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Housing Affordability Remains Elusive

By Irina Filatova

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High interest rates still hinder the development of the mortgage market. **Vladimir Filonov**

Despite reports of steadily increasing personal income, saving up to buy an apartment remains a major challenge for most Russians as housing here is the least affordable in Europe.

To buy a new apartment of a standard size of 70 square meters, Russians have to save their entire annual salaries for 10 years, the longest period compared with their Western neighbors, according to the latest overview of the European residential market by Deloitte.

France and the United Kingdom take second and third places for the time necessary to save for a new home of that size, with 9.4 and 8.9 annual salaries, respectively.

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square-meter apartment — a longer period than in France and Britain.

The savings period is shortest in countries like Denmark, Germany, Belgium and the Netherlands, which also boast the highest per capita GDP in the region, the survey said. The price of comparable new housing in those countries equals about 2.2 to 4.1 annual salaries.

The estimates were based on the size of 2011 salaries before tax, Deloitte said in the report, which was released late last month.

"Low housing affordability is linked primarily to income level, which is significantly lower in Russia than in Europe," said Maria Litinetskaya, chief executive of Metrium Group. "The increase of wages in fact equals the inflation rate, and real estate prices show a similar upward dynamic, meaning that housing doesn't become more affordable," she said in e-mailed comments.

In 2011, an average monthly salary in Russia reached 23,693 rubles ($710.9), up by 13 percent from a year before, according to the State Statistics Service. Last year, the increase was almost equal, bringing the figure to 26,690 rubles a month.

The figures are significantly below the European level. For example, in Denmark the average gross annual earnings in companies with 10 or more employees in 2011 stood at 60,000 euros ($79,254), or 5,000 euros a month, according to the European Union's statistics agency Eurostat. The country had the highest salaries compared with its European peers, followed by the Netherlands and Belgium where annual salaries accounted for 46,287 euros and 44,636 euros, respectively.

Lower housing prices in Russia would make projects economically unviable for developers which have to bear high construction costs, Litinetskaya said, adding that the high expenses are attributed to the "complicated and non-transparent scheme of getting construction permits" and preparation for construction works like laying utility lines.

Despite these factors, the average price for newly constructed housing in Russia remains one of the lowest in Europe and is slightly above 1,000 euros per square meter, Deloitte said. Only in Hungary is that figure lower.

However prices were growing at an exorbitant pace over the last year, bringing Russia into the top three countries with the highest growth rates. Prices for new housing across the country increased by 11.1 percent in 2012, a notch below the 13.5 percent growth in Britain and slightly above 9 percent in Germany, according to Deloitte's Property Index.

Litinetskaya said the price dynamic in Russia was largely determined by the market realities in Moscow and other big cities like St. Petersburg and Tyumen.

Indeed, prices for new apartments in Moscow jumped by 11.3 percent in 2011-2012, putting

the city on par with Berlin and London, which saw an increase of 13.3 percent and 11.6 percent, respectively, the research by Deloitte showed.

At the same time Moscow's prices exceeded the average rate across the country by over 300 percent reach, about 4,000 euros per square meter, last year.

High prices, limited savings and an aggressive banking sector drive Russians to borrow money to buy property. The number of mortgage loans provided by the country's lenders in the first half of this year increased by 14 percent over the same period last year to 336 million, Gazeta.ru reported.

The lion's share of those loans were given out by two state-controlled lenders: Sberbank increased its mortgage portfolio in January through June by 22 percent to 234.2 billion rubles, while VTB's retail arm VTB 24 saw an even greater increase of 64 percent to 97.7 billion rubles, the report said, citing a survey by firm Rusipoteka released last week.

The survey pointed out that there is a clear trend of increasing the state's presence on the mortgage market, with the total share of the state-controlled lenders reaching 71 percent.

However, high rates still hinder the development of the country's mortgage market. "In Europe, people's attitude to mortgages is much easier, it is viewed as a very common financial instrument," Litinetskaya said. Mortgage rates offered by domestic lenders now stand at between 13 percent and 15 percent, while in Europe they barely exceed 6 percent, she added.

The share of mortgage loans as part of Russian GDP is meager compared with the EU average and stands at just 2.6 percent of GDP, according to Deloitte. The average figure across the 27 EU member-states is 51.7 percent of GDP, with the Czech Republic having the lowest rate of 13 percent of GDP.

At the same time Russia has the lowest level of per capita mortgage arrears, which equals 311 euros, according to Deloitte. The figure pales in comparison with the Netherlands' 47,590 euros or Britain's 28,790 euros of mortgage debt per person.

The huge gap is another proof point of the small size of salaries in Russia, the consulting company said.

As of Jan. 1, mortgages made up 24.7 percent of the total domestic debt market while consumer loans accounted for 48.5 percent, making it the biggest segment, according to the National Credit History Bureau, a lobby group representing the country's biggest lenders.

Auto loans and credit cards accounted for 14.3 percent and 12.5 percent of the total, respectively.

Russia was listed among the countries with the highest pace of housing construction last year. The number of newly built apartments per 1,000 residents reached 5.78 here — above the average of 3.3 apartments in the 27 EU member states, Deloitte said in the survey. France topped the list with 7.8 new properties per 1,000 residents, while Hungary recorded the lowest figure of 1.1 apartments.

At the same time, Russia remained behind most European countries by the total size of housing stock, which includes both occupied and empty properties, the survey said. Last year, the number of apartments per 1,000 residents in the country was 10 percent lower than the European average and stood at 425. The lowest figure among the EU members was recorded in Poland and reached 357 apartments per 1,000 resident. Spain had the biggest volume of housing stock totaling 563 apartments, above the EU average of 473.6.

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