



NATIONAL RESEARCH UNIVERSITY
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A STUDY ON THE CONSISTENCY BETWEEN HOUSING AND URBAN PLANNING POLICIES

BASIC RESEARCH PROGRAM
WORKING PAPERS

SERIES: URBAN AND TRANSPORTATION STUDIES
WP BRP 03/URB/2016

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Russian cities currently feel the utmost need both for improving the affordability of housing and upgrading the quality and enhancing the beautification of the urban environment, developing public spaces, expanding the diversity of forms of housing tenure for different categories of citizen.

Implementation of the housing policy objectives necessitates a considerable update of urban planning policy which is currently characterized by minimum urban planning regulations and inadequate enforcement of those in place. Urban development regulation and land use system remains a source of ‘administrative rent’ and appears to be unable to ensure a transparent legal framework for investors and developers, which is replaced by high administrative barriers.

The paper reviews the current state of housing and urban planning policies in Russia, the practice of reconciling the goals, objectives and instruments of the foregoing policies. Housing and urban planning policies both at federal and local levels are described and case studies of inconsistencies in implementation of housing and urban planning policies in Russian cities are analyzed. The paper also sets forth the proposals on how to streamline housing and urban planning policies with a view to improving the affordability of housing and upgrading the quality of urban environment.

JEL Classification: R31.

Key words: housing policy, urban planning policy, urban environment, Russia

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Introduction

Russian cities have been substantially influenced by the legacy of the Soviet centrally planned economy. Monotonous concrete-slab developments in residential areas with inadequate access to social infrastructure, along with dilapidated and obsolete individual residential developments, and abandoned industrial areas, create a typical scene of the middle zone of an urban settlement. Post-Soviet development of housing market and residential construction market, regrettably, worsened the problem of substandard urban environment. Acute housing needs and high housing demand caused the emergence of homogeneous prefabricated high-rise buildings in urban peripheries.

As a result, Russian cities currently feel the utmost need both for improving the affordability of housing and upgrading the quality and enhancing the beautification of the urban environment, developing vibrant public spaces, expanding the diversity of forms of housing tenure for different categories of citizens, assuring transportation links between urban areas, providing easy access to social infrastructure, and increasing the opportunities of urban dwellers for leisure and public activities. Multi-functional nature of built-up areas, a safe and comfort environment for children and adolescents, an accessible environment for disabled persons, and, finally, spatial harmony and urban aesthetics that ensures a visually attractive 'cityscape' are also essential elements of a modern standard of the urban environment which is more and more appreciated by citizens.

By now, the basic legal framework regarding housing and urban planning sectors has been developed in Russia, and the main goals and objectives of housing and urban planning policies have been identified. The goals and objectives seek to solve the above-mentioned problems. Yet, in the absence of effective instruments, real changes may be hardly implemented in practice.

Relevant experience gained by developed countries shows the interrelation between the instruments of housing and urban planning policies which enables the effective attainment of the goals set in respect of each of the foregoing policies. More importantly, urban planning instruments make it possible to reach the goals of the housing policy.

This paper reviews the current state of housing and urban planning policies in Russia, the practice of reconciling the goals, objectives and instruments of the foregoing policies, and sets forth the proposals on how to streamline housing and urban planning policies with a view to improving the affordability of housing and upgrading the quality of urban environment.

Comprising certain elements of an academic research the report is generally presented as a paper focusing on policy discussions and debates which determined its structure. In order to provide wider context of the current trends in housing and urban planning spheres for a foreign reader, Section 1 explores the current state of the housing sector in Russia which determines key priorities of housing and urban planning policies. Section 2 provides a glance into the issues of the interrelation between housing and urban planning policies, as this pertains to goal setting and implementation procedures, with due account for relevant international practices. Section 3 describes housing and urban planning policies both at federal and local levels. Section 4 provides case studies of inconsistencies in implementation of housing and urban planning policies in Russian cities which impede the attainment of the goals. Section 5 sets forth the proposals on how to streamline the goals and objectives of the current housing and urban planning policies and to carry out the regional differentiation in respect of the policies.

1. Housing Sector in the Russian Federation: Key Characteristics

As of 2014, the size of the entire housing stock in the Russian Federation is reported to be 62.9 million dwelling units (apartments and single-family houses) with the total floor space of 3.47 billion sq. m.

Housing availability is estimated at 438 dwelling units per 1,000 persons. The magnitude is close to the EU average. The average floor space per capita, however, stands at 23.7 sq. m, which is only half of that reported in respect of the EU countries.

Almost two thirds (or 65.7 percent) of the total urban population and more than a half (55.7 percent) of the total rural population inhabit the dwellings built after 1971.

According to Rosstat, the number of dwellers living in apartment buildings (ABs) in need of capital repairs stands at 45 million persons, which accounts for more than 30% of total population. A substantial part of the existing housing stock, thus, needs either capital repairs or modernization to be carried out. Yet, with the current pace of capital repairs in respect of ABs the situation shows the signs of worsening.

Most of the Russian housing stock is privately owned. Indeed, private dwellings account for about 87.8 percent of the total housing stock floor space. As of 2013, individuals own nearly 84.6 percent of all the private housing. The state owns 3.4 percent of the total housing stock floor space. Municipal governments own about 7.8 percent thereof. The largest cities report relatively high shares of housing stock owned by the state and municipalities. Moscow may be estimated as having the biggest share of state- and municipal housing stock, which accounts for over 18.6 percent of the total therein.

Experts estimate that, aside from the rental housing owned by the state, municipalities and legal entities, there also exist nearly 10 percent of individually-owned dwellings which are rented out, mainly, on an informal basis, that is, without paying any taxes. The total share of rental housing stock, hence, makes up around 25 percent of the total housing stock floor space (10 percent of the dwellings rented out by individual 'non-professional' landlords + 11.2 percent by the state and municipalities + 3.2 percent by private legal entities).

Inadequate development of rental housing sector may be explained by a number of factors. Among them, there is a weak legislative framework which is incapable of protecting both parties to the rental agreement, and low investment attractiveness of the projects for construction of rental ABs because of their long pay-back period, and some other factors.

According to data for 2012, ABs largely prevail in Russia's housing stock – they account for over 67 percent of the national housing stock floor space. In urban areas, ABs make up 81 percent of the total housing stock. In major cities, they account for above 85 percent of the total housing stock, with the highest share of 98 percent reported in respect of Moscow. Russia's ABs mostly form “condominiums” with common equity ownership of common areas.

Transition to market economy necessitated the development of the new legal framework with regard to urban planning processes. This has taken place at a rather slow pace and somewhat separately from the development of housing policy. Not until the adoption of the Urban Planning Code of the Russian Federation and the Federal Law ‘On Enactment of the Urban Planning Code of the Russian Federation’ in 2004 the time limits within which all the municipalities were obliged to design and adopt their land use and development rules were set.

By now, most municipalities have already adopted both general plans identifying local long-term urban planning priorities and land use and development rules establishing the legal restrictions on use of land plots. The remarkable fact is that the latter document has not been adopted yet in Moscow which is the largest city and most attractive investment destination in Russia. Private ownership of land is not yet developed in Moscow either – state-owned land accounts for 90 percent of the total land in the city. Government of Moscow still adopts urban planning decisions separately with regard to each case and this takes place amid legal uncertainty in respect of possible forms of land use.

Despite formal setting of a legal framework with regard to urban planning regulation, Russian cities, in practice, witness a somewhat spontaneous development of urban development processes, which responds, primarily, to investment interests of large developers with access to administrative resources, rather than to public interests. Whenever investment interests mismatch the public ones, established in urban planning documents, the latter is being amended accordingly. A study held in 2012, found that in the cities where land use and development rules have been applied, on average, for three years (21 cities observed), the number of the amendments introduced thereto ranges from one to three. In respect of land use and development rules that have been in effect for up to five years (27 cities observed), the number of amendments rises up to 4-8. For land use and development rules that have been applied, on average, for over 7 years (14 cities observed), the number of amendments introduced therein exceeds 9. Hence, the longer land use and development rules remain effective, the larger appears to be the number of amendments introduced therein. Indeed, land use and development rules approved 2–3 years ago

have been amended only once a year, while those adopted 7–10 years ago have seen, on average, two amendments per year.

Implementation of construction projects still involves a large number of excessive administrative barriers which impede the accessibility of the market to new actors and restrain competition. A ‘seller’s market’ model applied in respect of residential construction in Russia provokes high housing prices and hinders the introduction of innovative technologies and novel design solutions.

Since 2001, with the beginning of a sustainable economic growth, the rates of housing construction started to show an upward trend, though they have surpassed the late 1980s levels only by 2014 when 84.2 million sq. m. of housing (or 1 124 thousand housing units) has been built.

Private investment provided a sustainable development, mostly, in respect of self-provided housing construction projects, the amount of which has been annually increasing, and made up 36.2 mln sq. m of floor space or 268 thousand units in 2014 alone. Over that period, the construction of self-provided housing has seen a more than four-fold increase, accounting for over 43 percent of the total number of the housing units constructed.

In modern Russia, there are several specific factors contributing to the high risk of monopolization of the residential construction market.

Firstly, urban land plots which may be used for construction of residential buildings are, for the most part, owned by the state. Hence, the seller appears to be a monopolist in the land market.

Secondly, local governments are lacking adequate economic incentives for promoting housing development in their jurisdictions. In Russia, specifically, land tax and individual property tax jointly account for only 14 percent of all the tax revenues accumulated in 2011 in urban districts – type of municipalities which comprise most of Russia’s major cities where housing construction largely takes place. The situation is complicated by the deficiency of most local budgets which are entitled to finance expenditures towards allocation and development of land plots destined for housing construction.

And, thirdly, utility tariff policy and arbitrary decisions in respect of utility sector policies impede the introduction of efficient mechanisms for development and rehabilitation of utility

infrastructure, and appear to be among the factors which constrain the growth of housing construction rates.

Construction of an apartment building implies that a developer has to undergo, on average, 100 administrative procedures⁶ over a three-year period and spend 25 mln rubles thereto, including utilities connection costs (on average, 21 mln rubles)⁷. In fact, the related expenditures may account for 10 percent of the construction project cost, and, in some cities, be as high as 30 percent of the mentioned above cost.

Construction projects in Russia are, mainly, financed by individuals – future homebuyers investment from their own means. Developers of apartment buildings use the funds of individuals and shift the ensuing major risks to them. Loan finance of developers for the purpose of housing construction is discouraged due to the lack of interest on the part of both banks and developers.

In Russia, low affordability of housing remains a major problem of social and economic development. According to a number of sociologic surveys, around 40-60 percent of households report to be in the need of having their housing conditions improved.

Housing price-to-income ratio stood at 3.8 (years) in 2014 against 5.3 (years) in 2008, which is indicative of an upward trend. The indicator “Proportion of households who can afford buying residential dwellings, conforming to floor space per capita standards, with own and borrowed funds”⁸, designed to describe the changes in household income, housing prices and mortgage lending terms, demonstrated substantial improvement rising to 30.0 percent in 2014 up from 17.8 percent in 2008. However, by middle of 2015 when macroeconomic situation in Russia worsened considerably the value of the indicator dropped to 24.7 percent.

Supply response to housing demand is weak: over a 12-year period the total floor space commissioned per 1 million rubles of real income of the population shrank from 2.87 sq. m to 1.77 sq. m.

⁶ Based on the Monitoring of Administrative Barriers in Housing Construction held by National Union of Builders and the Institute for Urban economics in 2011 (Report available at www.nosroy.ru). According to the research data, the process of going through administrative procedures involves the obtaining of a document (agreement, act, permit, certificate, receipt, extract from a state register, conclusion, inquiry, letter, etc.) at the same state (municipal) agency or authorized organization.

⁷ A standard apartment building shall be connected to electricity-, heat-, gas distribution-, water supply and sanitation networks in line with specific parameters taken into account for calculation of the utilities connection cost. The mentioned expenditures don't include the cost of an acquisition of the right to the land plot.

⁸ This indicator reflects the share of households, whose income suffices to make monthly mortgage payments, assuming a 30 percent down payment. In the areas where rent payment is lower than mortgage payment, this indicator underestimates the affordability, and in the areas where it is higher, the indicator overestimates the affordability. But on the average, this indicator reflects actual affordability both as it applies to purchase and rent of dwellings.

In these circumstances, the growth of effective demand due to an increase in real income of the population and improvement of mortgage lending terms provoked a surge in housing prices in the market which adversely affected the dynamics of housing affordability. However this trend could be reversed by negative marcoeconomic trends, including both dynamics of real incomes and mortgahe lending terms.

Review of the current state of the housing and utility sector provides a basis to conclude that:

- residential construction market demonstrates a high degree of dependence on administrative bodies, weak competition, high risks and low transparency for investment and lending, and relies on obsolete technologies and design decisions;
- various limitations for affordable housing supply increase lead to a huge affordability gap that prevents the housing market development;
- the system of urban planning and land-use regulation remains a source of ‘administrative rent’, and ensures neither development of comfortable living environment nor transparent legal framework for investment;
- the state, being a ‘wholesale customer’ in the residential construction market, doesn’t make use of its capability in terms of influencing the market in order to enable the introduction of innovative technologies, novel design decisions, and ensuring the stabilization of housing prices.

The situation necessitates that state regulation be streamlined in order to overcome the shortcomings of the housing market, especially as it relates to ensuring the efficiency of the supply encouragement policy. There is, therefore, a vital need for creating the enabling environment in order to increase the supply of affordable housing. Implementation of the policy necessitates that effective urban planning regulation be formed to clearly and explicitly define the requirements and limitations to the use of land plots in order to ensure effective performance of the housing market.

2. Interrelation Between Housing and Urban Planning Policies

Housing policy may be defined as a goal-setting process carried out by government in respect of the entire system of relations which include ownership, disposal, and use of dwellings, financing and implementation of residential development projects, housing maintenance and

management, and also state intervention in the foregoing housing relations with the aim of achieving the stated housing objectives.

Urban planning policy implies a goal-setting process realized by government with regard to the entire system of urban planning relations as they pertain to development of areas and include planning and regulation procedures in respect of land use planning and development, the use of land plots for development and creation of public areas, and also state intervention in the foregoing urban planning relations with the aim of achieving the stated objectives.

In market economies, the key specificity of housing policy consists in protection of housing rights of individuals and in regulation of legal relations concerning the exercise of the said rights. The key specificity of urban planning policy lies in protection of the rights of individuals for their living environment, primarily, in cities and other urban settlements. In implementing housing and urban planning policies the state relies on state and municipal authorities developing legislative regulation and other normative legal regulation, and using budget-, tax- and administrative instruments.

Urban planning policy tends to be more technocratic in nature, and evolves with an eye to a wide variety of requirements to land development. Goals of urban planning policy, hence, not in all cases may be defined in general terms, but rather be identified on the basis of the analysis of the entire body of rules and restrictions on land development with regard to various areas.

A social nature of housing policy, even in market economies, shall be also taken into account. This implies that the policy shall either aim to support the development of emerging market relations, or rectify the failures of the already developed market.

To achieve the goals, housing and urban planning policies need to be properly reconciled with each other, which also means that there should be consistency between the relevant goals, objectives, and implementation instruments.

Subject to the stage of development, the main goal of housing policy, in general terms, may be as set forth below:

- 1) ensuring the access to affordable housing for people with low- and moderate incomes in respect to whom the housing market appears to be unable to offer an adequate solution of their housing problems (provided that the market meets the housing demand on the part of most individuals) – goal 1.1;

- 2) creating and developing housing markets, and also residential construction markets and housing finance markets in order to improve the affordability of housing for most people – goal 1.2;
- 3) providing a ‘roof over the head’ for large groups of population, ensuring partial ‘legalization’ of informal residential developments and providing the access to basic services to dwellers thereof, and providing housing to categorically eligible social groups of population, primarily, to public employees – goal 1.3.

The main goal of urban planning policy, depending on the stage of development, may be described as follows:

- 1) ensuring high quality of urban environment and comfortable living conditions – goal 2.1;
- 2) ensuring conditions for maximum housing construction volumes aiming to meet the demand on the part of every consumer group (state, corporations, households) – goal 2.2;
- 3) addressing the problem of ‘informal’ and scattered developments – goal 2.3.

The first typological goals of those identified in respect of housing and urban planning policies (goals 1.1 and 2.1) – first priority goals – tend to be applied, mostly, in developed market economies, with sufficiently high level of housing availability. Housing needs, in this regard, not only focus on housing but also extend to the quality of environment, and this just determines the priorities of housing and urban planning policies.

The second set of goals (goals 1.2 and 2.2) – second priority goals – tend to be applied, mostly, in economies in transition and in emerging economies where housing availability remains inadequate to most individuals. Newly established institutions in the housing market are far from the desired level of development, and the purchase or leasing of dwellings appears to be unaffordable for most people. For this reason, creation and development of housing markets, residential construction markets and housing finance markets, with the purpose of improving the affordability of housing for most people, shall be the priority of housing policy. In this connection, either explicitly or implicitly, but there is a rather *weak urban planning policy in place - with few mandatory requirements and weak supervision of compliance with them* – in order to facilitate the increase in volumes of housing construction.

The third set of goals (goals 1.3 and 2.3) – third priority goals – are high on the agenda in developing economies with very unsatisfactory housing availability, a high proportion of informal buildings, and scattered residential developments at large. In these countries, housing

policy is likely to focus on provision of a ‘roof over the head’ for large categories of population. Informal residential developments, which the authorities largely ignore for the time being, allow large groups of population to satisfy their housing needs, at least in part, though the problem of ‘informal residential developments’ remains high on the agenda in the countries.[De Soto, 2004; UN-Habitat, 2009, UN-Habitat, 2003]. Urban planning policy therein tends to be not only weak but also patchy.

The choice of a particular goal to be set in respect of housing or urban planning policies shall be predetermined by the level of economic development in the country and the achieved living standards, including housing availability level (See Table 1).

Tab. 1. Main goals of housing and urban planning policies in countries with different levels of economic development

Priority	Main goal of housing policy	Main goal of urban planning policy	Countries with housing and urban planning policies oriented towards the attainment of the goals	GDP per capita (in current prices, USD per capita)	Housing availability (dwelling units per 1,000 persons)
1.	Goal 1.1	Goal 2.1	USA	51,704	420 ⁹
			Great Britain	38,811	430 ¹⁰
			Netherlands	46,010	430 ¹¹
2.	Goal 1.2	Goal 2.2	Poland	13,333	370 ¹²
			Czech Republic	19,680	380 ¹³
3.	Goal 1.3	Goal 2.3	India	1,547	250 ¹⁴
			Kyrgyzstan	1,181	20 ¹⁵

Municipalities in countries with developed housing markets which focus on the 1st priority goals typically adopt a rather *stringent urban planning policy* with a large number of urban planning regulations. In this case, municipalities strictly supervise the performance of the regulations in order to protect high requirements to the quality of urban environment and maintain the value of housing assets of owners of residential property. The policy may entail an increase in prices in the housing market and make a purchase or rent of dwellings unaffordable for a minor part of individuals [Malpezzi, 1996]. In this connection, the countries realize the

⁹ As of the end of 2013. <http://www.hofinet.com/countries/context.aspx?regionId=6&id=175>

As of the end of 2011. <http://www.hofinet.com/countries/context.aspx?regionID=3&id=90>

¹⁰ As of the end of 2011. <http://www.hofinet.com/countries/context.aspx?regionID=3&id=174>

¹¹ As of the end of 2012. <http://www.hofinet.com/countries/context.aspx?regionID=3&id=119>

¹² As of the end of 2013. <http://www.hofinet.com/countries/context.aspx?regionID=3&id=134>

¹³ As of the end of 2008. http://www.bmwfw.gv.at/Wirtschaftspolitik/Wohnungspolitik/Documents/housing_statistics_in_the_european_union_2010.pdf

¹⁴ As of the end of 2011. <http://www.hofinet.com/countries/context.aspx?regionID=7&id=75>

¹⁵ As of the end of 2011. <http://www.hofinet.com/countries/context.aspx?regionID=3&id=90>

programs aimed to make housing more affordable for people with low or moderate incomes. This, naturally, entails additional public expenses. Yet, in the context of public high priority in respect of high quality of urban environment and comfortable living environment, the additional expenses may be deemed reasonable. More than that, it is recognized that positive externalities, associated with the improved quality of urban environment, help enhancing the quality of human capital, reduce the required public expenses related to public health care, development of transport infrastructure, social assistance, and law enforcement activities.

In these countries, hence, urban planning instruments also focus on development of the affordable housing sector, which also includes social housing provided to individuals by local governments and non-profits on non-market conditions in volumes sufficient to satisfy the demand of local communities [Gurran et al., 2008]. The foregoing instruments may include:

- streamlining the urban planning standards which limit the opportunities for residential construction in local communities with inadequate housing affordability;

- reducing the requirements to administrative procedures as these apply to residential construction;

- reducing the amount of local charges and fees, related to construction of affordable housing;

- ensuring the diversity of dwelling types as part of land use regulation and setting urban design code requirements for the purpose of achieving social cohesion and promoting economic prosperity;

- using potential gains, obtained by developers from certain urban planning decisions, for solution of public objectives like construction of new affordable housing.

Netherlands, Great Britain, and the USA, for example, may boast an extensive practice of applying urban planning instruments for reaching the above-mentioned goals of housing policy. The use of urban planning requirements in respect of affordable housing development, in combination with housing financing, provision of subsidies to households, and tax incentives, encouraged the emergence of non-profits engaged in construction and provision of affordable housing.

In Great Britain and Netherlands, specifically, inclusion of the requirements in respect of construction of social housing into urban planning documents serves as grounds for provision of budget subsidies. The requirement in respect of the proportion of affordable dwellings in new construction projects which, normally, accounts for 10-15 percent of the latter, is widely used in the USA. Performance of the requirements tends to be encouraged via various bonuses (e.g.

residential density bonus, reduction in the amount of payments related to construction of infrastructure required by a project, etc.).

Mandatory requirements to the proportion of affordable dwellings in new construction projects shall be most effective in the markets where high market activity of developers combines with limited possibilities for new construction projects. In that case, the most effective solution shall entail the imposition of an obligation for provision of a stated proportion of built-up dwellings, as affordable housing, or imposition of certain charges on developers. For markets with low activity on the part of developers, and amid low housing demand but large opportunities for further residential development, however, the most effective solution shall involve the support of the projects for construction of housing which may be purchased, at a lower price, by organizations engaged in provision of social housing, or by households with low or moderate income (not via setting a proportion of affordable housing).

In countries where urban planning laws strictly and explicitly define the rules the compliance with which shall ensure the approval of any construction project and the issuance of construction permits, the requirements in respect of affordable housing may be integrated therein. With these regulations in place, the price of land (as a function of development opportunities) is being determined land use and development rules. This helps minimize the uncertainty for a developer since the process for obtaining a construction permit takes up little time. Such type of regulation is adopted in the USA.

Other systems of urban planning regulations involve negotiations with regard to construction permit issuing process to be held in conformity with regulations and guidelines as prescribed by law. The foregoing process shall take up much more time but it helps assess possible public benefits which may be obtained from implementation of a particular construction project, and determine the conditions upon which the benefits may become achievable. Great Britain and Ireland, for instance, use this discretionary model. The price of land, under this model, shall be set simultaneously with the adoption of a decision about the proposed construction project by public authorities.

A number of European countries, as well as Australia, embrace a third approach which implies the elaboration of a detailed development plan in respect of a particular area (in case of new area development). In accordance to this approach, land use and development regulations shall be established with due account for the proposals of developers. The approach works well in case of a single owner in respect of all the land under consideration, or if the land owners act in a cooperative manner. The approach is referred to as master urban planning.

Along with general regulation of housing and urban planning relations the current goals of housing and urban planning policies always take into account traditional institutions, cultural varieties of different societies, and also particular societal priorities identified with regard to the given stage of development.

The overview of the literature on housing and urban planning policies in developed countries [Hoekstra, 2003], provides the idea of three different types (archetypes) of housing policy: a liberal model (USA, Great Britain), a social-democratic model (Sweden, Netherlands), and a corporatist model (Germany, Austria). Basic archetype models reflect cultural varieties of different societies, and also that of the concepts of the role played by the state, family, various corporations and public associations in respect of housing provision. This eventually is being translated into the principles of state intervention in housing market, priority areas of housing policy and main instruments for its implementation¹⁶.

In particular, developed countries adopting social-democratic and corporatist models of housing policy tend to use more stringent urban planning regulations while the housing policy aims to facilitate housing provision to wider groups of population, including the individuals with medium income and slightly-above-medium income.

Countries also vary in distribution of responsibilities in respect of goal setting, regulation, and implementation of housing and urban planning policies between different tiers of government. In developed democracies and market economies, housing policies tend to be in the domain of central governments in order to ensure the uniformity of housing rights of individuals, while urban planning policies – which reflect the needs of inhabitants of particular cities, towns, and other settlements – tend to be assigned to lower tiers of governments.

3. Housing and Urban Planning Policy in Modern Russia

3.1. Harmonization of Housing and Urban Planning Policies in Federal Program Documents

Decree No. 600 of the President of the Russian Federation ‘On Measures for Provision of Affordable and Comfortable Housing to the Citizens of the Russian Federation and on Improvement of the Quality of Housing and Utility Services’ adopted in 2012, hereinafter referred to as Decree No. 600, and the Concept of Long-Term Social and Economic

¹⁶ In more detail, the archetype models of housing policies adopted in developed countries are described in: [Kosareva et al., 2015].

Development of the Russian Federation till 2020, approved by the RF Government in 2008 set the priorities and goals of state housing policy.

The strategic goal of the state housing policy for a period till 2020 is to create comfortable living environment in order to meet housing needs and also ensure high quality of life in general. Such a definition of the strategic goal is rather innovative for Russia.

Instructions to the Government of the Russian Federation, as prescribed by the Decree No. 600, shall address the main objectives of the state housing policy as set forth herein:

- 1) enhancing housing affordability as it relates to purchase of own housing, housing lease and mortgage loans (6 instructions);
- 2) reducing the timeline and cost of administrative procedures, and also terminating monopoly activities and preventing unfair competition with regard to residential construction activities (3 instructions);
- 3) entanglement of land plots to the use for the purpose of residential construction including economy-class dwellings (2 instructions);
- 4) liquidating unsafe housing stock (1 instruction).

These instructions predetermined the structure of goals and objectives of the State Program of the Russian Federation ‘Provision of Affordable and Comfortable Housing and Utility Services to the Citizens of the Russian Federation’ approved by the Government of the Russian Federation¹⁷. Performance indicators set in respect of the above-mentioned state program fully reflect the target indicators identified by Decree No. 600.

The state program envisages 13 main activities to address the priorities of the housing policy as follows:

- reducing the cost of a square meter of floor space by way of increasing the volume of housing construction, primarily, of economy-class dwellings;
- developing affordable rental housing market and non-profit housing stock for households with moderate incomes;

¹⁷ RF Government Resolution #2227-p endorsed on November 30, 2012

- supporting certain categories of population who need housing improvements but appear to be unable to make savings required for purchase of dwellings (households with three and more children, households living in unsafe housing, etc.);
- creating the enabling environment for the purchase of dwellings in the market including that supported by mortgage loans;
- improving the quality of housing stock, and ensuring a more comfortable housing.

Current strategic documents, thus, include the first two housing policy goals indicated in Table 1 and even, to some extent, the third goal of the housing policy as well as the first two urban planning policy goals.

The new concept, however, is not yet supported by implementation mechanisms and economic incentives. The management ‘signals’ from the federal level mainly follow the ‘old pattern’ and only seek to encourage the growth of housing construction volumes.

Specifically, the review of practical implementation of policies and instruments in respect of the State Program gives ground to conclude that they fall short of attaining even formally declared goals and objectives (See Table 2).

Tab. 2. Consistency between the goals and objectives of the State Program ‘Provision of Affordable and Comfortable Housing and Utility Services to the Citizens of the Russian Federation’ and budgetary and financial priorities

Goals and objective of the State Program	Description of goals/objectives	Amount of federal allocations designated for a particular task in 2015 (rubles, million)
Goals		
Enhancing housing affordability and improving the quality of housing provision to population; Improving the quality and reliability of the provision of housing and utility services to population	Conforms to the goal of housing policy in economies in transition and in emerging economies	-
Objectives		
Shifting to the use of land plots for the purpose of residential construction including economy-class	Focuses on attainment of the goals of urban planning policy in economies in transition and in emerging economies. The second part of the formulated	950

<p>dwellings; implementing the program “Housing for the Russian Family”</p>	<p>objective partially seeks to attain the goal of housing policy in economies in transition and in emerging economies (as it pertains to provision of affordable housing to people with moderate income in respect to whom the housing market appears to be unable to offer an adequate option for solution of their housing problems so far)</p>	
<p>Facilitating the introduction of novel state-of-the-art, energy efficient and energy saving technologies in residential construction and in production of construction materials used in residential construction</p>	<p>May focus on achieving the goal of urban planning policy both in respect of developed market economies, and also in respect of economies in transition and emerging economies. In developed market economies, however, it facilitates the introduction of new technologies and does not require any additional measures of regulation</p>	
<p>Developing the lending facilities in respect of residential construction and construction of utilities infrastructure</p>	<p>Aims to implement the goal of urban planning policy in economies in transition and in emerging economies</p>	
<p>Enhancing the affordability of residential mortgage loans for individuals</p>	<p>Focuses on implementation of the goal of housing policy in economies in transition and in emerging economies</p>	0
<p>Promoting the development of rental housing market and developing non-commercial housing stock for individuals with low income</p>	<p>Seeks to attain the goal of housing policy in developed market economies (as it pertains to provision of affordable housing to people with moderate income in respect to whom the housing market appears to be unable to offer an adequate option for solution of their housing problems so far)</p>	0
<p>Fulfilling the state obligations on provision of housing to eligible individuals as established by law</p>	<p>Aims to support housing provision to categorically eligible individuals arranged according to the number of applicants and the degree of their social vulnerability; may be described as an objective focusing on attainment of the goal of housing policy in countries with different levels of economic development</p>	75,752
<p>Providing state support to young families in purchase of housing</p>	<p>Seeks to achieve the goal of housing policy in developed market economies (as it pertains to provision of affordable housing to individuals with</p>	3,500

	moderate income in respect to whom the housing market appears to be unable to offer an adequate option for solution of their housing problems so far)	
Improving efficiency, quality and reliability of supply of utility resources via mobilizing long-term private investment	Aims to attain the goal of housing policy in developing economies	9,914
Providing the access to drinking water conforming to safety and reliability requirements established by sanitary regulations	Focuses on reaching the goal of housing policy in developing economies	0

In particular, 75.8 billion rubles, which account for 79 percent of the total amount of allocations made for housing purposes, went to finance the provision of housing to categorically eligible individuals – a task which, to a lesser extent, relates to any type of housing policy and reflects current political priorities. Yet another 3.5 billion rubles, which represent 3.6 percent of the total amount of allocations, shall go for provision of housing to young families. In respect of other seven objectives under the State Program and also in respect of the measures related to implementation of the program, the federal government allocated the funds which accounted for only 17 percent of the total funds required therefor. It should be also noted that the four objectives appear to be declarative in nature and, hence, fall short of federal support.

3.2. Assessment of the Balance Between Urban Planning and Housing Policies in Selected Russian Cities

This section covers the findings of the empirical analysis carried out on the basis of case studies of the cities of Perm, Yekaterinburg, Belgorod, and Moscow, in respect of the documents related to urban planning and housing policies.

Both Perm and Yekaterinburg have population exceeding one million people and demonstrate moderate increase in population¹⁸. Belgorod was selected as an example of a city with on-going active policy on promotion of extensive development of self-provided housing construction outside the city's limits. The choice of Moscow was accounted for by its boosting economy and growing population. On one hand the city is pressed by the housing deficit more

¹⁸ Population size of Perm: 1,004 thousand people in 2003, and 1,014 thousand people in 2013. Population of Yekaterinburg: 1,334 thousand people in 2003, and 1,396 thousand people in 2013. Rosstat data.

than others, and on the other hand – has most opportunities for applying various vehicles enabling the implementation of balanced urban planning and housing policies.

The review focused on the following main documents related to urban planning and housing policies¹⁹:

- 1) Program of social and economic development;
- 2) Strategic master plan;
- 3) General plan;
- 4) Land use and development rules;
- 5) Comprehensive action plan for implementation of the General plan;
- 6) Urban design standards;
- 7) Programs on housing provision and availability of housing and utility services;
- 8) Programs on resettlements from dilapidated and unsafe dwellings.

The review undertaken in respect of urban planning documents sought to identify the provisions that concern possible priorities of urban planning policy:

- 1) spatial development concept: extensive development through physical expansion on new vacant areas for new residential developments vs. intensive development which encompasses improvements within the limits of already developed built-up areas which are non-conforming to minimum quality standards;
- 2) housing supply and urban environment: the focus on the quality of urban environment vs. quantity indicators in respect of new housing construction;
- 3) spatially differentiated quality of urban environment: the focus on differentiation of urban environment and classification of dwellings in respect of different territories (formation of diverse living environments) vs. that on uniform standards to be applied irrespective of a specific borough.

The review undertaken in respect of housing policy documents sought to identify the provisions that concern possible priorities of housing policy:

1) affordable housing provision (with regard to all categories of population or households with particular levels of income, e.g. low-income households);

2) resettlement of residents from dwellings considered to be unsafe for living (mitigation of social tensions in certain boroughs of a city);

¹⁹ Not all the documents from the list could be in effect in each of the cities as of the time of the review.

3) provision of various options for housing improvements to all groups of population (households with different income levels and different social characteristics): cooperative or rental housing, ownership;

4) support of private initiatives of individuals for self-provision of housing;

5) fostering rental housing market development.

In assessing the degree of consistency or inconsistency between the documents the authors relied on the procedures as described herein below:

1) identifying a total number of provisions in respect of approved urban planning and housing documents which determine priorities of urban planning and housing policies;

2) identifying the urban planning provisions reflected in housing policy documents and vice versa (in absolute and relative terms).

The findings of the review are presented in Table 3.

Tab. 3. Assessment of the degree of consistency between the documents related to urban planning and housing policies applied in selected cities

Indicator	Degree of consistency across the cities			
	Perm	Yekaterin- burg	Belgorod	Moscow
Coverage of urban planning issues in housing policy documents				
Total number of provisions in approved urban planning documents setting the priorities of urban planning policy, including:	11	8	7	8
<i>Number of provisions reflected in housing policy documents</i>	<i>5</i>	<i>1</i>	<i>2</i>	<i>3</i>
Proportion of urban planning provisions reflected in housing policy documents, in percentage terms	45%	12.5%	28%	37.5%
Coverage of housing issues in urban planning policy documents				
Total number of provisions in approved housing documents setting the priorities of housing policy, including:	9	4	6	4
<i>Number of provisions reflected in urban planning policy documents</i>	<i>1</i>	<i>1</i>	<i>2</i>	<i>1</i>
Proportion of housing provisions reflected in urban planning policy documents, in percentage terms	11%	25%	33%	25%

The Table 3 shows a typically weak interrelation between the documents related to urban planning and housing policies, and indicates the prevalence of urban planning policy priorities over the housing policy ones.

4. Analysis of Inconsistencies in Implementation of Urban Planning and Housing Policies in Russian Cities

Inadequate coordination between urban planning and housing policies not only leads to inconsistent decisions in the process of goal setting, formulation of objectives and allocation of resources for implementation of the foregoing policies, but also provokes a number of problems typical for the current development of the Russian cities. The problems associated with the policy aimed to increase the supply of affordable housing, and also with the development of a market of non-residential premises used as a living space, hereinafter referred to as ‘loft’ apartments, and the growing mismatch between central and peripheral areas of Russian cities (e.g. Moscow) are discussed in the following subsections.

4.1. Review of Implementation of the Program ‘Housing for Russian Family’ Aimed to Increase the Supply of Affordable Housing

The program ‘Housing for Russian Family’²⁰ (hereinafter, the Program) was launched in 2014. The Program envisages the construction of 25 million square meters of economy-class housing over the period till the end of 2017. The dwellings shall be sold to eligible individuals from social categories at a fixed price below the market value (80 percent of the market value as established in respect of the territory, but not exceeding 35 thousand rubles per square meter²¹).

In fact, this has been done in an attempt to promote the construction of affordable housing for individuals who appear to be unable to purchase dwellings on market terms and need to have their housing conditions improved (those who live in unsafe buildings, have two and more minor children, young families with minor children, employees of state- and municipal institutions and other categories established by constituent entities of the Russian Federation).

With due account for the practice of implementation of similar programs in developed countries the Program envisages the opportunity for carrying out projects which, apart from the economy-class component, also include the component of housing that a developer can sell on

²⁰ Decree of the Government of the Russian Federation “On Certain Issues of Implementation of a Program ‘Housing for the Russian Family’ Within the Framework of the State Program “Provision of Affordable and Comfortable Housing and Utility Services to the Citizens of the Russian Federation” (No. 404, adopted on May 5, 2014.

²¹ The average housing price per square meter in the 3rd quarter of 2015 accounted 51.7 thousand rubles.

market terms. This principle of cross-subsidizing allows a developer to prepare a project (with market- and non-market components) that should bring acceptable mass of profit.

The Program does not provide for direct financing of economy-class projects from budget funds. The following measures were designed to encourage the participation of private investors in the Program:

- provision of land plots, owned by the state and municipalities, to developers on privileged terms;
- purchase of utilities infrastructure built up by developers (paying back the infrastructure costs)²²;
- provision of soft loans to developers for construction of economy-class dwellings²³;
- provision of soft mortgage loans to eligible individuals²⁴;
- creation and maintenance of a register of the buyers of economy-class dwellings with a view to mitigating the risk of inadequate demand.

A financial feasibility study was carried out to shape the terms and measures under the Program. The effective share of economy-class housing in residential construction projects as required for getting the necessary financial rate of return at 15 percent per annum with due account for different options in respect of cost sharing between a developer, a utility provider and the authorities was estimated.

The estimates, specifically, give grounds to conclude that construction of dwellings intended for fixed-price sale may avoid losses provided that the projects involve free-of-charge connection to utilities infrastructure. Then, 83 percent of all the dwellings under the project shall be sold at fixed price, and 17 percent – at market price. Acceptable total rate of return estimated at 15 percent shall be provided at the expense of 89 percent return gained from the sale of dwellings at market price.

The review also showed that the total effective demand for economy-class dwellings on the part of workforce population which has no possibility to buy a dwelling, amid current market conditions, in 73 cities with the population of above 250 thousand people was quite sufficient to meet the goal of the Program. If assume that at least 30 percent of the abovementioned

²²Program on financing the purchase of utility facilities was approved by the decision of a supervisory board of Agency for Housing Mortgage Lending (also referred as AHML) in 2014.

http://www.ahml.ru/common/img/uploaded/files/grs/Programma_po_finansirovaniu_vykupa_obektov_ITO_05_12.12.2014.pdf

²³ Program on Promoting the Provision of Loans for Construction and Purchase of Housing (a program 'Stimul') was approved by the protocol of the Board of Directors of Agency for Housing Mortgage Lending available on a web site at http://www.afhc.ru/program_stimul/Progr_STIMUL_red8.pdf

²⁴ Social standard of AHML (special terms of residential mortgage lending to eligible individuals from social categories), available on the web site of AHML at http://www.ahml.ru/common/img/uploaded/files/participants/standards/forms/Arh_15.01.01/pril9_soc_st.pdf

individuals can buy a dwelling at the price offered under the Program from own or borrowed funds (provided, among other things, on soft terms), a potential extra demand for economy-class housing constructed under the Program could have made up about 50 million sq. m of floor space, which appears to be well above the target volume of 25 million sq. m of floor space as envisaged under the Program. There was, hence, practically no risk of a lacking demand for economy-class housing under the Program.

Today, however, it stands to reason that the Program, most likely, would not be realized to conform to all its planned volumes and deadlines. As of the end of October 2015, 60 regions selected 259 construction projects with floor space of economy-class dwellings estimated at 14 million sq. m²⁵. Yet, there have been issued only 1,007 permits for construction of dwellings with the total floor space of 4.8 million sq. m, including 2.9 sq. m of economy-class dwellings²⁶. This represents only 11.6 percent of the target volume under the Program.

Considering that after getting a permit, it takes at least one year to carry out a construction project and not less than six months for pre-design work (prior to getting the permit), one may suppose that only the projects with the construction permits already issued are most likely to be completed in due time (before the end of 2017).

The review provides ground to conclude as follows.

1. Main basic conditions of the Program which should have motivated developers, state authorities, local governments, and utility companies, failed to do so in respect to all the above-mentioned stakeholders.
2. As a result of inadequate urban planning regulation adopted in participating cities, only outlying land plots were provided under the Program. This fell short of expectations on the part of developers and utility companies because of high costs for construction of utilities infrastructure.
3. Economical and organizational principles underlying the Program could not help overcome the institutional relations as these pertain to residential construction in most cities and regions. Those imply informal relationships between participants involved in the process which include informal commitments and payments, and expectations of abnormally high rates of return at above 100 percent per annum on the part of developers. This in turn stimulates all stakeholders to maintain high housing prices. In view of what has been stated above, it is deemed possible to conclusively define that substantial

²⁵ Report on the progress of the Project implementation as of October 1, 2015, is available on a web-site of Agency for Housing Construction Finance. http://www.afhc.ru/_state_program_providing_housing/program_results/otch_011015.pdf

²⁶ Ibid

administrative resources of the constituent entities of the Russian Federation, which participate in the Program, have never been used so far.

4.2. Development of a Loft Market: Evidence of Weak Urban Planning Policy

Nowadays Russia's major cities face the development of the market phenomenon of the so-called 'loft apartments', a segment which emerged and develops at a fast pace though out of the context of housing and urban planning policies.

Loft apartments are non-residential premises used as living space. For the past five years this segment of real estate market saw an active development and began to compete with ordinary apartments across all the parameters.

Figure 1 presents the dynamics of supply in primary housing market (ordinary apartments in ABs) and of supply in loft market in Moscow. As Figure 1 shows, over a mere two-year period from 2012 to 2014 the market supply of lofts in Moscow rose considerably – from 104.4 thousand square meters up to 616.7 thousand square meters, that is, demonstrated a six-fold increase, while the supply of ordinary apartments grew only 1.6 times. During the above mentioned period, lofts have been in fact replacing ordinary apartments. Indeed, in the 2nd quarter of the year 2012, lofts offered for sale accounted for 12 percent of the total apartments for sale, but in the 4th quarter of 2014 they already accounted for 44 percent.

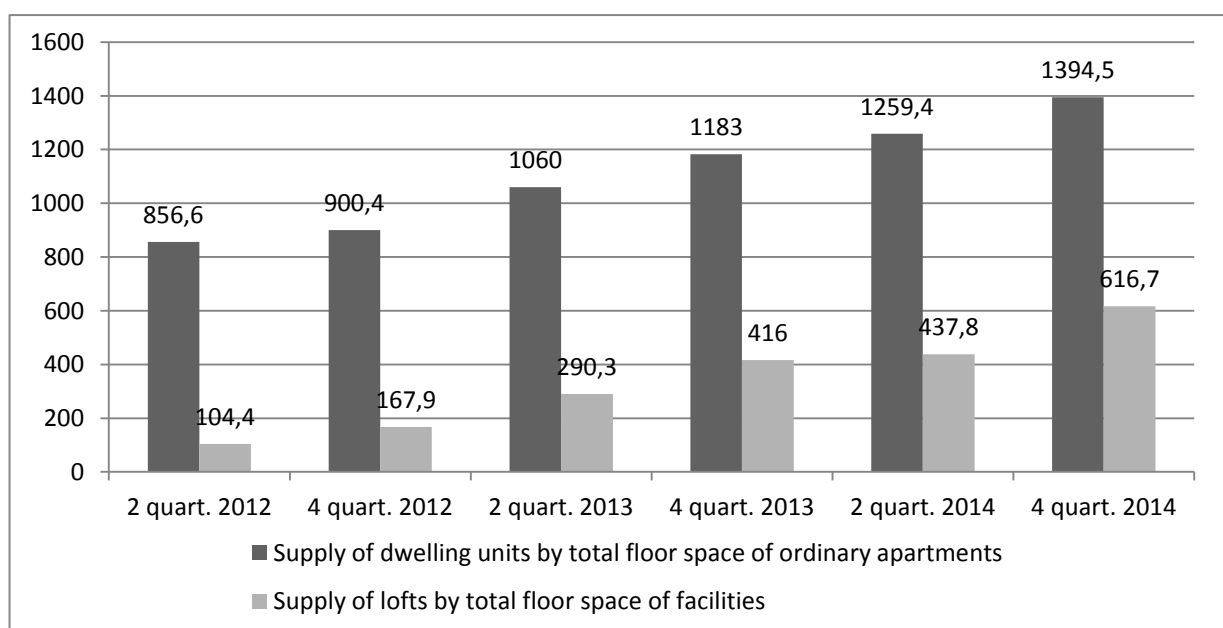


Fig. 1. Dynamics of supply in primary housing market in respect of ordinary apartments in ABs and loft apartment in Moscow²⁷, (square meters, thousand)

²⁷ Est-a-Tet. Review of New Housing Market in Moscow, Final report 2014, pp. 3

As of the end of 2014, the average price per square meter of floor space in respect of a loft apartment was estimated at 230.8 thousand rubles which appears to be about 15 percent below the average price per square meter of an ordinary apartment. In respect of some Moscow locations the price gap is even bigger. Loft apartments cost 40 percent less than ordinary dwellings in the South-Western Administrative District, and 34 percent less in the Western Administrative District.

Fast supply-side growth of loft apartments may be accounted for not only by their attractive prices. Developers also respond to a comprehensible need of large groups of dwellers for living in central urban areas of the city. But in respect of central locations, the existing urban planning documents hardly provide any possibility for housing construction because most land plots suitable for residential development are in public or business areas and industrial sites. No wonder that a considerable share of supply of loft apartments falls on Moscow's Central Administrative District though the difference in price per square meter of floor space between a loft and an ordinary apartment there is at its lowest. The international practice shows that more flexible urban planning regulations could help meet current demand within the bounds of the law and with due consideration of general public interest.

Thus developers currently consider loft apartment construction projects to be economically attractive because the legislation remains patchy:

- a) technical specifications for construction projects in respect of non-residential buildings where loft apartments are located are less strict than those designed for ordinary apartments which include higher requirements to ventilation, sound insulation, and fire protection, and, unlike loft projects, typically envisage solar insulation requirements;
- b) there is no need for changing the type of the permitted use of a land plot, that was originally provided in respect of a commercial construction project, by way of amending effective land use and development rules;
- c) Russian law does not oblige a developer to provide social infrastructure in respect of a site where non-residential buildings with loft apartments are being built; a developer may implement such a project without building up any social facility, whereas a residential construction project would certainly require that;
- d) current urban development legislation does not provide 'fine adjustment' of urban planning regulations with due regard for the situation.

The development of the loft apartment market, as an illegal segment of the real estate market, reveals, all at once, several critical specificities of relations emerging in Russia' urban development and housing sectors:

- 1) economic relations prevail over legal relations inasmuch as applicable legal requirements may be complied with only in part or may be entirely neglected once the interests on the part of developers and buyers come into play;
- 2) absence of clearly defined and feasible urban planning policy setting the priorities of urban development and functional use of urban areas leads to 'sporadic' urban development as a result of inconsistent decisions on the part of private investors.

4.3. An Emerging Mismatch Between Urban Central and Peripheral Locations amid Inconsistency Between Housing and Urban Planning Policy: a Case Study of Moscow²⁸

The theory [Bertaud, 2004; Bertaud, 2000] states, that a market economy urban space tends to have the highest density in central locations, while a planned economy urban space, vice versa, becomes denser in direction to peripheral areas. Under market-driven pricing the growth of urban population results in the more active use of valuable central locations accompanied with rising development density and, at the same time, growing real estate prices. The remaining need for extra dwellings may be satisfied by way of extending the urban area.

To analyze the dynamics of spatial organization of residential developments in Moscow during the period of development of market relations as these relate to land and real estate, there has been carried out a comparative analysis of spatial distribution of population along 11 city's largest radial highways from its central areas to peripheries. Each axis was divided into two-kilometer intervals, within the limits of which the cadastral districts have been determined and their population densities for 1989 and 2010 have been calculated²⁹.

According to findings of the research, over more than 20 years of its development in market environment, the model of spatial distribution of population in Moscow did not undergo any considerable change, and did not come closer to 'market city' spatial organization. Both in

²⁸ This section was prepared on the basis of [Kosareva et al., 2013].

²⁹ Density of population was estimated as the quotient of the size of population of a cadastral district by the area of a cadastral district (according to Public Cadastral Map). The size of population of a cadastral district was estimated as the product of the average household size in the borough (according to the All-Russia Population Census of 1989 and 2010), assigned to the cadastral district, by the number of dwellings registered in the cadastral district. The number of dwellings in a cadastral district was determined according to the database wikimapia.org (based on satellite images a standard series was determined in respect of each dwelling, and the number of dwellings located within the limits of a cadastral district was calculated accordingly).

1989 and in 2010 urban peripheries were populated much more densely as compared with central areas (See Figure 2). In fact, in peripheral areas the growth of population density continued.

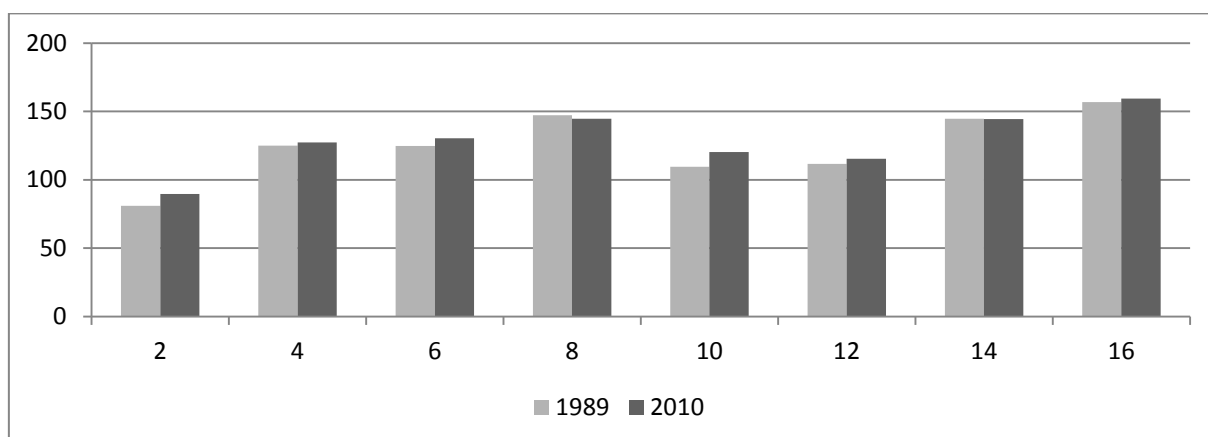


Fig. 2. Spatial distribution of population (persons per hectare) in Moscow based on the distance from the center (km)

Source: the authors' estimates based on Public Cadastral Map and www.wikimapia.org

The dynamics is indicative of substantial failures of the developing housing market and, along with that, of the absence of consistent instruments of Moscow's housing policy in respect of housing market regulation.

Also, as compared with foreign cities, Moscow has more uniform intra-city housing prices (See Table 4).

Tab. 4. Price differentiation in Moscow and selected foreign cities³⁰

City, country	Coefficient of variation in average housing prices by urban districts	Coefficient of variation in average housing prices by urban districts, central areas excluded	Excessive variation in average housing prices by urban districts over variation in average housing prices by urban districts, central areas excluded
Los Angeles, USA	78%	-	-
New York, USA	67%	26%	2,6

³⁰ The authors' estimates based on data in respect of New-York and Los-Angeles [Dorsey et al., 2010], and also "Residential Data Report of The Real Estate Board of New York"; in respect of London - <http://www.landregistry.gov.uk/>; in respect of Paris - <http://www.french-property.com/>; in respect of Moscow - database "Monitoring of Real Estate Market", <https://rosreestr.ru/wps/portal/>; in respect of St.-Petersburg - real estate agency "Bekar", http://www.becar.ru/district_stat2.php; in respect of Yekaterinburg - Regional Association "Uralskaya Palata Nedvizhimosti", <http://upn.ru/analytics/1793/2013/5/14135.htm>; in respect of Perm - LLC "Analiticheskiy Tsentr KD-Consulting" <http://analitika.kamdolina.ru/>.

London, Great Britain	39%	20%	2,0
Moscow, Russia	20%	12%	1,7
Paris, France	20%	18%	1,1

The inter-district price differentiation within Moscow (20 percent of the average housing price reported) is observed, mainly, in central areas, while outside the city's boundaries housing prices demonstrate slight differences. Indeed, price gap within Moscow's belts equidistant from central locations narrows as distance increases – from 25 percent in central areas to 5 percent in areas adjacent to Moscow Ring Road. At the same time average prices of dwellings located in central areas are higher than those in peripheries. The highest price differentiation, hence, is estimated to be in expensive central areas while in cheap peripheral areas the price of dwellings tends to be more uniform.

By its general level of price differentiation, Moscow may be comparable only with Paris, and falls far behind London and New York – 2 times and 3.4 times, respectively. By a variety of price options in peripheral areas Moscow lags further behind all the foreign cities presented herein, that is, 1.5-2 times from non-central boroughs of London and Paris, and 2.2 times from peripheries of New York.

Therefore the analysis of housing prices in Moscow indicates comparatively uniform characteristics of housing located outside the city's central boroughs. These characteristics in respect of Moscow periphery are more likely to be unsatisfactory as becomes evident from inadequate availability of retail infrastructure, workplaces and excessive density of population.

One may conclude, hence, that effective housing demand rather than quality of dwellings and urban environment appears to be the key factor underlying currently the equilibrium price of residential property in Moscow. This determines the strategies of market developers who loose from expenses related to improvement of non-price housing characteristics which, naturally, do not affect the price of housing. This encourages developers to produce a homogeneous low-quality product.

The deficiencies in performance of Moscow's residential construction market, that have been given consideration to herein, create the risk of further increase in residential development density amid the deficit of commercial areas and social infrastructure.

The analysis provides a basis to conclude that deficiencies of the Moscow housing construction market contribute to reproduction of low-quality homogeneous residential

developments of high density located at a distance from basic workplaces and in the absence of adequate availability of social and commercial facilities. Negative externalities of the process cause a decline in well-being of citizens.

In this context, effective market regulation mechanisms acquire special importance. The forgoing mechanisms can be implemented within a framework of interrelated measures of housing and urban planning policies designed to do as follows:

facilitate the development of various market segments (including rental dwellings and housing cooperatives) aiming to meet the needs of various groups of citizens;

create the enabling environment for translating the difference in quality of urban environment into ‘price signals’ in housing real estate market;

encourage an increase in density of residential developments in central areas and provide constraints to residential density in peripheral areas, in particular – to the number of stories in high-rise buildings built in those areas;

enhance a better availability of social and commercial facilities in peripheral areas of the city.

Key tools for regulation of urban planning activities in Moscow (land use and development rules, urban design standards), however as mentioned above, appear to be non-existent³¹. Housing policy measures with regard to Moscow were formulated in a Moscow City State program ‘Zhilishche’ (‘Housing’). The measures focus, primarily, on fulfillment of state commitments towards the provision of housing to categorically eligible individuals, and hardly address the issues of improving the quality of urban environment in residential areas.

In the absence of practices for regulation of residential development density, the new projects of comprehensive development of peripheral areas and the nearest outside areas start to prevail considerably over the projects of renovation (redevelopment) of residential areas. Current housing policy measures with regard to Moscow not only make the trend possible but also implicitly encourage it by way of setting target indicators to express the volumes of housing commissioned solely in square meters of the total floor space.

³¹ Adoption of documents provided for by federal laws is constantly put on hold. See, for example, Decree of the Government of Moscow “On Approval of the Provision on Procedures for Designing, Approving and Amending the Standards of Urban Design and Planning of the City of Moscow (No. 801-III, signed into effect on December 23, 2014).

5. Proposals on How to Harmonize Housing and Urban Planning Policies

5.1. New Reconciled Goals and Priorities of Housing and Urban Planning Policies

In 2014, within the framework of the Fundamental Research Program realized by the National Research University ‘Higher School of Economics’ (HSE), the authors of this research, with the participation of Ye. Yasin, D.Sc. (Economics), Academic Supervisor of the HSE, prepared proposals on implementation of the new housing strategy in Russia [Kosareva et al., 2015], which elaborates and provides additional substantiation of conclusions and proposals that have been outlined in “Strategy–2020: New Growth Model, New Social Policy” prepared in 2011 to absorb the research findings of a broad expert community including the authors of this report [Kosareva et al., 2013].

It was suggested that *the main goal of the new housing policy* should focus on enhancing the quality of housing provision to citizens with different income levels and with different needs (instead of the goal of just increasing the number of square meters of housing construction).

With a view to achieving the general strategic goal the following *main strategic priorities of the housing policy* were identified:

1) provide institutionalized opportunities for improvement of housing conditions in respects of various groups of population, expand and differentiate measures on development of different options to help satisfy housing needs of individuals with due account for their income, the stage of a life cycle, and the place of residence, including those encouraging the development of economy class dwellings, and the development of rental housing based on schemes of commercial, non-commercial and social tenancy, as well as the development of housing cooperatives and other housing options (in place of the priority for improving housing conditions of individuals solely through the purchase of own dwellings);

2) improve the quality of urban environment aimed to ensure comfortable living environment for individuals, primarily, through rehabilitation, modernization and improvement of dilapidated and obsolete residential areas, capital repairs of apartment buildings, organization of effective housing and utilities infrastructure and housing stock management (instead of a priority for increasing the volumes of housing construction focused on comprehensive development of new areas, and per-capita floor space consumption).

Implementation of the described housing policy necessitates a considerable update of urban planning policy which is currently characterized by minimum urban planning regulations and inadequate enforcement of those in place. Urban development regulation and land use system remains a source of ‘administrative rent’ and appears to be unable to ensure a transparent legal framework for investors and developers, which is replaced by high administrative barriers, while the access to residential construction market depends on connections with administrative bodies. Amid the relations like these, private interests of business community, and, among them, the interests of developers, as well as private interest of civil servants, including those working in local governments, prevail over the public interests related to the domain of urban planning and housing. As a result, residential construction market demonstrates anemic competitive environment, and does not seek to increase labor productivity.

It is important to note that the on-going implementation of the current urban planning policy which falls short of reaching even the planned standards of per-capita floor space³², may lead to strengthening the mismatch between the amount of investment in new construction projects to be carried out in new areas and the amount of investment mobilized for housing rehabilitation projects (replacement of unsafe, dilapidated, and obsolete buildings) and modernization and capital repairs of the existing housing stock³³, which could cause the loss of consistent spatial organization of urban areas, the deterioration in quality of urban environment, and the emergence of areas unfavorable for living.

Thus, the implementation of the new housing policy necessitates the measures as set out herein:

- 1) reconciling the goals and priorities of the urban planning policy with the goals and priorities of the new housing strategy;
- 2) using a wider variety of instruments for urban planning and regulation in Russian cities with a view to attaining the goals and meeting the priorities;
- 3) strengthening the supervision of compliance with the requirements of urban planning and regulation.

³² As established by the Concept of Long-Term Social and Economic Development of the Russian Federation till 2020 approved by the Order of the Government of the Russian Federation (No. 1662-p, dated November 17, 2008), the standards of per-capita floor space should have been 25-27 square meters by 2015. However, actual per-capita floor space, according to Rosstat, was 23.7 sq. m per person as of January 1, 2015. With current rates of growth of per-capita floor space values it may not exceed 26 sq. m per capita by 2020 – a target standard per-capita floor space within the range of 28-35 sq. m was established by the Concept of Long-Term Social and Economic Development of the Russian Federation till 2020.

³³ By authors’ estimates, in 2012 the accumulated deficit of current investments required for rehabilitation of the housing stock and utilities infrastructure was estimated at 22.6 trillion rubles which represents 36 percent of GDP.

Though the suggested model itself may seem comprehensible, the mechanisms of its practical implementation may appear to be rather complex because they necessitate drastic changes in the existing public and administrative relations as these pertain to the domains of land use and development, and also require the introduction of novel instruments for urban planning and regulation.

To ensure the attainment of the goal of the new housing policy it may be deemed necessary that *the goal of urban planning* policy should be defined as balanced functional and spatial development of urban areas which implies the creation of comfortable living environment, improved quality of urban environment, reasonable volumes and forms of new residential developments, as well as renovation, modernization of the existing residential areas.

Main priorities of urban planning policy, effective in terms of implementation of the priorities of the new housing strategy, may include as outlined below:

1) creation of a comprehensive system of urban planning and regulation in order to ensure a consistent improvement of quality of urban environment and take into account the priorities of housing policy;

2) renovation of residential areas with dilapidated and obsolete dwellings, reorganization of industrial zones and other inadequately used urban areas³⁴;

3) introduction of novel instruments for urban planning regulation in order to increase the number of types of dwellings and facilitate the construction of economy class dwellings affordable for purchase or lease.

Urban design and planning with respect of each urban settlement and with due account of urban planning priorities may substantially change the demand for housing construction, including that for dwellings of various types, facilitate the development and modernization of infrastructure, improve the quality of housing provision to individuals and enhance urban environment by way of smoothing the mismatch between the volumes of new residential developments and the volumes of renovation of residential areas³⁵. Sound distribution of financial resources across urban areas shall focus, mainly, on improvement and modernization of

³⁴ For example, industrial zones cover a substantial part of Moscow (16 percent of the total urban area), Yakaterinburg (40 percent of the total urban area), and St-Petersburg (13 percent of the total urban area). Besides, industrial zones are often used for purposes other than intended, or they are used less intensively than other urban areas. For instance, the total number of people employed in industrial zones of Moscow is estimated to be 13 times below, on a per hectare basis, than that reported in respect of the Central Administrative District of Moscow.

³⁵ By authors' estimates, in 73 Russian cities with a population of above 250 thousand persons a potential volume of housing construction under the projects of further development of built-up areas with dilapidated, unsafe, and obsolete housing stock, makes up 262 million sq. m.

residential areas in central locations, and also on development of peripheral areas, as needed, but without excessive extensions of built-up areas which, normally, require extra funds for adequate maintenance and municipalities lack the finance thereto.

Along with the need for harmonizing the goals and priorities of housing and urban planning policies, it is necessary that relevant documents setting the mechanisms for implementation of the foregoing policies be also reconciled. At the local level, urban planning documents, including general plans, are considered to be the documents related to long-term planning. Most housing policy documents, however, are referred to as documents that relate to mid-term planning. The documents can be integrated into a comprehensive plan for implementation of the general plan which should be adjusted in accordance with the documents that relate to housing policy, budget planning and infrastructure development.

Besides that, both documents on urban planning and housing policy rarely have provisions on differentiation of types of dwellings in various locations (central area, middle area, peripheral area) according to the size of a dwelling (minimum and/or maximum floor space), and so on. So the legal procedures for direct regulation of housing characteristics with due account for location of a dwelling should be applied. Among other things, this would require that contents of housing policy documents be extended (via the introduction of the relevant provisions on differentiation of dwellings according to quality standards), and, at the same time, be adjusted to land use and development regulations, and reconciled with schedules of tenders for awarding developers the right for construction or comprehensive development of urban areas.

5.2. A Scheme of Location-Based Differentiation as Applied to Housing and Urban Planning Policies

It may be deemed necessary that the prospects of their social and economic development, demographic forecasts, achieved housing availability, and forecast of housing needs and demand, including in respect of various forms of housing provision to meet housing needs, should be taken into account in the process of implementing housing and urban planning policies in Russian regions and cities.

For example, in case of a need of getting a ‘roof over the head’ or basic housing amenities, the adoption of stringent urban planning regulations may impede the solution of the housing policy objective. Contrariwise, ambitious common social and economic goals of regions and cities (e.g., in capitals or central cities of regions), necessitating attraction of the most skilled

workforce, can be achieved only in the presence of a high-quality urban environment which may be formed on the basis of a strict and comprehensive system of urban planning regulations.

The scheme of location-based differentiation may be suggested in respect of the following four types of Russian regions differing in terms of the development of their housing markets, housing construction and housing affordability³⁶.

Group 1: regions with developed economies which mean investment-attractive regions with developing housing markets (Moscow, St.-Petersburg, Moscow Region, Leningrad Region, Tatarstan, Krasnodarskiy Krai, etc. – a total of 15 regions).

Group 2: regions with developing economies and moderate potential for development of housing markets (non-capital regions of the Central and Volga Federal Districts, Krasnoyarskiy Krai, Khabarovskiy Krai, Irkutsk Region, etc. - a total of 39 regions).

Group 3: regions with economies in dire straits and low potential for development of housing markets (the Republic of Udmurtia, the Republic of Mary-El, Buryatia, Dagestan, etc. – a total of 9 regions).

Group 4: regions with special sources of revenue without prospects for diversification of economy and vague prospects for development of housing market – primarily, resource-producing regions (the Republic of Komi, the Republic of Sakha-Yakutia, Transbaikalskiy Krai, etc. – a total of 9 regions).

For developed economies (regions from the 1st group), every goal may be attainable. It is advisable, therefore, that first-priority goals - (1.1 and 2.1) as described in Section 1 – should be set.

The goals may be attained inasmuch as a developed economy has revenue sources to finance goods as urban environment and affordable housing. Yet, revenue allocation to finance the attainment of the above mentioned goals shall take place in conformity with a strict and well-coordinated state policy because a participation of the state is essential for proper redistribution of revenues. High-income groups of population shape demand for expensive dwellings the price of which tends to be predetermined by a strict urban planning policy. High-income groups of population may also support a supply response in respect of the groups with lower incomes (through payment of encumbrances placed on affordable dwellings and accounted for in the price

³⁶ A detailed description of building-up a classification system and the outline of types and sub-types is given in [Kosareva et al., 2015. pp. 87 – 103].

of expensive dwellings or via payment of high real estate taxes). A gap between high- and low-income groups of population, however, shall not be too wide.

It should be noted that even in most developed regions outside the boundaries of metropolitan agglomerations a fair number of old industrial towns, among them single-industry towns do exist. The revenue sources of those municipalities may not suffice to finance the improvements of the urban environment. The second-priority goals (1.2 and 2.2) may suit those towns more.

For the regions from the 2nd group, the attainment of both first-priority goals may become possible only in the long run because a developing economy originally lacks sufficient revenue sources for financing the goods such as urban environment and affordable housing. Second-priority goals, hence, may fit the regions in the best way. To maximize the volumes of housing construction it is necessary to reasonably loosen the requirements in respect of urban planning policy (as compared with developed economies) but only as these pertain to characteristics of urban environment. Yet, there is no need for giving up the priority of a ‘compact development’ since an extensive (sprawl) development of these urban areas would cost much more than an intensive one. Maximization of construction volumes necessitates a shift to the maximum use of inefficiently used land plots (including those with dilapidated residential developments and abandoned industrial areas), while the requirements to urban environment may be lower than those established for developed regional economies.

With regard to the regions from the 3rd group, the enhancement of housing affordability shall be conclusively identified as a priority. In those regions, however, high housing prices do not pose much of a problem because low incomes of population discourage residential developments as a business activity.

In the foregoing regions the policy on provision of affordable housing shall encompass the support of new self-provided construction projects, including single-family housing construction, and of capital repairs to the existing housing stock, use of abandoned dwellings (provided there are such dwellings in place), the loosening of urban policy requirements on the quality of urban environment (aiming to reduce the scope of the requirements as much as may be necessary: e.g. remove excessive requirements in respect of beautification of residential areas).

The regions from the 4th group need that special regulatory instruments be designed both for social and economic policy as a whole, and for housing and urban planning policies, in particular.

The policies of both types shall rely on direct corporate support (or state support via corporate taxes, creation of welfare funds on the basis of corporate contribution – a model for development of economies with a ‘resource curse’) rather than focus on promotion of market instruments. At the same time, the regions of this group have municipalities with the economies exhausted as a result of using up the potential of their resource-producing facilities in the absence of prospects for diversification of the economy. With regard to those municipalities it may be advisable that a policy of ‘controlled squeeze’ be applied thereto (this may suggest a closure of a human settlement with the resettlement of all the residents, as a last resort, which requires a considerable intervention on the part of the state).

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