Housing Affordability in the Major Russian Metropolitan Areas 3rd Quarter 2020[1]

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In 2020 the economy and the housing market faced a very serious external shock - the coronavirus pandemic. The crisis had a very strong impact on the whole world and in particular on Russia. In this regard, restrictive measures affected both the income level of the population and the level of housing prices which affected the housing affordability.

Table 1 contains estimates of the Median Multiple in the 17 major (population over 1 million) Russian metropolitan areas.

As shown in Table 1, by the 3 quarter of 2020 12 out of 17 housing markets in selected metropolitan areas can be classified as affordable housing markets, which enable housing to be purchased while saving all household income during less than 3 years.

In 2 other metropolitan areas the housing markets could be classified as markets with moderate housing affordability.

Only 3 out of 17 metropolitan areas are characterized as seriously unaffordable. Quite predictably, the strongest areas demonstrated the lowest housing affordability: Saint Petersburg – 4.8 years and Moscow – 4.3 years. Vladivostok agglomeration joined Moscow and St. Petersburg, Median Multiple has grown in 2020 to 4.3. The reason for such significant housing affordability decrease is an increase in the median price.

Table 1. Housing price to income ratio in the 17 major Russian metropolitan areas, 3rd quarter 2020

RUSSIA ALL MAJOR METROPOLITAN AREA HOUSING MARKETS: 2020: Third Quarter From: Institute for Urban Economics (IUE)					
Rank	Metropolitan Market	Price to Income Ratio (Median Multiple)	Median Price (In Russian Rubles: ₽)	Median Household Income (Annual)	Population in Millions
1	Krasnodar	1.9	₽2,569,000	₽1,339,000	1.6
2	Chelyabinsk	2.2	₽1,857,000	₽850,000	2.3
3	Rostov-on-Don	2.3	₽2,546,000	₽1,097,000	1.2
3	Voronezh	2.4	₽2,467,000	₽1,021,000	2.1
5	Saratov	2.5	₽1,943,000	₽782,000	1.6
6	Nizhny Novgorod	2.5	₽2,800,000	₽1,114,000	2.7
7	Yekaterinburg	2.5	₽2,966,000	₽1,172,000	1.6
7	Novosibirsk	2.5	₽3,066,000	₽1,203,000	2.1
9	Samara (Togliatti)	2.6	₽2,300,000	₽888,000	1.4
10	Volgograd	2.8	₽2,265,000	₽812,000	2.3
10	Perm	2.9	₽2,643,000	₽916,000	1.5
12	Ufa	3.0	₽3,214,000	₽1,074,000	1.4
13	Krasnoyarsk	3.5	₽2,873,000	₽832,000	1.5
14	Kazan	3.6	₽3,650,000	₽1,017,000	1.7
14	Vladivostok	4.3	₽5,232,000	₽1,223,000	1.1
16	Moscow	4.3	₽7,907,000	₽1,836,000	18.0
17	Saint Petersburg	4.8	₽5,872,000	₽1,215,000	6.5
	Median Market	2.6			

In 2020 the first place still belongs to Krasnodar, has a Median Multiple of 1.9. Also, the gap between Moscow and St. Petersburg has grown, St. Petersburg took first place from the end of the rating.

Figure 1 shows a comparison between Median Multiple in 17 Russian agglomerations in 2019 and 2020.
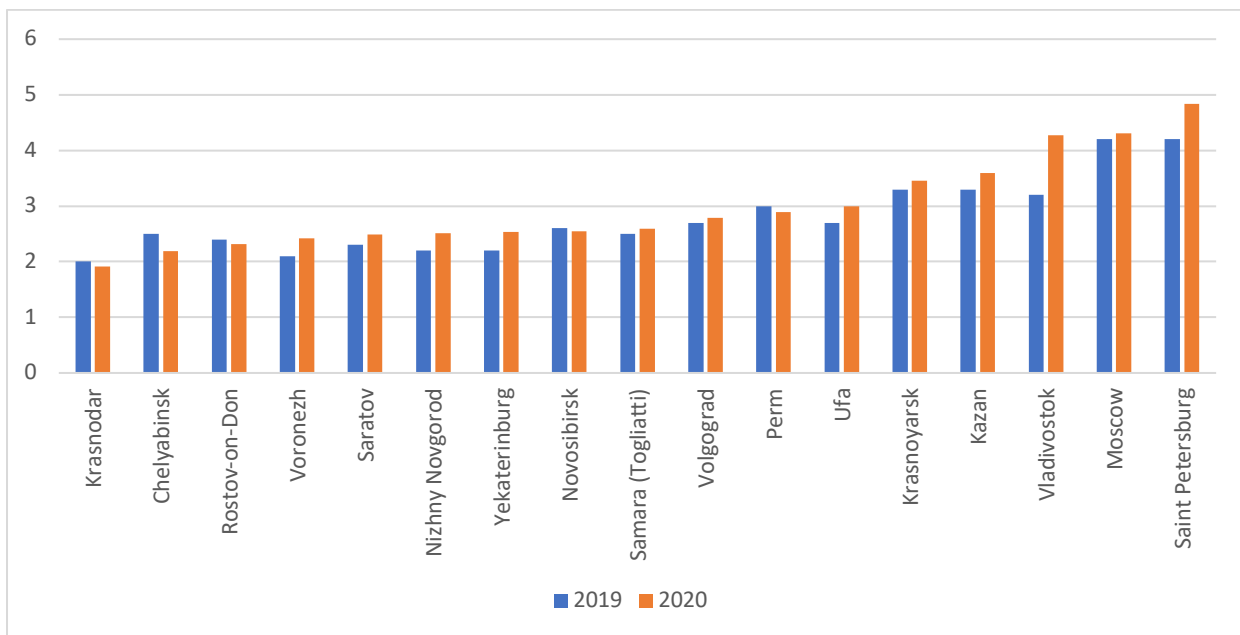
Figure 1. Comparison of the Median Multiple in the 3rd quarter of 2019 and the 3rd quarter of 2020

Housing affordability decreased in 12 agglomerations, increased – in 5 agglomerations. Thus, it can be noted that, in general, there is a tendency of housing affordability decline.
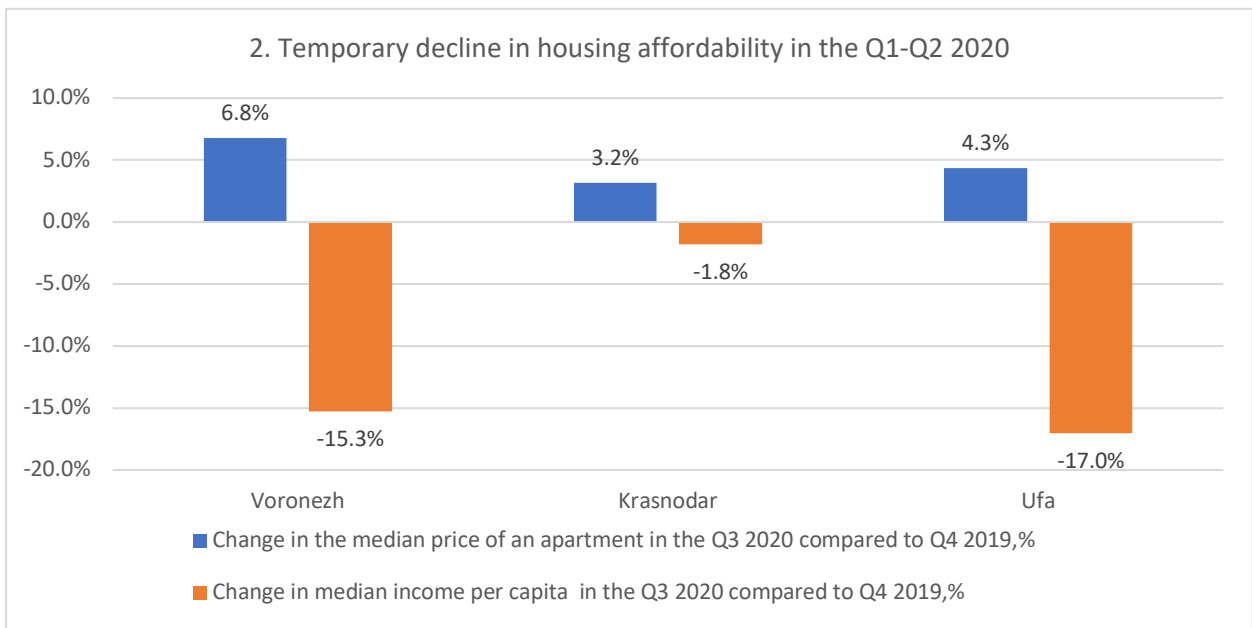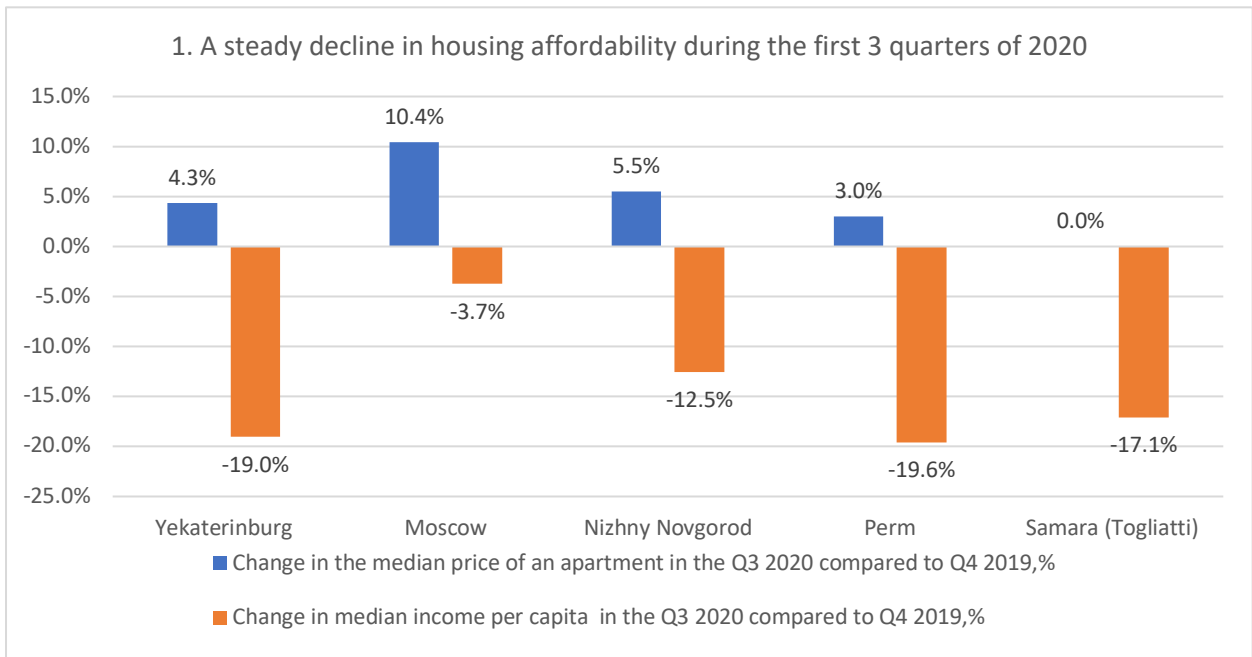
Firstly, the lockdown policy and other restrictive measures applied by the Russian government led to the economic distress which inevitably brought about decrease in household incomes, because of layoffs and wage cuts.

Secondly, housing prices displayed a strong positive dynamic in the 3 quarter of 2020, especially across the newly built apartments market. The basic reason for such an increase is the introduction of the State Program on providing subsidized mortgage loans for buying the newly built flats. This was accompanied with the significant drop in interest rates especially in rates on savings accounts that encouraged the outflow of households' savings from banking system to the housing market. Probably, this speculative process (financial optimization rather than real housing demand) induced the housing prices growth despite the incomes drop.

Figure 2 shows that in 2020 there was an increase in median house prices against the decrease in median income in all agglomerations, except Samara-Togliatti. Thus, the theoretical hypothesis that the dynamics of housing prices follows the dynamics of income, which was empirically confirmed in past years, was not confirmed for the first time in the history of observations precisely during the crisis due to coronavirus pandemic.

Preliminary, this indicates the presence of serious, not related to fundamental housing demand factors (income and housing need), factors of pricing in the housing markets of the largest agglomerations. These may include various factors, such as market efficiency (the level of competition between developers that determines the ability to influence market prices), the transition to a new model of housing finance, external factors distorting

consumer and producer behavior (for example, the supply of mortgages at low non-market rates).
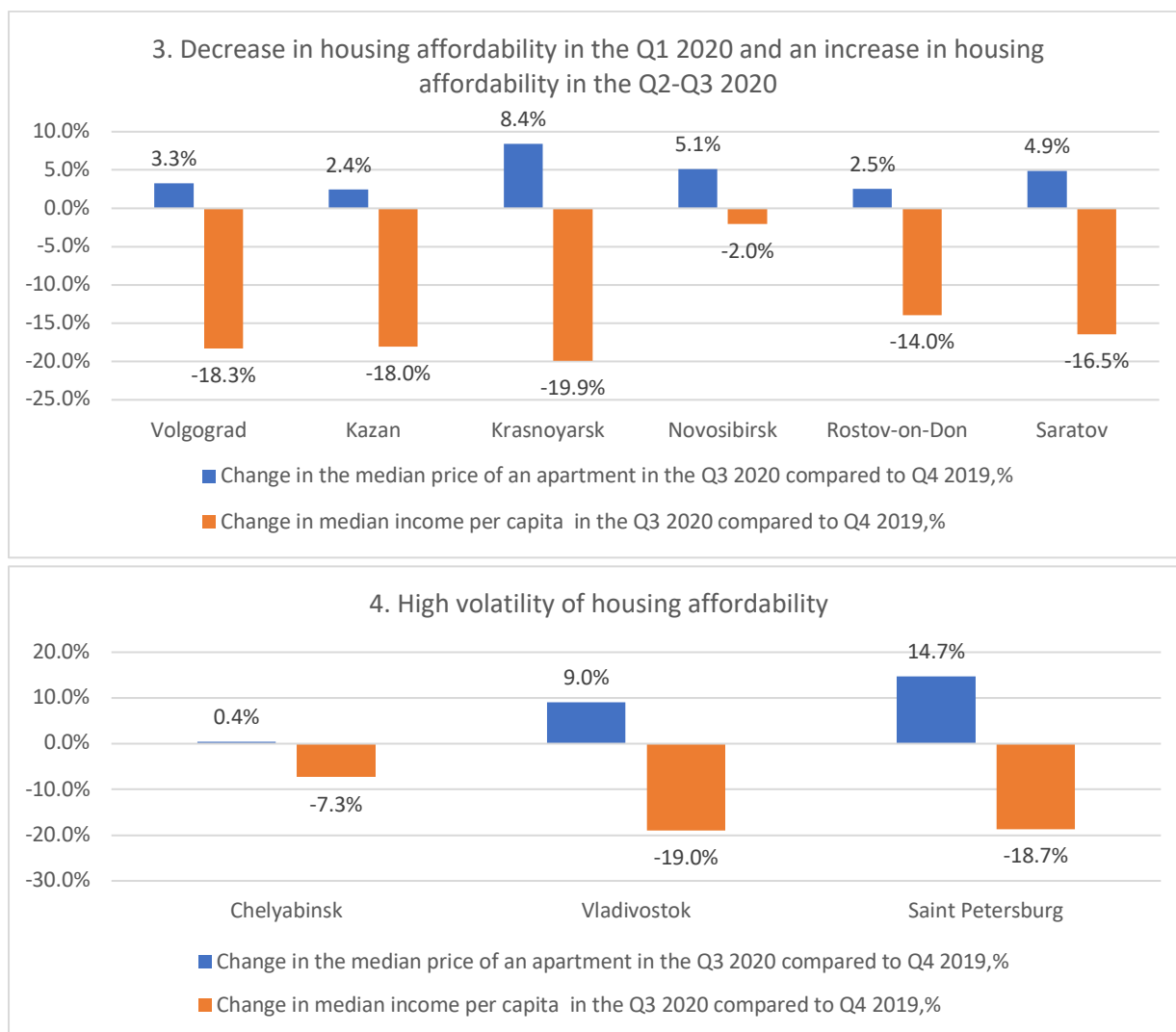
1. A steady decline in housing affordability during the first 3 quarters of 2020

City	Change in the median price of an apartment in the Q3 2020 compared to Q4 2019,%	Change in median income per capita in the Q3 2020 compared to Q4 2019,%
Yekaterinburg	4.3%	-19.0%
Moscow	10.4%	-3.7%
Nizhny Novgorod	5.5%	-12.5%
Perm	3.0%	-19.6%
Samara (Togliatti)	0.0%	-17.1%

■ Change in the median price of an apartment in the Q3 2020 compared to Q4 2019,%

■ Change in median income per capita in the Q3 2020 compared to Q4 2019,%

2. Temporary decline in housing affordability in the Q1-Q2 2020

City	Change in the median price of an apartment in the Q3 2020 compared to Q4 2019,%	Change in median income per capita in the Q3 2020 compared to Q4 2019,%
Voronezh	6.8%	-15.3%
Krasnodar	3.2%	-1.8%
Ufa	4.3%	-17.0%

■ Change in the median price of an apartment in the Q3 2020 compared to Q4 2019,%

■ Change in median income per capita in the Q3 2020 compared to Q4 2019,%

3. Decrease in housing affordability in the Q1 2020 and an increase in housing affordability in the Q2-Q3 2020

- Change in the median price of an apartment in the Q3 2020 compared to Q4 2019,%
- Change in median income per capita in the Q3 2020 compared to Q4 2019,%

Volgograd: 3.3%, -18.3%
Kazan: 2.4%, -18.0%
Krasnoyarsk: 8.4%, -19.9%
Novosibirsk: 5.1%, -2.0%
Rostov-on-Don: 2.5%, -14.0%
Saratov: 4.9%, -16.5%

4. High volatility of housing affordability

- Change in the median price of an apartment in the Q3 2020 compared to Q4 2019,%
- Change in median income per capita in the Q3 2020 compared to Q4 2019,%

Chelyabinsk: 0.4%, -7.3%
Vladivostok: 9.0%, -19.0%
Saint Petersburg: 14.7%, -18.7%

Figure 2. Change in median apartment prices and change in median per capita income in Q1-Q3 2020 in agglomerations by group

One of the negative consequences of the continuing rise in prices may be the leveling of the effect of preferential mortgages for citizens considering the total cost of an apartment, taking into account interest payments on mortgages.

It was made a model calculation of the total cost of buying a newly built apartment using mortgage loan (apartment cost and interest payments for the entire credit period) in the considered agglomerations:

- data on the weighted average rate and the weighted average mortgage term in January 2020 according to the Bank of Russia data;

- data on the weighted average mortgage term in October 2020 and a rate due to preferential mortgages program of 6.5% according to the Bank of Russia.

Also, in both calculations, it is assumed that the down payment is 20%, and the prices of the apartment are the median prices in January and October 2020 accordingly.

Figure 3 shows that in 12 out of 16[2] agglomerations, the total cost of buying an apartment has increased. The largest increase in the total cost of buying a newly built apartment using mortgage loan (assuming that in January 2020 such an apartment was purchased with a mortgage at a market rate, and in October - under a preferential mortgage program), happened in the St. Petersburg - from 8.9 million rubles up to 10.4 million rubles, or 16%. In another 6 agglomerations the growth in the total cost of buying the flat using mortgage loan, was more than 10% - in Krasnoyarsk, Voronezh, Volgograd, Chelyabinsk, Nizhny Novgorod and Krasnodar. In 4 agglomerations it is possible to note the effectiveness of the preferential mortgage program, which made it possible, in the current market conditions, to reduce the total cost of buying the new flat. So, in the Rostov it decreased from 4.4 million rubles to 4.2 million rubles, or 3%.
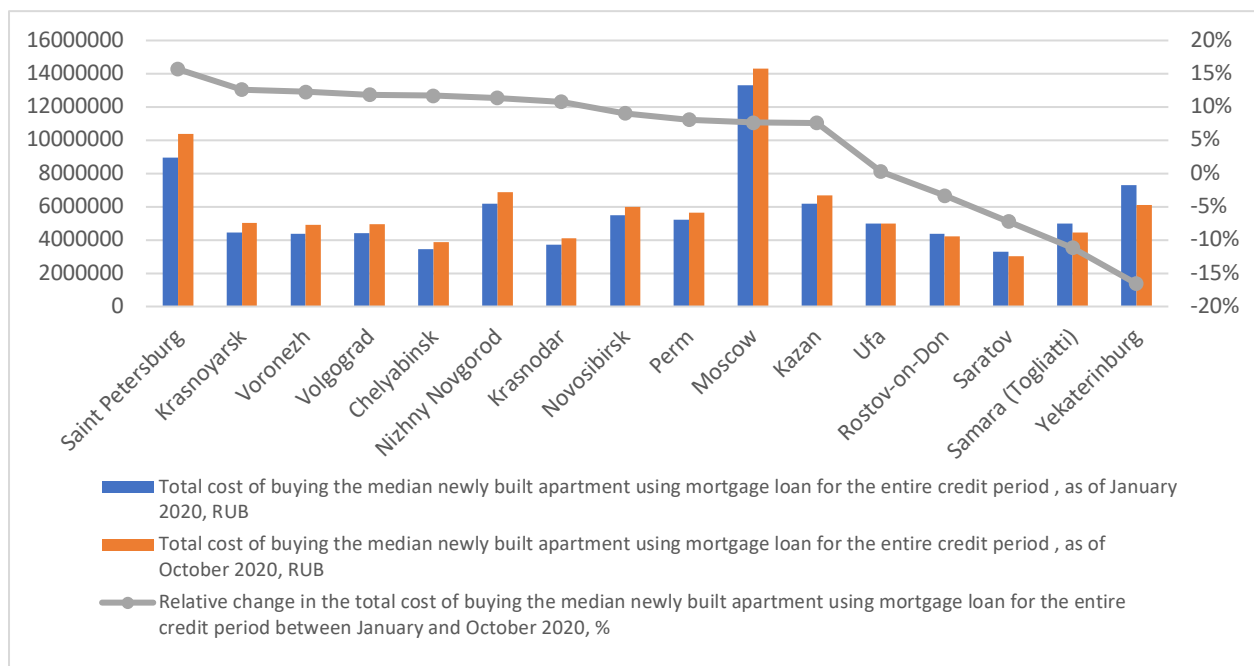

Figure 3. Change in the total cost of buying the median newly built apartment using mortgage loan for the entire credit period (apartment price plus interest payments) in the major Russian agglomerations, between January and October 2020

Actually, the steadily increased housing affordability (over the last 10 years) in Russia allowed buying new housing (mostly flats in condominiums) for about 5 million of households (these households relate to the 5 upper deciles of income distribution).

Meanwhile the lower 5 income deciles do not have any options to improve housing conditions because they do not afford to buy new housing and there are no special policies of providing social rental housing for households with low and moderate income.

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[2] Vladivostok agglomeration was not considered due to lack of data on prices in October 2020.