

# Tracking Change in Moscow's Housing Sector

August 1993

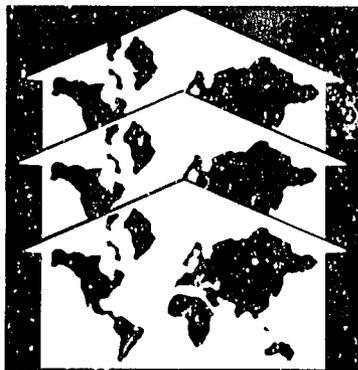
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# **Tracking Change in Moscow's Housing Sector**

**August 1993**

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Office of Urban Programs  
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## **ABSTRACT**

This paper examines the housing sector in Moscow both over time and relative to major cities in other countries, looking at indicators that reflect the relationship between supply and demand, the affordability of housing and the availability of housing finance, and the extent and effects of government regulation in the sector. Its objective is to place the Moscow housing market in a context readily understandable to Western housing experts and market participants.

The indicators analyzed for Moscow evidence the continued inefficiency of a state-dominated housing sector in which housing supply and allocation decisions are not based on market principles. Significant legislation on the housing sector at the Federation level and the tremendous volume of housing privatization illustrate a definite shift towards the market. Data for 1992 reflect in part the dislocations caused by the beginning of the shift to the housing market as well as the inefficiencies of the old system.

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## EXECUTIVE SUMMARY

After the first years of reform in Russia, many questions have arisen as to the extent and effects of the changes in the housing sector. The World Bank-Habitat Housing Indicators Program provides a framework through which to monitor changes in the sector and to evaluate the impact of policy reforms. These indicators facilitate the tracking of change in the housing sector both over time and relative to major cities in other countries. The indicators reflect the relationship between supply and demand, the affordability of housing, the availability of housing finance, and the extent and effects of government regulation in the sector.

The *housing production* indicator measures the actual supply of housing units, while indicators of *floor area per person*, the rate of *new household formation*, the rate of *homelessness*, the length of the *waiting list*, and *residential mobility* illustrate both the demand pressures on the market and the extent of the housing shortage. The *housing price to income ratio*, the *rent to income ratio*, and *housing credit portfolio* (an indicator of the availability of housing finance) measure housing affordability.

Other indicators directly reveal the dominance of the state in the housing sector. The *rental price distortion* indicator shows the impact of rent controls in Moscow's public rental sector. The *industrial concentration* indicator demonstrates the state's monopoly position in housing construction, and *owner-occupancy* indicator illustrates the state control of housing ownership.

The indicators analyzed for Moscow evidence the continued inefficiency of a state-dominated housing sector in which housing supply and allocation decisions are not based on market principles. Among the more significant findings emerging from our analysis of the indicators are the following:

- Only a miniscule volume of mortgage finance has been available in Russia. In 1991, for example, housing credit constituted only about 1.6 percent of total loans outstanding, falling to 0.6 percent in 1992. In contrast in 1991, the comparable

figure was 29 percent in Hungary and 36 percent in Germany.

- The limited number of apartments on the market relative to the demand and the use of auctions as the main sales method led to astronomical prices in the nascent free market. In 1991, the housing price-to-income ratio in the private market was 148.5. During the same period, free-market house prices in Warsaw were 3.6 times income and in Munich were 9.6 times income.
- Strict rent controls in state-owned housing and the limited number of private rentals have led to sharp differences in the rent-to-income ratios of the public and private sectors. In the private rental market, rents are roughly equivalent to household income, whereas municipal units rent for less than one percent of household income. Rents in Budapest were 6 percent of household income and in Washington, D.C. rents were 23 percent of income.
- The state continues to dominate ownership in the housing sector, but its influence is declining. In Moscow, prior to current reforms, 90 percent of housing was state owned. Following the successful privatization program, about 35 percent of housing in Moscow is now owner-occupied.
- The state still plays the primary role in housing construction. In Moscow, all of the five largest developers are state-owned construction companies. In contrast, the share of housing construction controlled by the five largest developers in Budapest, Warsaw, and Munich is between 41 and 46 percent.

Despite the slow start suggested by many of the indicators, the shift to the market is underway—as manifested most clearly in the enormous volume of privatized housing and the impressive legislative record at the Federation level. The effects of these developments should become clear in the housing indicators for 1993 and beyond.

## TRACKING CHANGE IN MOSCOW'S HOUSING SECTOR

Despite the volume of research on the housing sector in Moscow, very little of the work has produced indicators useful for measuring the state of the market. A set of indicators for the Moscow housing market will enable policymakers and researchers to track the actual transition to a market-based system. The World Bank-Habitat Housing Indicators Program provides a framework for monitoring changes in the sector and evaluating the impact of policy reforms. The objective of this paper is to present key indicators to illustrate and explain the evolution of the housing situation in Moscow. The indicators presented in this paper are highlights selected from the full indicators reports, *Housing Indicators for Moscow and the Russian Federation 1989-1991*, and *Housing Indicators for Moscow and the Russian Federation 1992*, which include comprehensive data on the housing sector.<sup>1</sup> Data on the same indicators are to be collected for the next several years.

The World Bank-Habitat Indicators Program was established to create a solid analytical and empirical base for the formulation and evaluation of housing policy in developing countries. The Extensive Survey of the program was conducted in one major urban area in each of 52 countries, and collected data on 47 housing indicators. The decision to focus on a single urban area was based on the diversity of housing conditions among cities within the same country, which tends to make figures on "all urban areas" imprecise and possibly misleading. The Survey was developed in response to a need, in most developing countries, for tools to monitor the performance of the housing sector and determine the impact of housing policies. Also lacking in many countries were the means

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<sup>1</sup>Other papers such as *The Russian Housing Sector in Transition* by Struyk and Kosareva (1993) provide general descriptions of the Russian housing market.

understand the influence of the housing sector on broader social and economic outcomes. Thus the objective of the Extensive Survey was to initiate a system through which countries can collect data to be used in quantitative, empirical analyses of the housing sector, to examine the dynamics of the sector over time, and the effects of government policy as measured by various indicators.<sup>2</sup>

Housing indicators for 1989 to 1992 for the city of Moscow were collected by researchers from the Institute for Economic Forecasting of the Russian Academy of Sciences.<sup>3</sup> Moscow is by far the largest city in Russia with a population of approximately 9 million in 1991, and a population density of 334 persons per square kilometer in the region. Due to Moscow's size and eminence, the indicators for Moscow reflect many of the reforms taking place in Russia's housing sector. The country comparisons presented below use indicators from the World Bank-Habitat Indicators Program for five other cities: Bratislava, Czechoslovakia; Budapest, Hungary; Warsaw, Poland; Munich, Germany; and Washington, D.C, United States.<sup>4</sup> These data are for 1990.

Recent data reflect the current status of the housing sector, while those collected for earlier years constitute valuable baseline measures with which to evaluate the progress towards a developed housing market. This paper examines the housing sector in Moscow, both over time and relative to major cities in other countries, by looking at indicators that reflect the relationship between supply and demand, the affordability of housing, the availability of housing finance, and the extent and effects of government regulation in the sector. Its objective is to place the Moscow housing market

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<sup>2</sup>For further elaboration on the housing indicators program see *The Housing Indicators Program: Vol. 4: The Extensive Survey Instrument* by the World Bank and United Nations Center for Human Settlements, 1992.

<sup>3</sup>For the complete set of housing indicators see *Housing Indicators for Moscow and the Russian Federation 1989-1991*, and *Housing Indicators for Moscow and the Russian Federation 1992*.

<sup>4</sup>For additional indicators on the five cities in this comparison see *The Housing Indicators Program: Vol.3, Preliminary Findings (June 1992)* by the World Bank and United Nations Center for Human Settlements.

in a context readily understandable to Western housing experts and market participants.

## HOUSE PRICE TO INCOME RATIO

Affordability of homeownership can be measured in terms of house prices and income. The *house price to income ratio* is defined as the ratio of the median free-market price of a dwelling unit and the median household income. A high value for this indicator reflects high house prices relative to income, and, therefore, limited affordability of housing for many households. Higher values also generally indicate that the supply of housing is limited and does not meet demand. While low values generally indicate affordability and an adequate supply of housing, they may also reflect high levels of government regulation and could disguise an actual shortage of housing.

As a result of regulation of the housing market and extensive subsidies in the public sector, there is considerable disparity in the average price of a publicly built dwellings and the average free-market price of dwellings in Moscow. Therefore, the *house price to income* indicator is calculated for both public and free-market house prices. The sales price of a publicly built cooperative unit was equal to the construction cost of a standard two-bedroom apartment in a standard "P-44" apartment building. This design accounted for 45 percent of all new housing construction during the period. The construction costs were supposed to be the cost of producing the housing; however, land costs and most infrastructure costs are not included. Construction costs for this type of apartment were Rb15,000 in 1989 and Rb50,000 in 1991. Thus, with a median annual household income of Rb5,712 in 1989 and Rb11,700 in 1991, the house price to income ratio for publicly built housing was 2.6 in 1989 and 4.3 in 1991.

Although there were some restrictions limiting private ownership and transfer of dwelling

units, there were no restrictions on the sale price of dwelling units by private individuals. While the volume of sales is known to be substantial, there are no official counts of transactions and no official data on sales prices for 1991 and earlier. The limited number of apartments on the market relative to the demand and the use of auctions as the main sales method have led to astronomical prices in the nascent free market. Based on interviews with "black market brokers," average sales prices were obtained for 1991: a standard apartment with two rooms sold for 1.7 million rubles. Thus, the free-market house price to income ratio was 148.5 in 1991.

Determining the house price to income ratio for 1992 proved an onerous task due to scant information on sales transactions and hyper-inflation of house prices throughout the year. In light of this, both beginning-of-the-year and year-end figures for this indicator are reported. (See Table 1.) With inflation rising faster than incomes, the price of a cooperative unit rose to 7.2 times median annual income at the beginning of 1992. However, over the year incomes rose faster than house prices and the year-end ratio was 5.0. The table also shows the sales prices of publicly constructed housing sold at market prices to individuals and enterprises. About 30 percent of all publicly-constructed units were sold at auction. Market prices for publicly-constructed units are quite comparable to private unit prices quoted by "black market brokers." The average year-end private unit price for 1992 was 55.4 times the median annual household income, while the average market price of a new municipal dwelling unit sold at auction was 47.2 times the median annual income. Price-to-income ratios for all units fell during the year.

<b>TABLE 1 INFLATION OF HOUSE PRICES IN 1992</b> (thousand rubles)				
	<u>Beginning of the year</u>		<u>Year end</u>	
	Price (rubles)	Price/ income	Price (rubles)	Price/ income
Cooperative unit	385	7.2	1,210	5.0
New municipal unit (auction prices)	2,750	51.1	11,550	47.2
Private unit ("black-market broker" prices)	3,250	60.4	13,500	55.4

Source: World Bank and UNCHS (1992), and Pchelintsev et al. (1993).

Although 1990 house prices for Moscow were not available, we can compare the 1991 figures for Moscow to the 1990 figures for other cities included in the Extensive Survey of the World Bank Housing Indicators Program. The right-hand column of Table 2 presents house price-to-income ratios for Moscow and the five other cities. While cooperative unit ratio in Moscow was comparable to the international average, the private unit price to income ratio for 1991 was over 15 times that of Germany, the highest ratio among the other cities in this comparison.

	Rent-to-Income	Price-to-Income
Bratislava	0.11	4.57
Munich	0.18	9.60
Budapest	0.06	6.62
Warsaw	0.06	3.60
Washington, D.C.	0.23	3.53
Moscow <sup>a</sup>		
public	0.005	4.27
free-market	1.03	148.50

Source: World Bank and UNCHS (1992), and Pchelintsev et al. (1993).

Note: a. Figures for Moscow are for 1991.

## RENT TO INCOME RATIO

The dominance of state-owned housing and the extreme disparity between controlled rents and private rents characterize the rental sector in Moscow. The right of citizens to housing at a low price was written into the Constitution and maintenance fees for public sector rental units have not increased since 1928. Although Constitutional amendments passed in December 1992 outline a more market-oriented means to achieve this right, and much of the enabling legislation has been passed, strict controls in the public rental sector remain in effect. Some localities, including Saint Petersburg, have increased maintenance fees since April 1992, when they were given the power to do so. Utility charge increases have been more widespread. The Law on Fundamentals of Housing Policy, passed in December 1992, mandates increases in rent to fully cover all operating costs by the end of a five-year period. These price hikes will likely begin in January 1994. Rent, as defined here, includes only maintenance fees, not utility payments. Prices in the emerging private rental

sector are not controlled, however, and the shortage of such rentals have contributed to a huge price differential between public and private rental units.

The *rent-to-income ratio*, defined as the ratio of the median annual rent of a dwelling and the median household income of renters, illustrates affordability in the rental sector. As in the case of house price ratios, the rent to income ratio must be calculated for both public and private sector rental units. The annual rent of a public dwelling unit was 1.0 percent of the median annual household income in 1989, and fell to 0.5 percent in 1991 as rent levels were not increased despite inflation and wage growth over the period. Since 1928, rent per square meter in a rent-controlled apartment has remained constant at 16.5 kopeks.

The median free-market rent for a comparable apartment was 7 rubles per square meter in 1989, increasing to 547 rubles per square meter in 1992. The ratio of the annual free-market rent of a dwelling unit and the median annual household income was 0.42 in 1989, rising to 1.03 in 1991 and to 1.72 in 1992.

Rents in the three Eastern European cities are low relative to Germany and the United States due to strict rent control policies. Rents in Moscow, expressed as a share of household income, fell well below those in Warsaw, Budapest, and Bratislava, as shown in Table 2. High inflation has rapidly eroded the value of current rents. Thus, the local governments responsible for public housing have picked up an increased financial burden and much of the required maintenance of public rental units has been deferred.

## **RENTAL PRICE DISTORTION**

As expected, the *rental price distortion* in the Moscow housing market, defined as the ratio

of the median rent of the typical rent-controlled unit to the free-market rent of a comparable unit, has increased dramatically in recent years. In 1989, controlled rents were 2.3 percent of free-market rents, falling to 0.03 percent in 1992 as restrictions in the private rental sector eased. Demand for private rental housing, coupled with its limited supply, has caused prices to rise rapidly. However, in compliance with the Law on Fundamentals of Housing Policy, rents for public rental units are likely to be increased in January 1994.

As previously noted, the high house price-to-income and rent-to-income ratios, of the private housing sector in Moscow signal a shortage of housing. Housing shortages have severe socio-economic effects and can result in low residential mobility, overcrowding, and low levels of new household formation—all characteristics of the housing market in Moscow. An additional manifestation of Moscow's housing shortage is the waiting list for municipal housing.

#### **FLOOR AREA PER PERSON<sup>5</sup>**

Shortages of housing often result in families living in physically inadequate or overcrowded housing. Table 3 presents two measures used to gauge overcrowding: the number of persons per room and *floor area per person*. Between 1989 and 1992, the *floor area per person* indicator remained fairly constant in Moscow, at approximately 18 square meters per person. Russia has one of the lowest levels of floor area per person among industrialized countries. The average for industrialized countries, according to the World Bank Extensive Survey, was 31.7 square meters per person. Of the five cities we are comparing with Moscow, Warsaw is the only one with fewer

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<sup>5</sup>In addition to *floor area per person*, we include persons per room, which is not one of the original indicators in the World Bank-Habitat Extensive Survey, as an indicator of overcrowding.

square meters per person than Moscow. Bratislava and Budapest both have 23 square meters; Munich is next with 35, and Washington, D.C. has by far the highest amount with 60 square meters per person.

While the *floor area per person* indicator reports the amount of space a person has, the number of persons *per room* indicator suggests the amount of privacy available. For example, if a three person household occupies a 60 square meter apartment with only one bedroom, each family member has an adequate amount of space but may be afforded very little privacy. As might be expected, the number of persons per room in Moscow, at 1.5, exceeds that of other cities in this comparison. Munich follows closely with 1.33. In other cities, such as Warsaw, where each person has little space, people may have a greater degree of privacy by having their own room or access to several rooms.

	Floor space per person	Persons per room
Bratislava	23.2	1.1
Munich	35.0	1.3
Budapest	23.5	0.9
Warsaw	17.4	0.6
Washington, D.C.	60.0	0.3
Moscow <sup>a</sup>	17.9	1.5

Source: World Bank and UNCHS (1992), and Pchelintsev et al. (1993).

Note: a. Figures for Moscow are 1992.

## NEW HOUSEHOLD FORMATION

A housing shortage has socio-economic effects other than just overcrowding. Generally, new household formation increases the demand for housing, thus increasing the pressure on the supply of housing. The causality, however, goes both ways: if more households form than housing is produced, a shortage ensues; if a housing shortage exists, fewer households may form. Thus, the rate of *new household formation*, expressed as the percentage increase in the number of new households, measures the demographic pressure on the housing market, and is highly correlated with housing prices and the supply of housing. When prices are low and housing supply is adequate, household formation is higher than when prices are high and housing is in short supply. If housing production is constrained and severe housing shortages develop, household formation rates may even be negative. There could also be a higher incidence of multigenerational households and overcrowding.

New household formation in Moscow fell from 0.8 percent in 1989 to 0.6 percent in 1990. The number of households actually fell by 1.1 percent in 1992. The decreasing rate of household formation cannot be attributed exclusively to a housing shortage, postponement of marriage, and delay in moving away from parents. The system of requiring residential permits, or *propiska*, in order to legally obtain housing has been an obstacle to household formation through immigration. One result is that workers live outside the city where the *propiska* system is not enforced and commute to work. Other workers simply share flats with those permitted to live in Moscow, while still others live in dormitory housing provided by their companies.<sup>6</sup> A falling birthrate in Moscow has also contributed to the decline of household formation. In short, the official statistics may mask some increase in household formation, but it seems clear that the combination of the housing shortage

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<sup>6</sup>The World Bank, in unpublished papers, has reported more on the relation between housing and labor markets.

and immigration restrictions are suppressing household formation significantly.

The mean rate of household formation of cities in the Extensive Survey is 2.8 percent, with percentages decreasing with income. The rate of new household formation was zero in Budapest and Warsaw, 1 percent in Munich, and 3 percent in the Washington, D.C.—the highest rate among the industrialized countries surveyed.

### HOMELESSNESS

The increasing rate of *homelessness* in Moscow also indicates a shortage of affordable housing and can possibly account for some of the decline in new household formation. Although there are no official figures, homelessness is certainly on the rise. The housing indicators report uses crime rates to estimate the number of homeless in Moscow; 28 percent of crimes are attributed to homeless persons. Thus, the number of homeless derived from this figure is a lower limit at 1.7 per thousand population in 1989, 1.9 per thousand in 1990 and 2.0 in 1991. However, at least one reporter for *Rossiiskaya Gazeta* argues that there may be as many as 300,000 homeless in Moscow.<sup>7</sup>

### WAITING LIST

The dynamics of the *waiting list* for public housing provides further evidence of the housing shortage. The number of families on the waiting list increased by 24 percent between 1990 and 1991, from 11.1 percent to 13.8 percent of the population in Moscow. At the same time, however, the percent of all households on the waiting list provided with housing fell by about 17 percent, from 13.6 percent of the waiting list to 11.3 percent, with an average wait of 7 - 8 years. In recent years,

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<sup>7</sup>See Alekseyeva (1993).

privatization of flats has decreased the number of flats available for allocation to households on the waiting list because the elderly are bequeathing their flats to their heirs. This trend was aggravated when municipalities began selling about 10 percent of the new housing units completed. Yet, a portion of those sold are either bought by households on the list or by enterprises who then allocate the flats to those who may be on the list, thus shortening the list. In 1992, only 9.1 percent of those on the list were provided with housing by the municipality. These waiting list figures very likely understate the number of households seeking new housing because only those households occupying less than 5 to 7 square meters per person are eligible for the waiting list.<sup>8</sup>

## RESIDENTIAL MOBILITY

Despite the housing shortage, *residential mobility* in Moscow is comparable to that in some other countries. Mobility is measured as the percentage of all households who changed their unit, which, in Moscow, was 5.9 percent in 1991 and 4.9 percent in 1992. This figure is higher than those calculated for the three Eastern European cities, Budapest, Bratislava, and Warsaw, and is somewhat lower than the 9.0 percent figure for Munich. Although there was no private market in Moscow, a legal system of swapping apartments existed for years, thus enabling households to move. The 1992 Law on Fundamentals of Housing Policy confirmed the legality of swaps without limitation. The volume of swaps in 1992 was 90,000, or about 3 percent of the city's housing stock.<sup>9</sup> Thus, swapping partly explains the higher than expected residential mobility rate in the

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<sup>8</sup>Note that households can also be on waiting lists for housing owned by an enterprise or agency and for the opportunity to purchase a unit in a new cooperative.

<sup>9</sup>For additional information on the real estate market and the exchange of flats in Moscow see *Notes on the Residential Real Estate Market* in Housing Policy Debate by Jill Khadduri.

absence of significant new residential construction.

## **OWNER-OCCUPANCY**

One of the characteristics of the housing sector which sets Moscow apart from the major cities in Eastern Europe is the extent to which the state has limited the rate of *owner-occupancy*. Prior to current reforms, over 90 percent of dwelling units were state-owned and less than one percent was privately owned. A comparatively small percentage of owner-occupied housing was typical of centrally planned economies where cheap state-owned rental units were provided. This is especially true in Russia, where construction of individual housing was prohibited from 1961 to 1987 in cities with populations exceeding 100,000.

The distribution of tenure in Moscow has begun to change over the last few years. The law "On Privatization of the RSFSR Housing Stock," passed by the Supreme Soviet in June 1991, gave all registered tenants of state-owned rental units the opportunity to privatize their unit. While cities were given the possibility of charging tenants for "extra space," Moscow adopted a free of charge policy in January 1992. In December 1992, legislation establishing free of charge privatization throughout the Federation was passed and the rate of privatization increased sharply. Between January 1993 and April 1993, 2.55 million units were privatized in Russia—an average of more than 600,000 a month. Since the advent of housing privatization through April 1993, 5.3 million units have been privatized—about 16 percent of all eligible units. During the same period, 28 percent of eligible units in Moscow were privatized, or about 750,000 units. Thus, the owner-occupancy rate in Moscow is now about 35 percent (including about 10 percent of the units that are in cooperatives); 65 percent of all dwelling units remain municipally or departmentally owned.

Owner-occupancy rates vary considerably in Eastern Europe reflecting economic and policy differences, influencing the relative cost of owning versus renting. Higher rates of owner-occupancy indicate more accessible housing finance and affordability of ownership (e.g. lower house price to income ratios). Although Budapest's house price to income ratio is relatively high and rent to income is low, 45 percent of housing is owner-occupied as the result of a conscious policy beginning in 1981 to heavily subsidize homeownership to avoid future state maintenance subsidies. Poland adopted a similar policy to promote homeownership, and in 1990 Warsaw had a 35 percent owner-occupancy rate. Czechoslovakia maintained a policy discouraging ownership and continued to subsidize the maintenance of state-owned housing; the owner-occupancy rate in Bratislava was 14 percent in 1990. As expected from the low house price to-income ratio and abundant financing in the United States, owner-occupancy in Washington D.C. is high, at 57 percent, conversely, Munich's higher house price-to-income ratio corresponds to a lower owner-occupancy rate of 17 percent.

## **HOUSING CREDIT PORTFOLIO**

One of the main factors affecting the affordability of homeownership, is the availability of credit and housing finance. The lack of a developed system of mortgage lending in Russia and the dominant role of the state in housing investment are responsible for the low ratio of housing credit to total investment, i.e., the *housing credit portfolio*. The use of housing as collateral for a loan did not exist before the passage of the Law on Collateral in 1992. The lack of collateral to secure the loan, the near impossibility of eviction, and fixed, low interest rates (which recently have been negative in real terms) created an extremely adverse lending environment. Fortunately for the lending institutions—primarily Sberbank, the former state savings bank—the volume of housing

lending, previously determined in the centrally-developed economic plan, was quite low.

For 1989 through 1991, figures for housing credit were only available for Russia as a whole. In 1990, housing credit made up only 3 percent of total outstanding credit in Russia, falling to 1.6 percent in 1991 and to 0.6 percent in 1992. Total outstanding credit increased dramatically in 1991 and 1992 as enterprises were granted low interest loans; however, little new credit was granted in the housing sector. Thus, the fall in housing credit was primarily a result of an overall expansion of credit rather than a reduction of credit to the housing sector. While total credit increased 126 percent from 1990 to 1991, housing credit only increased 23 percent during the same period. Between 1991 and 1992, total outstanding credit increased 1,507 percent and housing credit increased only 367 percent.

In Moscow, housing credit, including both loans to individuals and to housing cooperatives, was only 0.4 percent of total outstanding credit in 1992. Loans to individuals were typically made with very long terms and extremely low interest rates. Until 1991, individual loans, which were highly subsidized, carried a 2 percent interest rate; loans for units constructed for Housing Building Cooperatives (HBCs) carried even deeper interest rate subsidies, with an interest rate of 0.5 percent. Interest rates on both individual and cooperative loans rose to 3 percent in 1991 and to 20 percent in 1992—which was effectively 8 percent, as 12 percent is covered by interest rate subsidies from the central budget. Until 1991, loan terms for HBCs were shorter than those for individuals; individual loan terms were for 50 years and HBC loan terms were for 25 years. In 1991, loan terms for individuals were reduced to 25 years, and in 1992, loan terms for both were reduced to 20 years.<sup>10</sup> Banks, however, are reluctant to engage in long-term lending and, due to a Central Bank

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<sup>10</sup>See Struyk and Kosareva (1993), p.51.

discount rate of 170 percent (in August 1992) and the current inflationary environment in Russia, very little new mortgage credit is available. Despite this negative scenario, Russian bankers have been expressing interest in undertaking mortgage lending. Several new "mortgage banks" were established in 1992, and one has begun lending for housing through special arrangements with a large enterprise.

Moscow falls well below the levels of housing credit in other cities, including those in other socialist countries in Eastern Europe. In Warsaw and Budapest, housing loans made up 18 and 29 percent of total credit in 1990, respectively. Washington, D.C. and Munich have much higher levels of lending in the housing sector, with 44 percent and 36 percent of total credit in 1990, respectively.

### **INDUSTRIAL CONCENTRATION IN RESIDENTIAL CONSTRUCTION**

The low level of mortgage lending in Moscow is attributable to the high level of direct state investment in the production of new rental units. The state continues to play the primary role in housing construction in Moscow, the extent of which can be measured by the *industrial concentration* indicator. Industrial concentration is the percentage of new formal-sector housing units placed on the market by the five largest developers (either private or public) during a year. This indicator measures the concentration of companies or institutions which control and manage the financing, and especially the construction of housing. In Moscow, industrial concentration is 100 percent and all of the five largest developers are state-owned construction companies. There was no change in this indicator between 1989 and 1992 as the state continued to hold a monopoly on new housing construction in Moscow.

In comparison, Budapest, Warsaw, and Munich have similar degrees of concentration,

between 41 and 46 percent. In Washington, D.C., only 24 percent of new housing was constructed by the five largest developers.

Despite the high level of concentration in Moscow, the construction industry in Russia as a whole is one of the two fastest privatizing sectors. According to estimates of the Ministry of Economy, 25 percent of state construction enterprises in Russia, excluding municipal firms, were privatized in 1992 and another 20 percent were in the process of privatizing by early 1993.<sup>11</sup>

## **HOUSING PRODUCTION**

The Program HOUSING developed by Gostroi (State Committee on Architecture and Construction), and formally adopted as policy by the Federal Government, outlines several new initiatives for the housing sector.<sup>12</sup> This new program advocates a shift in housing production from heavy panel buildings to single-family housing, popularly known as "cottage housing." While the program contains estimates of the subsidies needed to implement an expanded housing production program, no funds have been appropriated. Thus, the Federation continues to push housing production, but more in principle than in actual policy initiatives. Between 1987 and 1992, housing production in Russia took a nose-dive, with the 1992 production level reaching only about half of the 1987 level (see Table 4).

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<sup>11</sup>See Struyk and Kosareva (1993), p.26.

<sup>12</sup>See Struyk and Kosareva (1993), p.19.

	1987	1988	1989	1990	1991	1992
Total housing introduced	100	99	97	85	66	52
State capital and enterprise investment	100	98	95	80	60	44
Individual citizens	100	124	140	143	112	102
Housing cooperatives	100	100	90	71	59	24

Sources: Center for Economic Conditions and Forecasting, *Russia—1992*; Goskomstat Russia, *The Russian Federation in Numbers*; and data from the Ministry of the Economy and Ministry Russia.

Notes: a. See Kosareva (1993).

The *Housing 2000* program, which mobilized state funds for housing, suffered because of the sharp reduction in central state investment in the housing sector. Total housing construction was 37.9 million square meters in 1992, compared to 72.8 million square meters in 1987—a 48 percent reduction in housing space production.<sup>13</sup>

The City of Moscow has been an exception. Moscow has maintained its output at a high level for the past two years, producing 3 million square meters of housing in both 1991 and 1992. To finance construction in 1992, the municipality received a special Central Bank loan and sold 10 percent of the units constructed in 1991 at auction.

The *housing production* indicator measures the number of units produced per thousand persons. Data for Moscow for 1989 through 1991 are from the *Statistical Yearbook* produced by the State Committee on Statistics of the Russian Federation; data for 1992 are from the Department

<sup>13</sup>See Struyk and Kosareva (1993), p.22.

of Social Statistics and Department of Demographic Statistics of the same Committee. Taking the figures provided for square meters produced per thousand persons and assuming an average of 62 square meters per unit (total space), housing production in Moscow was 5.0 units per thousand persons in 1989; 4.1 units per thousand persons in 1990; and 4.4 units per thousand persons in 1991. In 1992, Moscow produced 4.5 units per thousand persons, maintaining their past levels of housing production, despite facing budgetary difficulties. Although production has been maintained, the construction complex in the city has not moved to a competitive basis. Indeed, all housing in the city is still produced by State companies, as suggested above by the *industrial concentration* ratio.

Moscow's housing production fares well in comparison with the other Eastern European cities, with higher production figures than both Budapest and Warsaw. (See Table 5.) The withdrawal of large state subsidies for housing construction led to a decline in overall production in most former socialist countries. Housing production in Hungary fell in 1990 to 60 percent of its 1985 level due, in part, to the dismantling of the large-scale state construction companies. The state companies went out of business because deep government interest subsidies for home buyers were cut, reducing the demand for housing. By 1990, only 28 percent of total housing completions in Hungary were state supported, compared to 92 percent in the Russian Federation. In Poland, state-supported housing completions were 65 percent of total completions and overall housing production was only 71 percent of the 1985 level.

	Units per 1000 persons
Bratislava	6.8
Munich	5.0
Budapest	3.0
Warsaw	1.9
Washington, D.C.	6.6
Moscow	4.1*

Note: Figure for Moscow for 1990 is calculated by the author. See text.

## **REGULATORY ENVIRONMENT**

Moscow is distinguished by its high level of state involvement in all key aspects of the housing sector: production, finance, allocation, and maintenance of housing. The *Regulatory Audit Module* of the Housing Indicator Survey attempts to identify restrictions and regulations in these areas of the housing sector. Much of the progress made in re-orienting the housing sector away from state monopoly has been in the privatization of public rental units. Privatization and the easing of ownership restrictions has expedited the development of a private housing market. Households can privatize and sell or rent their apartments. There is no longer a restriction on the maximum number of units owned by an individual, which encourages prospective landlords in the private rental sector.

Many regulations on building materials have been eased and price controls on building materials have been lifted. For example, restrictions on private sector entry into production of building materials, such as concrete, have been abandoned. However, most basic materials are still publicly produced or subsidized.

Although significant enabling legislation for housing finance is in place—particularly the Law on Collateral—much remains to be done. As of the summer of 1993 the Law on Mortgages, which could provide the legal basis for expanding housing credit, had not been taken up by the Supreme Soviet. Several banks, however, are interested in engaging in mortgage lending and are investigating alternative mortgage instruments and new lending practices. Today, however, the source for housing finance is still primarily Sberbank, the former state savings bank.

## **CONCLUSION**

High prices in the private market, overcrowding, and waiting lists generally indicate that there is disequilibrium in Moscow's housing market; supply is not meeting the demand for housing. Numerous indicators reveal the continued inefficiency of a state-dominated housing sector in which housing supply and allocation decisions are not based on market principles. The high level of industrial concentration and the low housing credit to total outstanding credit ratios demonstrate the continued strong state role in housing construction and investment. Low owner-occupancy rates are not surprising in this environment—housing prices are high and credit is limited, if available at all. With low-priced, state-owned rental units still available as an alternative, it is no wonder families continue to add their names to waiting lists for municipal and departmental housing. Nevertheless, the shift to the market is underway; this is manifested most clearly in the enormous volume of privatized housing and the impressive legislative record at the Federation level. The effects of these developments should become clear in the housing indicators for 1993 and beyond.

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