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Assessing the investment potential of housing markets in the regions and cities of Russia

ABSTRACT. The present study analyzes the investment attractiveness of regional housing markets and housing markets of cities with a population of over 100 thousand people. The analysis of regional housing markets identified the following market groups as more attractive for investment in different segments of residential construction. It is shown that large cities and rapidly developing metropolises determine the investment attractiveness of the region's housing markets.

Keywords: *housing market, construction, investment attractiveness.*

Activation of the investment process, whose one characteristic is the high freedom of economic agents in making decisions on the choice of the site for investment, acts as an impetus increasing the competitiveness of regions.

The state support for the housing sector belonging to the life support group of the industry, a high interest of the population in buying homes, a not very long payback period, a multiplicative effect on the region's economy make housing construction one of the most attractive areas for investment. The inflow of investments and a high rate of development of the regions directly correlate with a surge in construction and a growth in the market of building materials, following a rise in demand and in prices. The regional housing markets today are characterized by an uneven growth or even a decline in housing construction (Fig. 1): in recent years the maximum growth of housing construction was seen in the Chechen Republic, Ingushetia, Amur oblast, while a significant reduction was noticeable in the Chukotka Autonomous Area, the Komi Republic, Smolensk oblast. All this determined both the structure and the «focus» of the analysis of regional housing markets.

Evaluating the investment potential of regional housing markets, it is necessary to consider the main factors and incentives for the development and to determine the prospects for growth in these markets in the short and in the long term, taking into account the trends and forecasts of the socio-economic development of the country.

The federal and regional housing policies both have a significant impact on the development of housing markets.

To determine the current trends and predict the development of regional housing markets tools for an integrated assessment of investment appeal of housing markets in Russia were developed. The present study analyzes the investment attractiveness of regional housing markets and housing markets of cities with a population of over 100 thousand people[*], provides their ranking, and also compares the housing market rankings of regions and cities. The indicators used in the assessment take into account not only the state of the housing market on a particular date, but also the trends of the last 3 years. As a re-

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[*] Moscow and St. Petersburg were assessed as constituent entities of the Russian Federation; cities of Moscow oblast were excluded

Residential houses built in
2012 as percentage of 2009
211—422   25—86
121—211   86—106
106—121
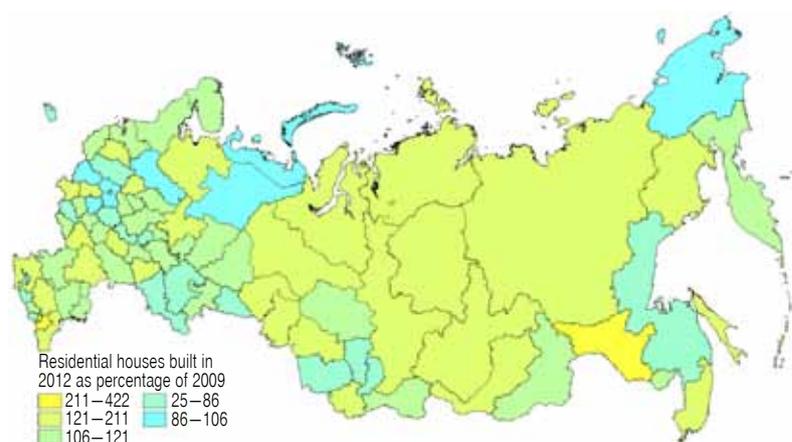
Fig. 1. Residential houses built in the regions in 2012 as percentage of 2009. The data for 2012 for Moscow and Moscow oblast are given taking into account the changes in their boundaries as of July 1, 2012

sult of this assessment the groups of regions and cities were sorted depending on the investment prospects in their housing markets, and the interdependence of the housing market development of cities and regions was identified.

The assessment of the regional housing markets was based on the information provided by open sources (Federal State Statistics Service, the web sites of the Ministries of the Russian Federation and the regions, Federal Registration Service).

The factors determining the investment potential of the housing markets in the regions were identified by correlation analysis of 80 indicators that characterize the development of these markets. According to the results of this analysis the following indicators most strongly influencing the investment attractiveness of the regional housing markets were selected for its evaluation:

- fixed capital investments of large organizations in the Section Real estate operations, renting and services. The figure represents the sum total of expenditures on reproduction of fixed assets (new construction, expansion, renovation and modernization of facilities that increase their cost, purchase of machinery, equipment, vehicles; forming the main herd, planting and cultivation of perennial crops, etc.);
- fixed capital investments of large organizations in the Section Construction. The figure represents a set of similar costs;
- cash income per capita, RUB;
- total floor area of the residential houses commissioned, m^2 per capita;
- residential floor space, to which the title was registered under contracts of sale.

The housing affordability index, which is an important characteristic of the housing market, was not included in the integrated assessment being a dependent factor. It should be noted that a high level of cash income of the population has a positive effect both on the availability of housing and the investment appeal of the regional housing market.

On the basis of the selected indicators the following nine indicators that make up the integrated assessment of regional housing markets have been calculated:

- index of variation of investment in real estate operations for 2009—2012,
- index of variation of investments in construction for 2009—2012,
- index of variation of incomes over 2009—2012,
- index of variation of the volume of construction for 2009—2012,
- index of variation in the number of transactions for 2009—2012,
- index of new residential space commissioned in 2012,
- index of investment in the fixed capital of real estate organizations in 2012,
- index of investment in the fixed assets of construction companies in 2012,

- index of transactions of purchase and sale of residential premises in 2012.

At the same time, the set of indices for assessing housing markets in the cities was reduced to 5 due to the limited data of municipal statistics. Nevertheless, the proposed set of indicators allows comparing aggregate estimates of regional and urban housing markets.

To assess the housing markets in the cities the following indices were identified and calculated:

- index of investment in fixed assets,
- index of the amount of construction operations,
- housing market index (sales),
- index of residential housing commissioned per capita,
- index of average monthly wages.

Ratings of the investment appeal of the housing markets in the Russian regions identified in the process of assessment, and the data on residential housing commissioned are listed in the table.

Krasnoyarsk Territory and Kaluga oblast received the maximum scores in the course of evaluation of the investment attractiveness of regional housing markets (due to the significant growth shown and the amounts of investment in real estate in 2009—2012), Krasnodar territory, Moscow, Moscow oblast and Sverdlovsk oblast (due to the significant number of transactions and the amount of investment in real estate. It is evident that the leadership among the housing markets is determined by huge amounts of investment and the number of transactions; but Krasnoyarsk Territory and Kaluga oblast are characterized by a substantial growth in investment, reflecting a still growing investment appeal that has not yet run out of steam.

Note that Moscow and St. Petersburg in comparison with the regions rank the 3rd and the 11th, respectively. When calculating the ranking of cities, Moscow and St. Petersburg were excluded because of their dominance in most of the indicators.

The outsiders were housing markets in the Chukotka Autonomous District, Nenets Autonomous District, the Jewish Autonomous Oblast, the Republic of Tyva and Magadan oblast.

Comparing the estimates of investment attractiveness of housing markets in the regions and the cities (Fig. 2), we can conclude that the cities determine the development of the housing market in the region, i.e., the better the cities, and especially the regional centres, are developed, the better is the investment climate in the region. In each region the regional centers have the strongest appeal for developers, because it is there that the financial, administrative and human resources are concentrated.

Metropolises have a significant impact on the investment attractiveness of the oblasts; they stimulate the development of transport and social infrastructure and have better living standards.

The analysis of regional housing markets identified the following market groups as more attractive for investment in different segments of the residential construction.

1) Housing markets in the regions developing according to federal targeted programs. Short-term investments are preferable for such markets, with a term no longer than the duration of the federal targeted development program. The Far Eastern regions are currently the most attractive investment. But the situation differs with different areas in the Far Eastern region: judging by rising prices and a low number of transactions in the Magadan regional housing market the demand grew over the last year, but the situation is deteriorating in the housing markets of the Jewish Autonomous Oblast, the Chukotka Autonomous District.

2) The development of Krasnodar Territory has reached the limit, and it will be difficult for the region to maintain high growth rates and remain self-sufficient without federal support.

3) The most attractive real estate markets are the markets of oil and gas producing regions of Russia because of high incomes. In the post-crisis period (after 2008) many re-

Investment attractiveness of housing markets:
in cities:　　　　　in regions
● High　　　　■ High　　　　■ Reduced
● Average　　　■ Increased　　□ Low
· Low　　　　　■ Average
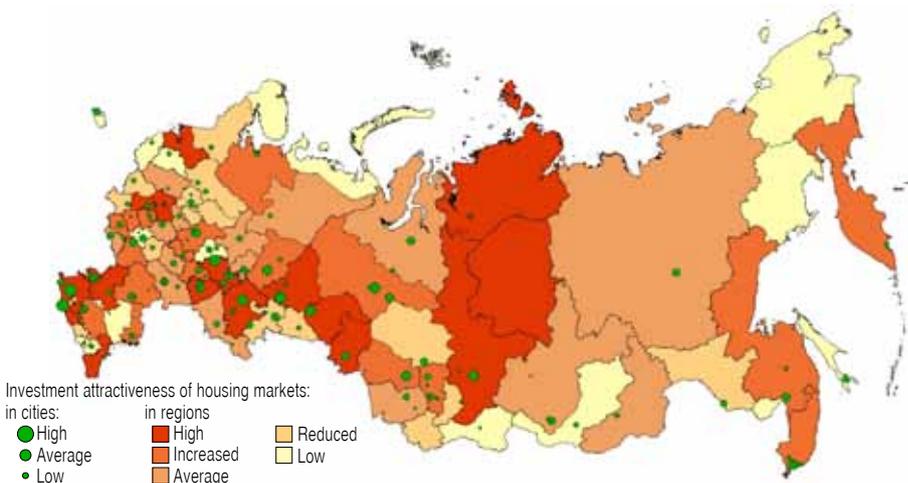
Fig. 2. Evaluation of the investment attractiveness of housing markets in major Russian cities (with a population of over 100,000 people) and regions

Цемент и его применение

Ratings of investment attractiveness of the housing markets in the Russian regions (ranking of the regions) and residential housing commissioned

Region's Rank	Region	Residential housing commissioned, thousand m²			Region's Rank	Region	Residential housing commissioned, thousand m²		
		2009	2012	2015 (forecast)			2009	2012	2015 (forecast)
Housing markets in oil-and gas-producing regions					22	Kursk oblast	456	426	406
7	Tyumen oblast	1 044	1 345	1 546	27	Kemerovo oblast	1 063	1 086	1 101
17	Khanty-Mansi Autonomous District	827	1 022	1 152	30	Ulyanovsk oblast	531	607	658
49	Yamal-Nenets Autonomous District	135	198	240	34	Tula oblast	395	310	253
Consistently developing housing markets					35	Saratov oblast	1 130	1 236	1 307
1	Krasnoyarsk Territory	861	1 077	1 221	47	Republic of Udmurtia	465	516	550
2	Krasnodar Territory	3 412	4 371	5 010	37	Tver oblast	450	410	383
3	Moscow	2 704	3 050	3 281	38	Penza oblast	610	739	825
4	Sverdlovsk oblast	1 591	1 869	2 054	39	Orenburg oblast	740	704	680
6	Moscow oblast	8 452	6 663	5 470	40	Kirov oblast	336	407	454
11	St. Petersburg	2 603	2 577	2 560	44	Ryazan oblast	510	512	513
16	Leningrad oblast	1 031	1 149	1 228	45	Altay Territory	654	646	641
13	Omsk oblast	605	739	828	50	Chelyabinsk oblast	1 431	1 677	1 841
14	Samara oblast	1 023	1 484	1 791	57	Tomsk oblast	434	490	527
10	Republic of Bashkortostan	2 353	2 324	2 305	65	Vologda oblast	490	389	322
19	Novosibirsk oblast	1 216	1 571	1 808	72	Lipetsk oblast	732	807	857
31	Perm Territory	695	826	913	60	Yaroslavl oblast	376	461	518
Housing markets in the regions receiving targeted federal funding					70	Chuvash Republic	852	819	797
21	Maritime Territory	399	611	752	62	Republic of Karelia	165	195	215
25	Khabarovsk Territory	379	344	321	Housing markets in the northern regions				
28	Kamchatka Territory	63	72	78	29	Arkhangelsk oblast	201	269	314
41	Irkutsk oblast	602	871	1 050	36	Komi Republic	120	88	67
42	Republic of Sakha (Yakutia)	293	356	398	Housing markets in underdeveloped regions				
46	Trans-Baikal Territory	269	303	326	51	Bryansk oblast	353	453	520
66	Sakhalin oblast	165	215	248	53	Ivanovo oblast	187	222	245
63	Amur oblast	150	317	428	54	Altai Republic	61	81	94
69	Kaliningrad oblast	608	582	565	55	Smolensk oblast	346	261	204
Housing markets in dynamic self-sufficient regions					56	Republic of Khakassia	185	174	167
5	Kaluga oblast	457	613	717	58	Kostroma oblast	180	205	222
8	Republic of Tatarstan	2 010	2 400	2 660	59	Tambov oblast	559	636	687
43	Vladimir oblast	451	508	546	61	Kurgan oblast	289	250	224
48	Belgorod oblast	1 097	1 215	1 294	64	Republic of Adygea	126	98	79
Housing markets in the North Caucasus region					67	Novgorod oblast	246	313	358
9	Republic of Daghestan	1 066	1 436	1 683	68	Mari El Republic	300	351	385
12	Karachay-Cherkessia	90	88	87	73	Republic of Kalmykia	72	85	94
52	Kabardino-Balkar Republic	256	282	299	74	Republic of Buryatia	248	339	400
71	Republic of Ingushetia	37	89	124	76	Pskov oblast	192	215	230
75	Chechen Republic	75	316	477	77	Murmansk oblast	22	24	25
78	Republic of North Ossetia — Alania	198	206	211	79	Magadan oblast	16	20	23
Housing markets in the Southern regions					80	Republic of Tyva	50	56	60
15	Rostov oblast	1 805	1 984	2 103					
20	Astrakhan oblast	476	511	534					
23	Nizhny Novgorod oblast	1 404	1 501	1 566					
24	Volgograd oblast	723	885	993					
26	Stavropol oblast	1 079	1 333	1 502					
32	Voronezh oblast	888	1 110	1 258					
33	Orel oblast	302	359	397					
Housing markets in the industrial regions									
18	Republic of Mordovia	277	266	259					

gions of Russia were in a difficult position — production in the industrial cities decreased, the agricultural regions experienced a lack of financial resources, the economy of vulnerable single-industry towns shrank. Regions producing raw materials and centres of oil and gas industry became the locomotives of recovery. Hence a strong interest in housing markets in these regions. Housing markets in the Khanty-Mansi Autonomous district, Yamalo-Nenets Autonomous district and Tyumen oblast were particularly attractive for investment in construction (mostly urban), ensuring high sales prices of housing. Note an increased attractiveness of the Komi Republic.

4) Of particular interest are the fastest growing housing markets in self-contained regions with a high inflow of foreign investment, such as the Republic of Tatarstan, Kaluga oblast, Belgorod oblast, the Republic of Mordovia (development of innovation clusters).

5) Consistently developing housing markets, which are characterized by relatively low rates of development with a guaranteed income from the investment. Long term investments are possible here. These are housing markets of Moscow and St. Petersburg, Moscow oblast.

6) A specific situation exists in the housing market in the North Caucasus — with a high volume of construction and growing prices the investments in the market can be highly profitable, but very risky. The housing market in the region is characterized by undulating inflows and outflows of investment year on year in various constituencies.

7) Housing markets in agricultural regions of Russia have to be treated separately, e.g. Rostov oblast — there has been an increase in low-cost housing construction due to the demand among the population migrating from rural to urban settlements. Investment in low-rise housing construction under government programs of building quality housing and agricultural development looks promising.

8) The Far North regions are characterized by underdeveloped housing markets due to the harsh climate and low comfort level. The investment prospects in housing markets are limited.

9) Housing markets in industrial regions are assessed as moderately attractive for investment, since there are economically vulnerable single-industry towns in these regions.

10) The underdeveloped constituent territories of Russia — subsidized entities (with a high migration outflow) that are unattractive to live in because of low income rates and depressed economies. The housing markets in such areas are unattractive for investment. Among the least attractive housing markets Bryansk and Ivanovo oblasts can be named.

A high degree of influence of the federal regional and housing policy on the development of regional housing markets requires taking into account the priorities of these policies when determining the investment prospects of these markets.

To date, the following regions have a priority in terms of their development:
- Kaliningrad oblast,
- The Republic of Ingushetia,
- The Far East and Trans-Baikal region,
- Sakhalin oblast,
- The South of Russia,
- The Chechen Republic.

The housing development programs (Federal Targeted programs Housing, Agribusiness, etc.) classify the military, young scientists, agribusiness professionals and young families as the main categories of the population, which can receive support in provision of housing and home buying. Therefore, investment in the development of affordable housing markets may be a promising target — military bases, science towns, agricultural towns. Such projects can be implemented integrated with or co-financed under federal, departmental and regional development programs, or through public-private partnership.

Summarizing the study, we note again that large cities and rapidly developing metropolises determine the investment attractiveness of the region's housing markets, as they accumulate financial and administrative resources, and income levels there are higher. Accordingly, investment in the construction industry stimulates the development of the construction materials market and price growth.