

Chapter XI

LAND MANAGEMENT AND REAL PROPERTY MARKET DEVELOPMENT

Housing policy cannot be seen independent from the availability of land. This chapter therefore gives an overview of recent developments in the Russian Federation's land market and real property system. Section A presents the basic government objectives with regard to land and real property development. Section B discusses recent reforms regarding land and real estate ownership and management, while section C reviews trends in the housing market.

A. Government objectives

A dynamic, viable and a well regulated market in real property (land, commercial and residential buildings, and farms) plays a critical role in developing business and in raising living standards. The main function of a real property market is to enable the efficient and optimal use of land and real property resources. A viable, functioning real property market enables the economy to use its existing potential in the most efficient way by channelling resources to their best use. The Government of the Russian Federation's strategic goal in its land and real estate policy is to create the right conditions for the efficient use and development of real estate in the interest of society at large, private entities and individuals.

The State Mid-term Programme for Socio-economic Development of Russia for 2003-2005 (15 August 2003) contains a special chapter on the development of infrastructure for the land and real estate market. The Government envisages abolishing the State's monopoly on land through three measures: (a) the transfer of ownership of land to the owners of the buildings and enterprises located on them; (b) the demarcation of land rights among different levels of government, including transferring the ownership of land within municipal boundaries to the municipalities; implementing legal zoning; (c) the privatization of land parcels and real estate units on them as unified objects. These measures are intended to increase the supply of real estate, promote the creation of new real estate and encourage a more

efficient use of real property through market transactions. A higher market supply is essential for the development of the production capacities of goods and services, lower cost for users and owners, and meeting the housing needs of the population.

On 21 April 2003, the Constitutional Court decided that a dishonest seller could not dispute in court a real estate transaction, if he had infringed the law in the course of the transaction. Until then if a court ruled that one of the transactions in a property deal had been invalid, all the consequent transactions related to it had to be reconsidered. As a result many honest buyers were deprived of their homes though they could not have known about past irregularities. The Constitutional Court admitted that these court practices were unfair and did not protect the rights of the honest buyer.

B. General review of the reform of land and real estate ownership and management

The policy pursued by the Government has led to a wide distribution of landownership. Approximately 50 million people and legal entities have acquired private ownership rights in land and by the end of the 1990s some 129 million hectares, or 7.6% of the country, was privately owned. Most of this land is agricultural and located in the regions with the most favourable climate and good soil. Some 92.4% of the land is in State or municipal ownership. Given the size of the country, the size of its population and its climatic conditions, it can be concluded that the Russian Federation's land privatization potential has diminished. Available data indicate a falling demand for land among individuals. The further transfer of land from the Government to private businesses will mostly be in cases where the latter are already occupying State land. At present, in the Russian Federation, there are about 5 million transactions with land plots registered annually. By 2002 the State cadastre valuation of all agricultural land had been completed and in settlements more than 40% of land had been assessed.

To support the transition process, the Government has concentrated on developing land market infrastructure mechanisms. By the end of the 1990s, the land cadastre system and the system of real property rights registration were operational throughout the country. Two government programmes support the real property market by emphasizing the need to establish efficient coordination between the cadastre and the real property rights register. The Federal Target Programme for the Development of the Automated System for the Maintenance of the State Land Cadastre and State Registration of Real Property Units for 2002–2007 concentrates on the development of the unified real property cadastre and is supervised by the Federal Land Cadastre Service. The Federal Programme for the Development of the System of State Registration of Real Property Rights and Transactions is carried out under the Ministry of Justice. Both programmes are in the initial stage of implementation. In addition, the Mid-term Programme of Social and Economic Development of the Russian Federation for 2002-2004 identifies the development of the State land cadastre as a basis for the unified system of registration of real property units, and as one of the main land policy issues. The uniformity of the land cadastre system creates a potential for the development of a viable real property market.

In recent years the following major legislative acts on the land and real estate market have been adopted: *the Land Code, the Law on Land Management and Land-use Planning, the Law on the Attribution of Public Land, the Law on the State Land Cadastre and the Law on Registration of Real Property Rights and Transactions*. These laws and others recent legislation have ensured the allocation and transfer of land into private ownership. They have also established a framework and defined procedures for the operation of the real estate and land market. However, the legislative framework for transactions in land and real estate needs further improvements. In particular, transactions (transfer of property rights) need to be more transparent and a comprehensive, unified system for transactions in real property units needs to be set up. The privatization of land on which enterprises and commercial buildings are constructed has not succeeded and only 0.5% of land in cities is in possession of legal entities, because the owners of

enterprises want a second stage of free privatization and are not willing to buy the land. According to the law, land under housing condominiums belongs to the condominiums, but in fact property ownership rights were never registered. From a housing market development perspective, adopting a new housing code (the existing Housing Code dates from 1983) is a priority, since the right to housing should be treated both in a public and in a housing market context.

The institutional set-up for land administration in the Russian Federation reflects historical and political developments. Some institutions were set up in the late 1920s, but in the early 1990s their functions were modified. A number of new institutions and functions have been created in the area of real property rights. As the reform is only a few years old, it is no surprise that there are conflicting goals, overlapping responsibilities and fragmentation of services.

The land cadastre and the building register are not integrated into a unified real property cadastre. The records are still kept by separate agencies without any exchange of information. At the local level, there are three organizations involved in real property and real property rights registration. They differ in their historical background, the way they are organized, their technical procedures and their level of computerization.

Cadastre chambers operate under the *Federal Land Cadastre Service*. They were established in the late 1990s but existed earlier as part of the land committees. Since the beginning of 2000 four compatible software products have been developed and certified, and they are now widely used by the cadastre chambers throughout the country. These systems cover both geographical and textual information on land.

The Russian Technical Inventory (Rostechinventorizacija) replaces the *Bureaux of technical inventory*, which were municipally owned companies under the limited supervision of the *State Construction Committee (Gosstroy)*. They were established some 75 years ago to monitor real property within the general policy of State control. They had developed their own identification system, usually based on addresses. They held comprehensive technical information on buildings and apartments in so-called technical

passports, which the client was required to obtain at the time of transaction. These databases also keep records of rights to real property objects attached to land parcels registered before 1998 (in 1998 rights registration was transferred to the Ministry of Justice). In September 2003 the *Gosstroy* abolished the Bureaux and from 17 September 2003 their functions and databases were transferred to *the Russian Technical Inventory*. However, at present, there are plans to abolish *Rostechinventorizacija* and to transfer its functions for valuation and real property inventory to the *Federal Land Cadastre Service*. Starting from 1 October 2003, all real estate units are given federal inventory numbers and the unified state register of all real estate in an electronic format is to be put in operation.

Rights registration chambers. The right to property, restrictions on these rights, their origin, transfer and termination are governed by the *Civil Code*, and the *Law on the Registration of Real Property Rights and Transactions*. These rights are subject to State registration in the unified State register of rights held by rights registration chambers. Although registration of real estate rights and transactions is governed by federal legislation, the chambers were established in 1998-2000 by regional authorities. The Ministry of Justice does not have direct control over them. It only appoints registrars in regions and provides methodological support for their operation.

In the Russian Federation, a real estate market as a major instrument of economic development has not been established yet. It is possible to indicate only that there is an irregular development of some of its elements. A comparatively fast market development is evident in the housing sector, while the commercial real estate market is weak and the industrial real estate market is almost non-existent. This could be explained by the fact that real estate owners do not have rights to land and insufficient security of tenure. At the same time, it should be noted that the rental market for commercial buildings is well developed and is on the rise. The rental land market (for 5-49 years) is also quite developed, in particular in major cities (Moscow and St Petersburg). Land for development is still mainly supplied through administrative methods and decisions.

Although the legal framework necessary for a functioning urban housing and real estate market is largely in place, there are still two major legal bottlenecks that prevent it from operating efficiently: (a) the division of real property ownership between the Federation, the regions and the municipalities is unclear and unregulated; the situation in Moscow is most complicated and there are no transparent schemes and normative acts to divide real property between the city and the federal level; and (b) there are no clear and transparent rules for the privatization of municipally owned land.

There is also a lack of clear land policy, in particular in the municipalities. Land policy refers here to the entire complex of socio-economic and legal prescriptions that dictate how the land and the benefits from it are to be allocated. A balance must be struck between the exploitation, use and conservation of the land as a resource in order to obtain the necessary level of sustainable development for sensible and orderly city development.

C. Trends in housing market development

Since the early 1990s, the Russian housing market has developed substantially. The main elements of the legislative basis have been established; the major elements of the housing market infrastructure has been set up; general information on market prices, as well as terms and conditions for real estate transactions are publicly available; more people can now afford housing. Market allocation of housing has increased sharply during the transition. The percentage of households that used market methods to obtain new dwellings increased from 43% in 1992 to some 70% in 2002. Those that received their flats through municipal waiting lists decreased from 40% to some 15% during the same period.

The social profile of a typical homebuyer has changed. During the early years of the housing market development buyers used to be mainly the very rich, so-called new Russians. Now most are middle-class buyers who want to trade up. Despite all these developments, there are no new financial mechanisms for acquiring housing on

the market. Because of a very low level of income, few people are in a position to take out housing loans under existing terms and conditions. Adequate forms of borrowing have not been developed so far. Experts estimate that not more than 10% of households can afford to buy a flat on the market, and improving housing conditions still remains a dream for most Russians.

The financial crisis of August 1998 was a heavy blow for the housing market in the Russian Federation. Its impact was not so strong in some cities where the prices for housing were based on dollars (Moscow, St Petersburg, Nizhny Novgorod, Rostov-on-Don, port cities like Kaliningrad, Vladivostok, Khabarovsk and some regional centres near Moscow). The crisis strengthened the differentiation of cities in terms of housing prices. In cities with dollar prices, prices on the housing market went down by 35% – 50%. In the other cities, housing prices fell by a

factor of 2.5 – 3. Housing prices in most cities dropped from US\$ 300 – 500 to US\$ 100 – 300 per square metre of total floor space.

However, since the financial crisis, housing prices on the primary and secondary housing markets of most cities have recovered both in roubles and in the dollar equivalent. Especially high market prices were registered in major cities, regional capitals with good potential for economic growth, financial and cultural centres, in towns that attract a large number of migrants, in resorts and regional oil and gas centres in Siberia and the far east. Housing is the cheapest in small towns (except in the region of Moscow and St Petersburg), as well as in the former industrial cities, especially those located in areas with an unfavourable climate. By the end of 2002 the urban housing market had fully recovered, and in 2003 prices rose above the pre-crisis level (see also table 16).

Table 16. Prices on the secondary housing market December 2002 (in bold cities of particular concern for this study) (in US\$/m²)

City	Average price	City	Average price
Moscow	1096	Nizhny Novgorod	365
St Petersburg	641	Tomsk	313
Ekaterinburg	519	Astrakhanj	286
Novosibirsk	470	Ivanovo	260

Moscow

To understand housing market development in Moscow, it is necessary to look at the city's economic and political role in the Russian Federation. Moscow produces some 80% of the country's financial turnover, and attracts some 40% of foreign investment. Moscow has close bilateral economic and social relations with other "subjects of the Russian Federation" and even with other States, which leads some analysts to say that Moscow is developing into "a State within a State". The city's budget for 2003 stipulates 293 billion roubles income and 315 billion roubles expenditure. The city can afford to run a 22-billion-rouble budget deficit because it is a big trade, industrial and financial centre, and tax revenues in 2002 increased by 40%. This financial basis makes it possible for the city to undertake huge investment programmes, mainly

construction, including housing development programmes. Housing development is a priority in the city's investment programmes. In the next eight years it plans to build some 36.5 million m² of new housing and demolish 5.6 million m² of derelict housing. In 2003 it planned to build 5 million m² of housing (up from 4.5 million m² in 2002). The city will finance only 1.6 million m²; the rest will be financed from private sources.

Moscow is undoubtedly the leader in the Russian real estate market. In the early 1990s, realtors estimated that Moscow's housing market represented up to 75% of the whole turnover of the Russian housing market. The number of sales on its primary market has been steadily increasing: from 8,800 housing units in the mid-1990s to about 30,000 by 2002. In 2002, prices increased by 17% compared with 35-40% in 2001. However, in the first half of 2003 alone,

prices increased on average by 15%. A new frame residential building costs about US\$ 900-1000 per m² (without internal walls in the dwelling, equipment and finishings), while the cost of construction is only about US\$ 250 per m². In a brick residential building prices are as high as US\$ 1,400-1,700 per m². In the elite housing sector in the city centre prices range from US\$ 3,000 to 10,000 per m² (profits in the elite housing sector can be as much as 1,000%).

The price also depends on the stage of construction at the moment of the purchase. So-called shared participation (*dolevoe uchastie*) in housing investment has grown rapidly (16,000 dwellings in 2000, 14,000 in 2001 and 19,000 in 2002). Agreements are concluded by private individuals who acquire new dwellings at the project stage or before their completion. The price of a dwelling in a finished building can be twice as high as at the initial construction stage. One of the main reasons why such type of acquisition is more favourable than taking out housing credits from banks is the fact that, with a bank credit, borrowers have to declare their income. With the present state of the labour and taxation legislation, most people and companies prefer not to do that. However, this system of new housing construction is based not on legal regulations, but simply on people's trust in investment companies. This type of acquisition is not defined in the Civil Code and courts are not willing to consider cases where individual investors lose their money.

Some analysts consider that there is a clear

relationship between the prices on the housing market in Moscow and the world prices for oil with a two or three month time lag. If world oil prices go up, so do housing prices and vice versa, particular for elite housing units. People who work in the oil and gas industry consider Moscow real estate as a good investment. Experts estimate that some 75% of housing in Moscow is bought by non-Moscovites, mainly people from gas and oil regions. In the Moscow region this figure is 40%. Most of these new dwellings go to the private rental sector, which in Moscow has increased to 20% of the total housing stock.

Another reason for the growth in demand for housing is the drop in the dollar. Many people kept their savings in dollars, and when the dollar went down they switched to investments in housing. However, some experts consider that the housing market in Moscow is overheated and the prices could tumble since the difference between construction cost and price is 4-fold, as a result of favourable world oil prices. This situation is also aggravated by the fact that most of the new housing is bought not for meeting housing needs but for investment purposes with the prospect of reselling in the future.

The total number of transactions concluded on Moscow's secondary housing market has remained stable in recent years at 70,000 – 80,000 per year. According to some estimates, starting with 1994 its turnover was worth US\$ 4 to 5 billion. The dynamics of average house prices on the secondary market of Moscow in 1990-2003 is presented in table 17.

Table 17. Average house price on the secondary housing market in Moscow, 1990-2003 (in US\$/m²)

Date	Average price	Date	Average price
12/1990	107	12/1997	950
12/1991	270	12/1998	890
12/1992	480	12/1999	710
12/1993	752	12/2000	720
12/1994	1121	12/2001	930
12/1995	1217	12/2002	1096
12/1996	1105	03/2003	1148

Prices on the private rental housing market went up too. The rent on a one-room flat of good quality is about US\$ 350 per month, while for a three-room flat it starts at US\$ 500 per month. Rents in the elite housing sector range from US\$ 1,000 to 20,000 per month depending on location and quality. The greatest demand is for elite dwellings with 130-160 m² of floor space. Normally these dwellings have two or three bedrooms and two bathrooms. On the market of villas outside Moscow, the greatest demand is for villas with a rent of US\$ 1,500-3,000 per month.

St Petersburg

Until now, prices in St Petersburg have been half those in Moscow. The demand for housing has not been so high as in Moscow, and in St Petersburg there is no strong correlation between world oil prices and prices for housing. Investment in housing comes mainly from the city budget rather than from the country's oil and gas regions. As there is less speculative investment, real estate market legislation is better developed than in Moscow and the number of transactions in relation to the total housing stock in St Petersburg

is higher than in Moscow (4% and 3%, respectively), although the city attracts fewer people from other regions.

The city's unified geo-information system in an electronic format is open to the general public. This system contains information for potential investors about specific areas in the city intended for particular types of development, information on particular development projects and reference information for developers. During the past two years major investments (US\$ 3 billion) have come to the city in preparation for its 300th anniversary celebrations.

The average price of a new dwelling (without finishings and equipment) is US\$ 500-600 per m² of total floor space; however, it is expected that by the end of 2003 the upper limit will reach US\$ 700 per m². As in Moscow, most new dwellings (more than 90%) are built with partial investments from future owners (payment to the general investor, at the initial stage of construction, of some 10-20% of the total price of the dwelling). The dynamics of prices on the secondary market is given in table 18.

Table 18: House prices on the secondary market in St Petersburg (in US\$/m²)

Number of rooms	August 2002	August 2003	Increase in prices since August 1998 (percentage)
1	599	790	170
2	546	708	112
3	512	668	84
4	493	647	67
5	496	652	64
6	498	657	86
7 or more	547	660	57

Nizhny Novgorod and its region

In the early 1990s Nizhny Novgorod, as well as its region was a pilot area and a leader for many market-oriented reforms. It enjoyed considerable financial support and investment, both domestic and foreign, to carry out these reforms. At the time, many construction projects were realized. However, since the financial crisis of 1998, the city's economic and financial regeneration has rather slowed and the local economic situation remains stagnant.

In 2002, in Nizhny Novgorod, housing construction accounted for 198,000 m² down from 223,000 m² in 2001. In the whole region of Nizhny Novgorod, construction stood at 496,000 m² and 525,000 m², respectively. In housing construction the region ranks 15th among 89 Russian regions ("subjects of the Federation"). The share of individual housing construction in 2002 increased to 40% of all new housing, and in the first half of 2003 it was 56%. Individual housing construction is mainly carried out with partial investment from the future owners, as is the case in Moscow and St Petersburg. Developers indicate that the absence of clear rules for the allocation of sites for housing construction is a major obstacle to housing and real estate market development.

There is a need to have efficient and transparent procedures for the local authorities to examine, approve or reject urban development projects. Such procedures should be based on the "one-door" principle, where one unit in the municipality has overall responsibility for a coordinated approach as well as for final decisions on project proposals. The necessary documentation to be provided by the developer should be clearly defined, and should vary in complexity depending on the size of the project. A reasonable link should also be established between the time and cost for project evaluation and the final approval or rejection of a project proposal. The present situation, where the cost of the documentation can amount to 15-20% of a project's total cost and approval procedures can take up to three or four years, is not conducive to an emerging urban real estate market.

Today, the lack of good laws is not the principal reason for the lack of sound land-use plans in

urban municipalities. The main problem is that the responsibilities for planning procedures, planning and building permits, implementation and control both at the federal and at the municipal levels are not clearly distributed. A legal clarification of these issues with principles and guidelines on practical planning procedures and flexible rules on implementation at municipal level is urgently required.

Ivanovo

The city of Ivanovo and its region are considered to be one of the most depressed areas in the Russian Federation. For several decades in the Soviet period the city was a centre of textile production, which was almost the only economic activity in the region. During the transition this branch of the economy was in great crisis, as was the city. Nevertheless, the city and regional authorities are optimistic about the future: the city is only 319 km from Moscow and there is a good potential for tourism development. In the historical areas of the city there are many traditional wooden houses and, if renovated, these could be of interest to tourists and bring related investment and services. In view of the poor financial situation of most inhabitants, the housing market is very weak and the Russian Guild of Realtors has no members from Ivanovo.

An analysis of the supply on the secondary housing market indicates that modern dwellings accounted for 50%; dwellings built in 1970-1980 represent some 27% and 50-storey block housing of the 1960s 16%. The price of these housing units ranges from US\$ 290 per m² for dwellings of a better standard to US\$ 200 per m² in the housing stock built in the 1960s. New housing units of very good quality (elite housing) costs US\$ 450 per m² (without finishings and equipment). The cost of construction is about US\$ 200-250 per m², which means that the profits of the developer is 2-3 times lower than in St Petersburg and Moscow.

D. Market operators and customer requirements

Organization of realtors

The Russian Guild of Realtors started its activities in 1992. Its members are 1500 legal persons

(brokers, developers, appraisers, etc) and 43 professional organizations working not only in the Russian Federation but also in other members of the Commonwealth of Independent States (CIS), Poland and Bulgaria. The aim of the Guild is to promote a real estate market in the Russian Federation through the creation of an effective system to increase the quality of brokers services and the development of legislation and a business environment. It has an educational and training centre. The Guild is very active in regional housing market development. Following the recommendation of the Guild and the prevailing practice, the system of licensing of realtors was replaced by a voluntary certification scheme. It is expected that, with this innovation, realtors' services will be subject to a qualitative assessment.

The Russian Guild of Realtors and regional guilds of realtors are involved in the implementation of different governmental housing programmes. In the Russian Federation, there is considerable internal migration, related to the economic and social transition. The Government initiated a number of housing programmes to provide social support to young families, families of former servicemen as well as pensioners moving from the north of the country to regions with more comfortable climate and living conditions. The participation of realtors in these programmes helped to channel government funding from the construction of new housing to the secondary housing market, which increased the efficiency and flexibility of these programmes. Steps were taken to establish an information system on the price of housing, employment opportunities in different regions and cities. This helped migrants to make a better choice about where to live. However, this system needs further development into a nationwide database on the real estate market.

Housing market and customer orientation

In comparison with the housing units built in 1960s-1990s, the housing quality of new flats has increased dramatically in terms of average space, internal design, finishings and installations. This is

partly explained by the fact that the market of building materials is now flourishing mainly due to the import of building materials and equipment from western countries and the orientation of the new housing market towards expensive, private housing units.

However, the high cost of new housing units is not a guarantee of quality of construction and related services. Most construction companies which work in all segments of housing construction economize on their workforce, project design and construction materials. Immigrants from Central Asia or Ukraine, with little or no qualifications, are often used as a cheap source of labour by both Russian and foreign construction companies. Sometimes developers deliberately increase the number of stories in new buildings (by lowering the ceilings of all stories compared to the original project), agreements signed with the city authorities are not strictly followed, and, as a result, the new owners receive housing units that do not fully meet their expectations. In cases of "shared participation", there can be problems with the registration of the property rights.

In Moscow, the housing market is oriented towards elite, high-rise construction (25-30 stories), which in many instances takes place very close to existing housing. As a result, such construction decreases the quality of life in the neighbourhood from an environmental point of view and also in because the existing engineering and social infrastructure was not designed for such residential density. The market price of housing in the existing buildings goes down by 20-30%. Another problem is that there is a lack of normative documentation, qualification and experience among construction companies for the construction of such buildings. Many experts doubt that the geological conditions in Moscow are suitable for such high-rise mass construction development. The future attractiveness of such housing estates is questionable, considering that they may not be safe and that people's general preference is for low-rise residential buildings.