

## THE MAIN REGIONAL PURPOSEFUL CHARACTERISTICS OF THE REALIZATION OF THE NATIONAL PROJECT "AVAILABLE AND COMFORTABLE HOUSING FOR THE CITIZENS OF RUSSIA" ON THE TERRITORY OF THE VOLOGDA REGION

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**Key words:** regional characteristics, available housing / housing resources, tumbledown and breakdown housing, coefficient of available housing, a standard flat, mortgage lending, investment, technology of house - building, average cost of housing, the rights of real estate market defense.

The main characteristics of the realization of the national project "Available and comfortable housing for the citizens of Russia" on the territory of the Vologda region are considered, the ways of raising available housing acquisition are offered in the article.

There is the analysis of the changes that took place since 2002 in the structure of regional housing resources, the appreciation of available housing acquisition for family with average income is shown, and the ways of housing acquisition with help of loans and mortgage lending are considered.

The problem of provision the population of the Vologda region with housing is rather sharp now. Changes in this sector were initiated within the limits of the federal programme "Housing" approved by the Council of Ministers of the government of the RF from the 20<sup>th</sup> of June, 1993  $\mu$  595. As a result there was created a legal field for solving housing problems and were suggested the mechanisms of their realization. Since then there have been adopted more than 250 legal and normative acts regulating the questions connected with housing construction and public services, property rights in this sphere. The measures which were taken allowed transition from legal and administrative methods of regulation to the market mechanisms complying with the social guaranties of poor people and other categories of the population defined by the Russian legislation. Housing market, property rights became the initial part of our life.

Beginning from the year 2000 the region has been changing the structure of the housing fund – new types of property are being created

which become the social base for the reforms in housing sphere (table 1).

Now the housing fund includes more than 29 billion m<sup>2</sup>, but in 2006 only 73% of the population was provided with houses, 6% live in tumbledown and breakdown houses.

An average man in the region has 21 m<sup>2</sup>, in Sweden and Canada this figure is 40 m<sup>2</sup>, in the USA - 70 m<sup>2</sup>. In accordance with the State Committee of Statistics the size of housing per capita in Russia is constantly increasing. For example, in 2006 it increased by 6,2% in comparison with 2000.

More than 100 000 of families are waiting for the flat. Most of people wait for 15-30 years. But from the year 2000 there is a positive tendency in the housing construction: the share of houses built at the expense of people or with the help of credits (table 2) increased substantially.

It is important to point out the fact that the price of housing on the market doubled and on the secondary market increased 2.7 times (table 3).

Table 1

**The structure of housing fund of the Vologda region**

Fund	For types of property				
	2002	2003	2004	2005	2006
totally, billion m <sup>2</sup>	28,7	28,9	29,2	29,4	29,9
%	100	100	100	100	100
Including;% to the total:					
- private	62,8	65,3	67,8	72,4	75,9
- private, owned by citizens	58,0	60,7	63,0	67,2	70,3
- state	2,2	2,1	2,1	1,5	1,4
- municipal	33,6	31,3	29,1	26,1	22,7

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Table 2

Bringing the houses in operation, m<sup>2</sup>

Ratios	1990	2002	20003	2004	2005	2006
Totally built	698218	238517	247010	300116	292980	333729
Built by the population at their expense or with the help of loans	19 636	87 950	85 007	86 162	92 496	90 996

Table 3

Average cost of housing in the Vologda region rubles / m<sup>2</sup>

2003		2004		2005		2006	
рынки							
Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
14 620	12 479	16 899	16 045	18 533	19 107	32 345	33 153

The most important factor influencing affordability of housing acquisition is of course income of the population. There are three main social groups. The first group includes families with high income (10%), which solve the problem without the help of the state by building elite houses, blocks of flats with improved planning and cottages. The second group (30%) includes middle class which solves the problem with some help of the state or enterprise, bank credits. The third groups (60%) are the families with low income. In foreign practice there is the ratio "coefficient of house affordability" which is calculate as the relation of median cost of housing<sup>1</sup> to the median income of a family<sup>2</sup> per year. The value of such ratio corresponds to the number of years needed by a family to save money for the flat if they will save all their profits for its acquisition. In Russia there is no data concerning median income and median prices for housing, so this coefficient is calculated in accordance with the methodology "Housing":

$$K_{\partial c} = \frac{D \cdot N}{C \cdot S},$$

where  $K_{\partial c}$  – coefficient of housing affordability;  $D$  – average income of a family per capita, rubles/a man a year;  $N$  – a number of people in a family;  $S$  – flat area, m<sup>2</sup>;  $C$  – average cost of 1 m<sup>2</sup>, rubles.

The ability of the population to purchase a flat can be also characterized by the ratio of the period of saving money necessary for a flat acquisition:

$$T_c = \frac{1}{K_{\partial c}} = \frac{C \cdot S}{D \cdot N},$$

where  $T_c$  – the length of the period of saving money, years

The coefficient of housing affordability is rather conventional as all the total profits of a family are taken into consideration without the deduction of consumer expenses. That is why estimating the real saving ability of the population we should calculate only coefficient of housing affordability which takes into consideration only the part of income which exceeds minimum consumer expenses:

$$K_{\partial p} = \frac{(D - P) \cdot N}{C \cdot S},$$

where  $P$  – minimum expenses of a family per capita, rubles/a man a year

The period of saving money for housing without consideration of consumer expenses is calculated with the formula

$$T_p = \frac{1}{K_{\partial c}} = \frac{C \cdot S}{(D - P) \cdot N},$$

where  $T_p$  – the length of the saving period without consideration of minimum consumer expenses, years

According to the statistics and calculations for the year 2006 (table 4) a family of three in Vologda needed 9 years for saving money to buy a flat on the primary market and 5 years – on the secondary market.

But if we deduct consumer expenses the length of the saving period will be 14 and 10 years correspondingly.

The results of the calculations given in the table show that now most of people can not afford buying housing. The saving period is constantly increasing as the prices of the housing are constantly increasing as well. At the same time in the federal programme "Housing" it is planned that in 2010 the cost of a standard flat

Table 4

Calculation of affordability of housing in the Vologda region

Ratios	2003		2004		2005		2006	
	РЫНКИ							
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Average cost of housing, ruble/ m <sup>2</sup>	14 620	12 479	16 899	16 045	18 533	19 107	32 345	33 153
Average flat area/ m <sup>2</sup>	79,3	54,0	79,9	54,0	80,0	54,0	80,6	54,0
Average income per capita, ruble/ a man a year:	49716		62484		81229		101536	
- total	49716		62484		81229		101536	
- after the deduction of consumer expenses*	17597		24993		32491		40614	
Coefficient of housing affordability:	0,129		0,138		0,164		0,121	
- К <sub>дс</sub>	0,129		0,138		0,164		0,121	
- К <sub>др</sub>	0,046		0,055		0,065		0,048	
The length of saving period, years:	7,77		7,20		6,08		8,49	
- T <sub>с</sub>	7,77		7,20		6,08		8,49	
- T <sub>р</sub>	21,96		18,0		10,1		14,2	

\* Average income per capita after the deduction of consumer expenses (excluding the expenses on alcohol, jewellery, construction materials, etc.)

will be equal to the average income of a family for a period of three years.

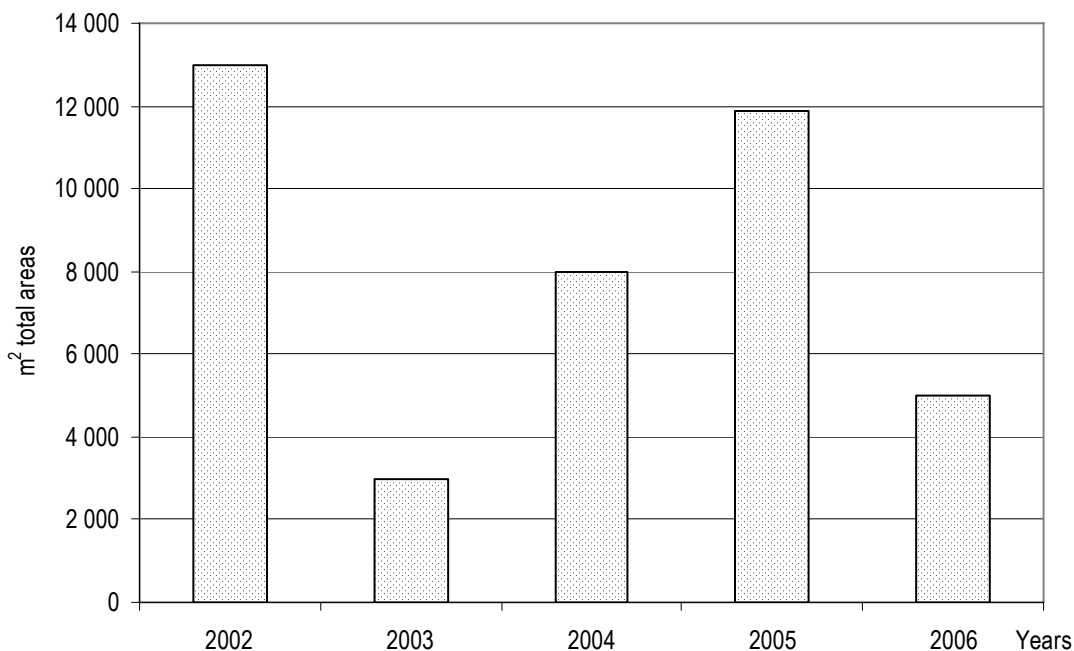
As a result we face the decrease of purchasing power of the population. One of the ways to improve housing conditions is to get social housing from the state free of charge. But as the budget financing was cut down this possibility decreased more than 2 times (Fig.1) In accordance with the housing code free housing will be given only to disabled people, incomplete families, military men. The number of people waiting for social housing was about 70 000 in 2006. The rest of people will have to improve their housing conditions at their own expense and with the attraction of credits on the commercial market.

One of the variants is mortgage. In the region the establishment of mortgage crediting began in 1999 when the concept of mortgage system and mortgage programme development<sup>4</sup>.

The mortgage programme is one of the priority social and economic programmes of the region. To realize this programme a non-commercial organization "The Fund of Mortgage

Crediting of the Vologda Region Development". Its activities are aimed at the realization of socially important investment project which will make it possible to create conditions for the provision of the population with affordable housing, to stimulate construction, to develop the real estate market and to create new jobs. The main activities of the fund are: construction and investments in construction, provision of the refinancing of long-term mortgage credits on the territory of the region.

In 2002 the fund concluded an agreement about cooperation with the government and the Federal agency on mortgage crediting. Due to this the fund started long-term crediting (up to 28 years) with the participation of commercial banks with the use of such financial instrument as mortgage which then transform into bonds and attract financial resources to the mortgage. Within the limits of the agreement with the Federal agency the government of the Vologda region gave the fund the authority of being a regional operator, a mediator between banks, insurance companies and the Federal agency on



**Fig. 1. Bringing in operation the houses in the Vologda region at the expense of the budget**

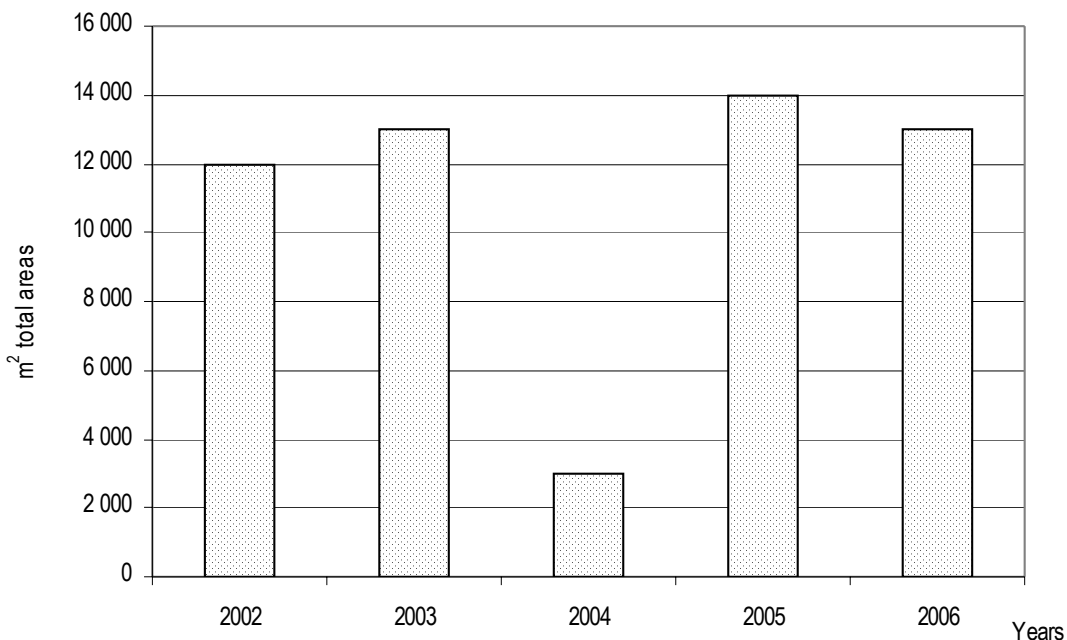
mortgage crediting. The primary creditor and mortgage holder is a commercial bank. After giving a credit the bank sells the mortgage fund the mortgages which are then sold to the Federal agency. Thus the finance returns to the

is performed by JSC Sheksna, Vologda-ROS-NO, Ingosstrah.

During the period of 2002-2006 the fund financed the construction of more than 1 000 flats with the total area of 58 675 m² (Fig. 2).

of mortgage crediting in country in general is re-

ing factors: the first payment and high as (from 20 to 90% - the



**Fig. 2. Bringing in operation the houses built within the regional programme of mortgage crediting**

first payment, 11 - 14% - credit rate). At such terms only rich people can become the lenders.

For example let's calculate the ability of a family of three people to take part in the regional mortgage programme. For the calculation it was taken a flat of 54 m<sup>2</sup> with the cost 1 790 262 rubles. The first payment was 30% from the cost of the flat that is 533 078 rubles. The credit formed 70% from the cost of the flat - 1 253 183 rubles. The credit was given for the period of 28 years with the credit rate of 14% a year. Payments were made in accordance with the principle of annuity. The monthly payments were calculated with the use of the following formula:

$$\Pi = S \frac{i}{1 - (1+i)^{-n}}$$

where  $\Pi$  – sum of monthly payment, rubles.;  $S$  – the sum of the credit, rubles;  $i$  – the percentage from the annual rate;  $n$  – the number of payments during the whole period of paying the credit.

As the average income per capita in the region is 8 461 rubles a month the family can not take part in the system of mortgage crediting. Moreover the total payment of percentage is about 4 billion rubles. So, the total cost of the flat will be more than 5 billion rubles. Better terms are offered by the Savings Bank of Russia. They give credits for 30 years with the percentage of 12.5% a year.

2. Too strict requirements to lenders in order to decrease credit risks.

3. Lack of clear system of the state support of the population on the federal and regional levels.

4. Mentality of the Russian people. They are afraid of taking long-term credits because they do not trust banks after the crisis of the year 1998 .

5. Lack of studying possible start models and scenarios of mortgage crediting on the state level.

One more problem is maintenance of tumbledown and breakdown houses. This category includes the houses built in 1950-60. This housing does not correspond to exploitation standards.

In conditions of transitional period the development of the housing sphere is impossible

without participation of the administrative bodies of the federal and the regional centers. Affordable housing, restoration of socially justified ratio of income and price, housing maintenance and repair should be the most important directions of the state activities in this sphere.

1. Increasing incomes of the population is necessary for making housing affordable.

2. Improvement of the mechanisms of protection of rights and interest of the party on the real estate market. The decrease of construction of the state and municipal housing, social housing; privatization of the greater part of the housing fund and transition to the market principles of providing the citizens with houses did not have necessary legal, financial, organizational and infrastructural base. For example, when buying a flat the costs of execution of documents is 3 - 10% from the cost of housing and the registration procedure takes a lot of time. It is impossible to solve such problems without participation of the federal and the regional centers.

3. Improvement of the mechanism of attracting investments in construction. Now housing bonds do not have enough liquidity and profitability, so they are not attractive for the population.

4. Because of the imperfection of the legislation construction companies abuse the trust of people and conclude contracts where people act as investors of the construction or real estate market. The housing provided by them can be of poorer quality than the housing agreed upon in the contract. To avoid such abuse the government should exercise better control over such deals.

5. State housing support should be first of all oriented towards socially unprotected groups of population as well as the middle class having a flat as a result of privatization. The analysis shows minor increase of affordability of housing in the Vologda region. For example, in 2004-2006 the number of families which could afford housing with the use of their own finance and credits increased though the price increase was more than the increase of the profits of the population. It is necessary to develop financial mechanisms to attract the money of these categories of the population in construction sphere with the use of stimulation system: donations, subsidies, tax privileges.

6. The development of progressive forms and technologies of housing construction will stimulate its development in the region. The most practical solution of the problem of housing affordability is decrease of construction costs. In the region JSC Vologda Plant of Construction designs and Road Machines works in this direction using the technology of building houses of panel-post type. This project will help to solve the problem of cheap housing which corresponds to all the requirements for capital construction.

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<sup>1</sup> **Median cost of housing** - is the cost of such housing in relation to which 50 per cent of housing units are cheaper and 50 per cent are more expensive.

It is defined on the base of the notion "fair market price".

<sup>2</sup> **Median profit of the family** is defined as the aggregate profit of the family. The content of profit includes all kinds of profit, including salary, profit from the entrepreneurial activity or non formal employment, investments and other types of monetary income.

<sup>3</sup> Federal programme "Housing" for the years 2002 - 2010: <http://www.programs-gov.ru>.

<sup>4</sup> Re.: About the concept of the development of the system of mortgage crediting: Resolution of the governor of the Vologda region № 486 from the 2d of August, 1999; About the programme of the mortgage crediting: Resolution of the Legislative Assembly of the Vologda Region № 652 from the 25<sup>th</sup> of November, 1999.