (UN-Habitat), there is a generally accepted classification of housing markets according to the criterion of affordability, according to which housing in Russia is substantially inaccessible (UN-Habitat International Urban and Territorial Planning Guidelines, 2015). Moreover, for citizens with an average per capita income below the subsistence level established in the region, the purchase of accommodation is impossible even in the long term, i.e. about 13-14% of the population does not have the opportunity to improve their living conditions in the future.

In this context, it is necessary for the state to intervene in the processes, since the solution of the housing problem has not only a positive effect on the construction and related industries but also on the social climate: the demographic situation relieves social tension (Kurmanova and Sadykova, 2020).

One of the ways to lower the level of mortgage interest rates for end borrowers is to subsidize rates

from the budget. This method is relevant if the development of housing construction and financing of purchases through mortgages create a significant amount of externalities. There are already several programs for subsidizing mortgage rates (Family Mortgage, Far Eastern Mortgage, etc.) in Russia, but, as in many countries, these programs are aimed at supporting certain social groups.

Expansion of subsidy programs can, on the one side, lead to a decrease in the average mortgage rate in the economy, even without changing the level of market (unsubsidized) rates, and on the other, require an increase in budget expenditures. Besides, the introduction of programs to subsidize interest rates for the purchase of, for example, primary housing, leads to rapid demand for it, and, as a result, to an increase in prices. As a result, the initial effect of increasing the availability of debt financing for the purchase of accommodation is offset by a decrease in its affordability.

At the same time, according to experts, as a result of the implementation of the program to subsidize the rate on mortgage loans for the purchase of primary housing, which started in April 2020, the share of families for whom the purchase of a standard apartment in the primary housing market using mortgage lending will increase from 40% to 53.4%, or by 13.4 percentage points (Kosareva and Polidi).

It should also be noted that the measures taken to introduce "mortgage vacations" also have a positive effect on the situation of citizens since it allows for 6 months not to make payments on the mortgage loan completely or to reduce their size. Such a measure is applicable to citizens who have previously issued a mortgage loan, whose financial situation has deteriorated. At the same time, credit institutions in the course of the implementation of this program may encounter problems associated with the failure to receive regular payments on mortgage loans and will be forced to form additional reserves.

"According to Rosstat, the potential sources of funds for the purchase (construction) of housing by the population traditionally include: sale of existing housing, maternity capital funds, subsidies for the purchase of housing, other sources (including own funds) and mortgage loans."

In the country as a whole, the share of own funds in the structure of financing transactions for the acquisition of housing at the end of 2018, according to Rosstat estimates, was about a half. According to a survey by AO Raiffeisenbank, at the end of 2019, almost 62% of future mortgage borrowers have independently saved or continue to save funds for an initial payment.

About 38% of Russians wishing to take out a mortgage did not have free funds for an initial payment on such a loan. The citizens planned to collect funds for the initial payment on the loan through the following mechanisms (one or more): “23% expected to receive funds on the security of “old” housing, 20% of the respondents planned to spend the maternity capital on the initial payment on the mortgage, 13% were preparing to sell the property, and 10% to take a consumer loan.”

In general, future mortgage borrowers save up for an initial payment from 2 to 4 years, 6% of respondents can accumulate funds for a period of less than 1 year, another 17% in 1 year, 29% of respondents need 5 years to accumulate funds. Approximately 35% of respondents who are ready to save up for an initial payment save money every month, and, more often than not, resort to deposits. Also, among the respondents, there were citizens who keep funds at home or invest them until the required amount is accumulated. Among the popular means were debit cards with interest on the balance.

Also, according to a number of experts, the development of the social rental market could increase the housing affordability. This instrument, on the one side, would contribute to solving the housing problem of citizens who do not have the financial ability to purchase their own housing, and on the other side, to increase the mobility of the able-bodied population and reduce the unemployment rate. At the same time, the social rental market today is only at the beginning of its development.

Another way to increase the housing affordability, noted by experts, is to reduce the cost of construction, which can restrain the rise in housing prices or even lead to their decline. The prime cost can be reduced by removing the costs of developers that are not directly related to the housing construction. For example, to remove obligations for the construction of social infrastructure (kindergartens, schools), which are imputed to developers upon approval of projects. At the same time, it is necessary to build the necessary infrastructure, therefore, a decrease in these costs for developers (and, ultimately, for a housing buyer) will have to be compensated by an increase in the corresponding budgetary costs.

On the one side, such a measure, indeed, could lead to a decrease in the cost of housing, on the other, it will require the search for additional funds to replenish the budget. Also note that, according to statistics, the excess of the market value of housing over its average actual cost at the end of 2020 is, on average, almost 80% across the country, which indicates a possible overstatement of prices by

developers and the availability of a reserve for their reduction.

## 5 CONCLUSIONS

Thus, as a result of the analysis, some conclusions can be drawn.

Firstly, the level of real incomes of citizens continues to decline. A record decline was recorded in the second quarter of 2020. This was largely due to the pandemic of the new coronavirus infection, resulting in a large number of enterprises were closed and workers were laid off. For the same reason, there was an increase in the unemployment rate and the share of the population with the level of per capita income below the subsistence minimum.

Secondly, the volume of housing commissioning decreased by the end of 2020, but prices both in the primary and secondary markets continue to increase. At the end of 2020, prices in the primary housing market increased by 23% (compared to 2019), and in the secondary housing market by 18%, respectively.

One of the reasons for primary housing price rise include the introduction of a program of subsidizing interest rates on mortgage loans for the purchase of primary residence. This measure was intended to support not only the construction industry, but also to increase the housing affordability and instruments for financing its purchase by the population. As a result, sustained demand for primary housing pushed up prices. Note that 13.5% of citizens below the poverty line do not have the opportunity to purchase accommodation even in the long term.

Thirdly, housing in Russia is significantly inaccessible, since for its acquisition, even in times of austerity, a family needs to save more than 5 years, and in some regions up to 10-12 years. In Russia, on average, there are 25-27 sq.m. of housing per inhabitant, but this figure is far from the level of the USA and European countries. Purchase of accommodation with an area of 43-77 sq.m. per person is not available for Russian citizens (Kurmanova and Sadykova, 2020).

Fourthly, the indicator of housing affordability is primarily influenced by the level of income of the population. Accordingly, to increase the housing affordability, it is necessary to ensure the rise of the real income of the population. On the other side, the market price for 1 sq.m. housing at the end of 2020 is 80% higher than the cost of its construction, which may indicate a reserve for reducing the market value, which, in turn, will favorably affect the affordability index.

Thus, there are ways to increase the level of housing affordability for citizens, provided that the development of housing construction continues, but it requires the participation of the state. To ensure social and economic security in the field of housing construction, it is necessary to use an integrated approach that solves problems, both in each individual region and in the country as a whole.

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