Socio-economic Aspects of Intra-regional Distribution of Government Support of Housing Construction Industry

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Abstract. The article discusses the interrelationship between government support measures to multi-family housing construction industry (MFC) implemented by the government of Russian Federation during the crisis and potential socio-economic effects of such support as well as the prospects of reaching the goals of the National project “Housing and urban environment”. Our hypothesis regarding the levels of support measures for housing sector for different regions is that it needs to be synchronized with the size of the clusters (defined as Russian regions or subjects of Russian Federation) and their respective forecast of economic development. Based on our analysis, we conclude that this requirement is not fulfilled, which results in skewed support for housing construction companies (and their projects) in only a handful of Russian regions thereby posing risks of reaching goals of National project “Housing and urban environment”. We also expect that the government will continue expanding the measures of housing construction support with a potential of an increased housing sector centralization.

Keywords: Housing construction industry · Government support measures · Systemically significant housing construction companies

1 Introduction

Authors suggest that forecasting of dynamics and socio-economic effect of any sector of the economy during and after the recession and/or crisis is significantly affected by the government support of this sector (both the process itself and the result of such government-sponsored measures). The distribution of government support in the aftermath of the crisis may not only differentiate between winners and losers in each industry as is the case with current support measures taken in the aftermath of COVID-19-induced recession [3], but may also be a factor that determines spatial structure of the economy and have the potential to create “spatially unbalanced” growth of the economy post-crisis [8].
Spatial aspect of economic growth may vary from industry to industry depending on their spatial structure. For example, coal mining and medical services are different in that regard, while coal is mined within localized areas with high concentration in resource-rich regions (as is the case with Kuzbass region [2] in Russia), medical services are provided across all Russia’s regions and the size of the medical services clusters are directly tied to population, economic prospects of each region, regulation etc. These two types of industries feature conceptually different feedback loops (and long-term socio-economic effects) for government support measures.

It is therefore necessary, while conducting analysis of government support to multi-family housing construction industry, first to differentiate between sectors that are spatially concentrated and spatially distributed and recognize that multi-family construction industry represents the case of spatially-distributed industry by its very nature: both supply and demand are tied to local real estate markets and demographic trends [1, 14]. Also, given the size of Russian Federation, there is a considerably uneven development or individual regions [18] and their respective housing markets [5]. It is our understanding that widening the scope of research of government support measures from traditional institutional approaches (for example “too-big-to-fail” institutions logic that drives government support and reinforce existing biases [13]) to spatial analysis may enrich the discussion and provide a more adequate framework for housing policy development as current pandemic-driven downturn may significantly housing markets (as evidenced by historical examples [7]).

In summary, our hypothesis regarding government support of spatially distributed multi-family construction industry is that there must be a synchronous government support simultaneously in all Russian regions (proportionately to the size of respective clusters and regions’ socio-economic forecast). As an example, we analyze the case of the current government support measures implemented in the aftermath of COVID-19-induced recession in the Russian economy for multi-family construction industry (i.e. MFC), particularly focused on government support for systemically significant multi-family housing builders.

2 Methodology

We build our analysis on our previous findings on government regulation and housing financing strategy [15], banking sector stability as it relates to real estate markets [16] as well as our previous findings on prospects of reaching goals set forth in National project “Housing and urban environment” [17]. However, we widen our scope to include resulting regional distribution of government support measures for housing sector to understand how they correlate with the existing housing sector spatial structure and draw conclusions with regards to reaching goals of National project “Housing and urban environment” [11]. We base our analysis on the following data:

– New multi-family construction volume based on Unified Information System for Housing Construction portal (government-sponsored provider Dom.rf [4]),
– Current distribution of total stock of multi-family housing based on the Russian statistics (Rosstat data [12]),
List of systemically significant multi-family construction companies [10] is taken in accordance with the most recent available list prepared in accordance with Government Decree dated 10.05.2020 No 651 “On support measures for systemically significant companies” [9], prepared by Ministry of Construction Industry, Housing and Utilities Sector.

3 Results

As of the May 2020, Russian multi-family construction sector can be characterized in terms of the total construction volume, number of developers and projects as follows:

Table 1. Total construction volume, number of developers and projects

| Number of multi-family housing builders | 3 344 |
| Number of multi-family construction projects | 9 543 |
| Number of apartments under construction | 2 Million |
| Area of apartments under construction | 99.3 Million sq. m |

Source: authors based on [4].

Table 1 and the following Figs. 1 and 2 (Top-25 cities and Top-25 regions by multi-family construction volume) are compiled based on the data provided by the Unified Information System for Housing Construction portal [4], which allows for real-time monitoring of all basic indicators of housing construction in Russian Federation (on the basis of project declarations for multi-family housing construction, not including “troubled” multi-family housing projects). Validity of the data is facilitated by the provisions of Federal Law dated 30.12.2014 No. 214 [6].

Fig. 1. Top-25 cities by multi-family construction volume in May 2020, ’000 sq. m (Source: authors based on [4]).
Multi-family housing construction in 25 cities listed in the diagram above represent 65.6% of the total housing construction volume of Russian Federation. Moscow, Saint Petersburg, Krasnodar, Ufa and Ekaterinburg are individual cities with the highest volumes of multi-family housing construction.

As can be seen from the second diagram, multi-family housing construction in the leading 25 regions of Russian Federation represent around 83% of all multi-family housing construction undertaken by developers in Russian Federation. Also, out of the total – Moscow, Saint Petersburg and their surrounding regions (i.e. Moscow oblast and Leningrad oblast) represent nearly 41% of all Russian housing construction projects by volume.

There are observable inequalities and disproportions in regional distribution of multi-family construction in Russian Federation, which in our opinion are partially explained by the long-standing disproportions in socio-economic development and levels of urbanization in different regions of Russian Federation. To illustrate this, we provide the following map (Fig. 3) detailing current distribution of total stock of multi-family housing based on the Rosstat data [12].
As of 2020, there is around 3.7 billion sq. m of multi-family housing, unlike 100 Million sq. m (of new housing construction annually), however the distribution across different regions is quite similar: same leaders, middle part of the last and “outsiders”.

The entire picture is well supplemented by further analysis of government support distribution provided by the government to systemically significant multi-family housing developers. Until recently, there were only two systemically significant multi-family housing development companies: GK PIK (registered in Moscow, develops housing projects in Moscow and regions of Russia) and GK LSR (registered in Saint Petersburg, has projects in 4 regions of Russia).

Later, in accordance with Government Decree dated 10.05.2020 No 651 “On support measures for systemically significant companies” [9], prepared by Minstroy, Housing and Utilities Sector following COVID-19 economic downturn, the list of systemically significant multi-family construction companies was further expanded to 43 companies [16] that meet the following criteria (that in our opinion reflect traditional institutional approach to government support measures issued based on the size of companies and their overall significance):

- total project area under construction based on currently issued construction permits
  - no less than 400 thousand sq. m (total, including affiliated project companies),
  - total revenue in 2019 – no less than 10 billion Rubles.

Companies included in the list of systemically significant construction companies can be subject to receiving:

- government subsidies,
- government subsidies,
- government guarantees for obligations and loans,
- tax and insurance payments deferrals,
- bankruptcy moratoriums,
- the right of construction completion not covered by escrow accounts.

**Fig. 3.** Spatial distribution of Russian Federation multi-family housing stock (Source: authors based on [12]).

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To understand how the above relates to spatial structure of the industry we further analyze how this translates into support for companies in specific regions (subjects of Russian Federation). Table 2 below presents 22 regions where systemically significant construction companies undertake projects and, at the same time, we illustrate that systemically significant construction companies are registered in only 11 of those regions.

Table 2. Systemically significant multifamily developers’ presence by regions

| No | Region                      | № of brands | No | Region                  | № of brands |
|----|-----------------------------|-------------|----|-------------------------|-------------|
| 1  | Moscow                      | 20          | 12 | Leningrad oblast        | 0           |
| 2  | Saint Petersburg            | 8           | 13 | Rostov oblast           | 0           |
| 3  | Krasnodar krai              | 3           | 14 | Tver oblast             | 0           |
| 4  | Republic of Bashkortostan   | 2           | 15 | Yaroslavl oblast        | 0           |
| 5  | Moscow Oblast (Odintsovo)   | 1           | 16 | Penza oblast            | 0           |
| 6  | Sverdlovsk oblast           | 1           | 17 | Kaluga oblast           | 0           |
| 7  | Stavropol oblast            | 1           | 18 | Tyumen oblast           | 0           |
| 8  | Tambov oblast               | 1           | 19 | Khanty–Mansi Autonomous Okrug – Yugra | 0 |
| 9  | Khabarovsk krai             | 1           | 20 | Tula oblast             | 0           |
| 10 | Ryazan oblast               | 1           | 21 | Novosibirsk oblast      | 0           |
| 11 | Arkhangelsk oblast          | 1           | 22 | Perm krai               | 0           |

Source: authors based on [10].

As can be seen from the table, out of 89 Russian regions (subjects of Russian Federation), only 11 regions domicile systemically significant multi-family housing construction companies. In addition, the aforementioned companies may receive government support measures in all 22 regions where they are represented and develop construction projects (i.e. they may receive subsidies and government guarantees for their debt instruments and loans, have their taxes deferred etc., in total 20 companies out of 43 are registered or have projects in Moscow and 8 – in Saint Petersburg). Still, only a quarter of regions will be the recipients of government support via systemically significant multi-family housing developers, the rest will have to rely on their own resources (which are scarce at the time of crisis) and local developers (which are relatively weak and generally underfunded).

4 Discussion

Overall, 2020 was also characterized by the significant impact of COVID-19 pandemic and continued growth in mortgage origination. In our opinion, crisis of primary housing market (new construction) and overall housing policy already approached a
point of no return. That is why the government (through Ministry of construction and government-sponsored Dom.rf) was predictably taking careful steps towards increased centralization and potential nationalization of the housing construction industry in the medium-term (by 2024), however so far didn’t rush them.

In addition, we project that in Q1 2020 due to the housing demand slump resulting from COVID-19 pandemic economic effects, stagnating real disposable incomes because of the oil market collapse and ruble devaluation pressure, the implementation of these strategic plans will only accelerate. Financial “nationalization” in the form of government support measures of both supply and demand of housing industry and the market is already taking place. This is reflected in the increased government subsidies to multi-family housing developers as well as guarantees for project financing and the mortgage market.

According to the data of analytical center of government-sponsored corporation Dom.rf, January through March 2020 in Russian Federation there originated around 308 thousand mortgage transactions with over 760 billion rubles in value [4]. This represents an increase of 10% in quantity over the same period of last year and a 25% increase in terms of portfolio value over the same period last year. At the same time, March 2020 was the most successful year in the history of mortgage market of Russian Federation.

In total, in March 2020 there were over 122 thousand mortgages or 20% increase over March 2019. Growth of the mortgage origination is achieved through the combination of lower interest rates and increased demand due to overall economic uncertainty resulting from COVID-19 pandemic (housing is traditionally recognized as a safe asset during the times of economic uncertainty). However, large cities first saw an increase in prices, which later became much less pronounced. Less developed regional market saw much less activity and were either stagnating or stable. In April 2020 separate experts were already estimating demand drop of nearly 70% for new housing construction. This situation highlights how fragile demand growth without continued government support for the demand side of the housing market and perhaps signals continuation of government policies that support demand for housing going forward.

5 Conclusion

We therefore conclude that our hypothesis that for regionally-distributed sector of multi-family construction there must be a synchronous government support simultaneously in all Russian regions (proportionately to the size of respective clusters and regions’ socio-economic forecast) is not yet fully implemented by Ministry of Construction Industry, Housing and Utilities Sector criteria. This, in our opinion, may further exacerbate regional differences and pose risks of negative long-term socio-economic effects for Russian Federation, including failure to reach targets of National project “Housing and urban environment” for many Russian regions (subjects of Russian Federation). We also estimate that:

1. Current market conditions do not allow achievement of the goals set forth in National project “Housing and urban environment” [11] (including planned doubling of multi-family construction volume by year 2024 to 80 Million sq. m per
(53x552) It is fairly obvious to us that the Government of Russian will be further incentivized (due to the extreme socio-economic and political significance of the housing market) to look for ways of achieving goals of national project “Housing and urban environment” by employing more administrative measures with much less emphasis on the free market-driven measures (for example, project financing for multi-family construction may first be nominally guaranteed followed by the more direct financing from the government) [11]. Does that mean a historical defeat for market economy? In our opinion, not necessarily. However, the principles of housing sector development that were in effect over the last quarter of the century will have to be transformed to take into account international best practices and Russian historical preferences (housing as state-owned and global resource, social housing etc.).

3. As a result, given the housing industry conditions at the moment, its further development will depend not just on a straightforward support by the government of the National project goals, but also on whether the government will use this historical opportunity to transform the industry on a “post-Keynesian” basis incorporating overall society goals, market mechanisms while balancing that with the economic growth targets.

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