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Real estate market: new conditions and realities

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Abstract. The modern real estate market is very sensitive not only to economic and political changes but also to changing epidemiological conditions. The forecast that experts in the field of housing construction give today is very ambiguous. According to a number of experts, the growth as well as decline is possible if all factors affecting the market are observed and they may not be interrelated. The real estate market has felt the impact of the crisis from two sides – a drop in demand and a stop in construction. Before the pandemic hit different countries the housing market was steadily gaining momentum, recovering from the crises of previous years, the level of activity and price growth gradually increased due to continuing labor market conditions, low construction costs and interest rates on loans. The beginning of 2020 was a real test not only for the real estate market but also for the entire economy as a whole, the pandemic made its own adjustments. The current crisis has a completely different nature – against the general background of the deterioration of the situation on the world market caused by the fall in oil prices, the failure of the OPEC deal, the coronavirus pandemic caused a general economic downturn in the world and the aggravation of internal problems in various sectors.

1. Introduction

The real estate market both in Russia and abroad has experienced everything over the past 10 years: rapid price growth and their sharp decline, complete uncertainty in the face of changing legislation, lower and higher mortgage rates and changes in credit conditions, high demand and stagnation.

Many problems have arisen as a result of falling real incomes of the population and the general level of economic development, reduced investment activity, changes in the construction materials market, an increase in the value-added tax rate, an increase in the number of defrauded shareholders, as well as a result of the current epidemiological situation in the world.

Each of these factors has had its own impact on demand and supply in the real estate market in Russia and a number of foreign countries and has become a starting point for the formation of new conditions for the development of the construction sector, both commercial and residential real estate.

2. Research Methods and Materials

In the process of analyzing the real estate market in Russia and abroad the authors consider the main factors that have influenced the development of the construction market over the past 3-5 years and also identify the problems that have arisen as a result of the coronavirus pandemic.

When assessing the general state of the real estate market, the authors analyzed the work of Russian and foreign researchers and experts in the field of construction business, investment policy, as well as articles and materials from news agencies, construction and investment trust companies, real estate agencies and the banking sector.

To assess the impact of the coronavirus pandemic, first you need to assess the real estate market in Russia and abroad over the past few years, consider which countries and to what extent were affected by the 2008 financial crisis, assess the situation in Europe caused by the growth of unemployment in a number of countries and a decrease in investment activity.

According to Rosreestr and the «Institute of City Economics» Foundation the demand in the real estate market recovered only in 2019 - 3.4 million transactions against 3.5 million in 2014 after the previous economic downturn in 2014-2015.

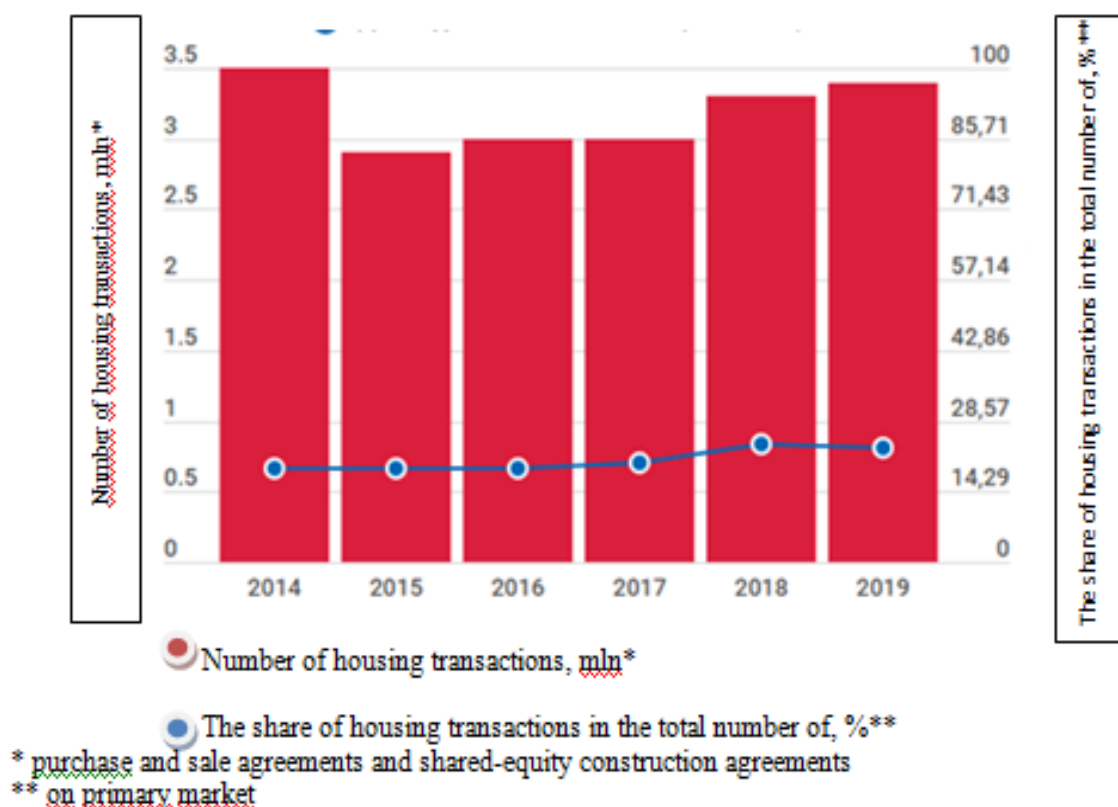


Figure 1. Volume of transactions in the housing market in 2015-2019.

This increase is primarily due to the turnaround program of preferential mortgage lending-under the program, rates were reduced from 13.5% in 2015 to 10% in 2019, as well as the development of a new mortgage subsidy program which is planned to reduce mortgage rates to 6.5%.

In addition, the increase in housing affordability is associated with an improvement in the ratio of housing prices to real incomes of the population.

According to various analytical agencies, the overall situation in the real estate market was quite good until 2019, so according to the Trading Economics news agency, 25 out of 33 foreign countries

had a high demand for housing in the period from 2016 to 2019, but only 4 of them (Italy, Greece, Montenegro and Cyprus) had a downward trend in prices.

Table 1. Prices and the dynamics of housing prices in Europe and the United States 2015-2016

Country	Price dynamics, %	Average price euro/m ²	Forecast for 2020
Hungary	11.5	1 151	price growth
Norway	8.9	4 761	price growth
Great Britain	7.2	6 790	price growth
Czech Republic	6.9	1 799	without changing
USA	5.5	1 767	price growth
Denmark	5.2	3 691	price decline
Malta	4.9	1 966	price decline
Turkey	3.8	973	price growth
Italy	- 0.9	3 379	price growth
Greece	- 1.5	1 247	price growth
Cyprus	- 3.3	1 270	price decline
Montenegro	- 4.9	1 341	price growth

The real estate market in many countries is experiencing a state of recession which was a consequence of the crisis of 2008-2009, for example, prices in Spain, the United States, Denmark, Lithuania and Ireland sank significantly.

Real estate prices in the United States collapsed with the onset of the financial crisis in 2008 and the overall recovery began only in 2012, the home prices by 2016 had increased by only 4% compared to 2007. As for Spain and Ireland, according to the country's statistical centers, after the 2008 crisis, prices in Spain fell steadily until 2015 – by almost 40% compared to 2007 and until 2020, the market was in the recovery stage. In Ireland at the same time by 2012-2013 the price level was restored in comparison with 2007 only by half.

In addition, the real estate market in Europe suffered from a number of other factors, for example, the real estate market in the GB did not survive the «Brexit» (exit from the European Union), housing in many quarters of London became cheaper, many companies were forced to put up real estate for sale 10-15% lower than their real value.

The change in the situation was caused by high unemployment in Cyprus and Greece. So, according to the Bank of Greece in the period from 2013 to 2016, the housing prices fell by an average of 6.2%. in Cyprus, the situation is somewhat better, however, the market recovery, as in Greece, is possible only by attracting foreign investors. To date, Cyprus has reduced the amount of investment and the period for obtaining citizenship.

In general, Europe and Russia were able to normalize the situation in the real estate market by 2019, some managed to achieve the pre-crisis indicator in full, in some countries the overall situation was affected by internal problems which did not contribute to high indicators for restoring price growth and increasing housing commissioning, but in many countries there were corresponding prerequisites, in the form of various state regulatory measures.

3. Results

It should be noted that the previous crises in most countries even against the background of rising unemployment were accompanied by an increase in speculative demand.

The current crisis has a completely different nature – against the general background of the deterioration of the situation on the world market caused by the fall in oil prices, the failure of the OPEC deal, the coronavirus pandemic caused a general economic downturn in the world and the aggravation of internal problems in various sectors.

Thus, the devaluation of the ruble led to an increase in demand for housing by almost 2 times and this situation was caused not so much by the low price or high level of well-being of the population but by citizens' fears about the growth of mortgage rates as in 2014 and the desire to save their savings.

Before the pandemic hit various countries the housing market was steadily gaining momentum, activity levels and price increases were gradually increasing due to persistent labor market conditions, low construction costs and interest rates on loans.

According to the analytical Bureau Groupmarketing, the Russian market, like the markets of European countries, also saw a decline in housing prices as the crisis hit market activity hard.

The annual growth in housing prices has almost halved and amounted to 20-30% of the total in 2019, according to preliminary estimates.

Since any sector of the economy reflects the financial state of the economy, a lull in the real estate market is also predicted in the conditions of stagnation. The current situation has shown that the majority of the population simply lost their sources of income or they significantly decreased while those who had at least some savings preferred to save them for a «rainy day». This situation is also due to the fact that in Russia, housing prices, as well as for many goods are calculated taking into account the ratio of the ruble to foreign currencies, respectively, the devaluation of the ruble led to an increase in the cost of square meters.

According to experts, the forecast of price growth for 2020 initially was 15-20% but according to the Ministry of economic development, the price jump in Russia occurred at the end of 2019 and was caused by the introduction of project financing and VAT growth from July 1, 2019, as well as the cancellation of shared-equity construction [my article] and the withdrawal of some developers from the market.

In general, the price growth in 2020 taking into account the data for the first six months was 5-7% and in the future, according to analysts, rapid growth is not expected and the overall stabilization of the situation is possible only within 2-3 years.

As a result of the coronavirus pandemic, the demand in the real estate market in the first months of 2020 fell by 30-60% according to various estimates, according to Rosreestr in April 2020, the housing sales fell by 44% compared to the previous month but in May sales increased by 1.5 times by April.

In most cases, sales growth which was observed in July – August, was caused not so much by improving the epidemiological situation, how the development and use of marketing tools – launch of the online booking services and remote purchase of real estate, the same was developed and launched by construction companies, a number of incentive programs, including extra allowance for lump sum payment agreement online, interest free. Such measures have enabled a number of companies to reach the autumn of 2020, stabilize the situation in the real estate market and increase demand by 8-10% compared to May-June.

As for the European and Asian real estate markets, many countries have also stagnated since the beginning of the pandemic. For example, sales in China's largest cities fell to 22% in February 2020 while prices increased by 5.8% year-on-year. In contrast to China, the Singapore market remained stable almost throughout the crisis – about 1.4 thousand home sales were registered in February 2020, compared to the same period in 2019 – 916.

Maintaining balance and increasing sales in China and Singapore, as well as in a number of other Asian countries is primarily due to government support for the construction industry, through easier credit mechanisms and low rates.

According to analysts, in the first quarter of 2020 the investment in European housing stock increased by 13% compared to the same period last year. At the same time the housing price index, for example, in the GB at the end of May 2020, fell significantly, analysts predict a drop in real estate prices in the 3rd quarter by about 5%.

After the quarantine eased in many countries the real estate market was flooded with pent-up demand from potential buyers. Investment in real estate in Ireland increased 2.1 times, in Germany – by 97%, Spain – by 54%, France – by 38%.

This situation is due to measures of support from the state both in relation to developers and in relation to potential buyers.

For example, the Parliament of Czech Republic abolished the 4% tax on real estate in the secondary market, the tax is not only canceled for new purchases but will also be refunded to those who have already paid it by purchasing real estate after December 2019.

In addition, the measures are being taken to increase the attractiveness of housing for investors:

- the simplification of bureaucratic procedures;
- the reduction of key and mortgage rates;
- the development of turnaround programs.

For example, the Russian government has developed preferential lending programs for housing purchases:

- the compensation of 450 thousand rubles for large families;
- the mortgage rate 4.9-6% for families with two or more children;
- the preferential mortgage for the military;
- the increase in the parent capital.

In general, the first half of 2020 ended quite well for real estate market participants. Many of the negative predictions that were made during the pandemic have not been realized

4. Conclusion

Summing up the overall situation in the real estate market, it is worth noting that the main factors of recovery after the crisis in the context of the pandemic were timely and effective support which allowed construction companies to continue construction even in the absence of sales.

The crisis allowed us to look at the overall situation from different angles: on the one hand, rising prices, falling purchasing power, changing construction conditions – led to a reduction in profits, bankruptcy and withdrawal of small construction companies from the market, on the other hand – new opportunities for developers, developers and potential buyers.

The current situation as a whole will not lead to fatal consequences since in any construction cycle there is always a margin of up to 6 months for various types of force majors. Real estate market participants learn to play in a new way opening up additional opportunities.

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