

# HOW THE CURTAILMENT OF MORTGAGE PROGRAMS WITH STATE SUPPORT IS AFFECTING RUSSIAN DEVELOPERS



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THE TIGHTENING OF CONDITIONS OF OTHER PROGRAMSSTATE-SUPPORTED MORTGAGE PROGRAMS HAVE A  
SERIOUS IMPACT ON THE MARKET

- **Preferential mortgages stimulated the development of Russia's housing construction industry.** From 2021 to 2024, the average annual volume of housing commissioned in Russia amounted to 103 mln sq. m, which is 29% higher than the indicators in 2017–2020 and 2013–2016.
- **State-supported mortgage programs have had a significant impact on developers.** In the first year of these programs, the share of housing sales using them amounted to 23% of the total volume of residential real estate sales in Russia. In the H1 2024, this figure reached a record 73%.
- **The cancellation of preferential mortgages and the tightening of conditions for other mortgage programs with state support affected developers.** In the second half of last year, real estate sales under programs with state support amounted to RUB 1,174 bln, which is 48% lower than the figure for H1 2024.

THERE IS NOTHING MORE PERMANENT THAN THE  
TEMPORARYConditions for  
the emergence of  
the preferential  
mortgage  
program

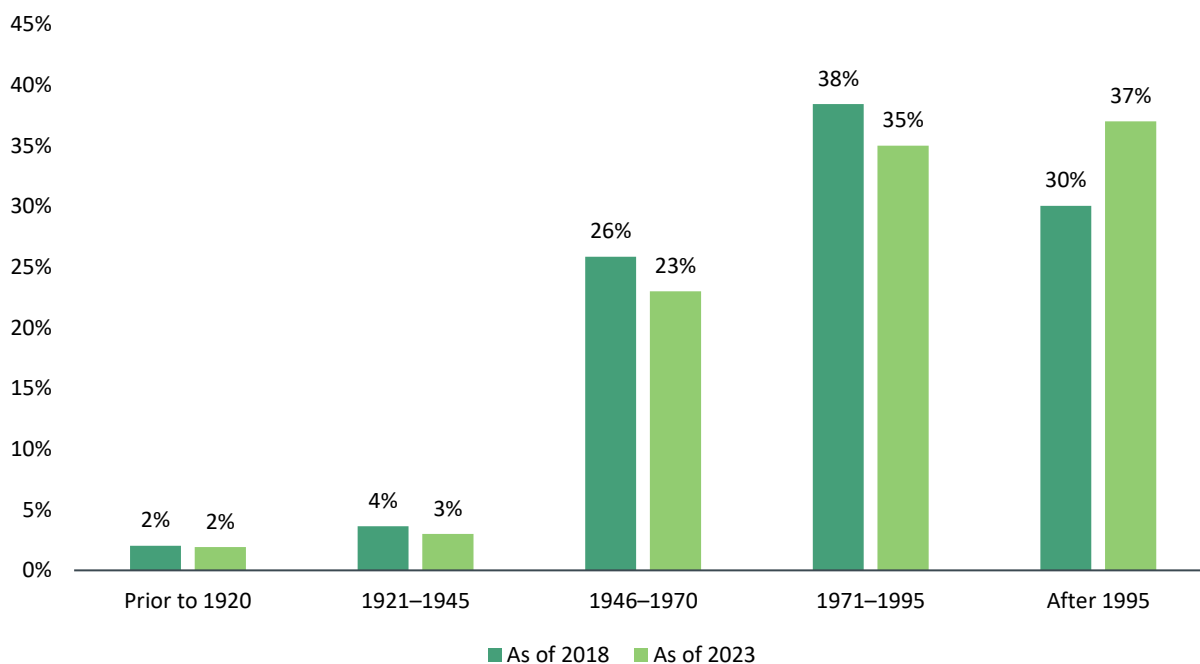
The preferential mortgage program was launched in Russia in April 2020 in order to prevent a potential deep crisis in the construction sector, which had experienced a decline in 2019 and then faced a new threat in the form of the pandemic. This measure was viewed as a temporary anti-crisis program for the construction industry and citizens. In addition to the need to overcome the short-term shock to the economy, the preferential mortgage program was designed to address the problem of outdated housing stock.

In Russia, there is low provision of quality housing for the population. Prior to the launch of state-backed mortgage programs, the share of housing in use for more than 50 years amounted to 32%. This indicator declined to 28% from 2018 to 2023. *Fig. 1* shows that the share of new housing in the total structure of the housing fund has grown by 7 percentage points over the past five years and amounted to around 37% as of the end of 2023.

The population's growing demand for new-build housing contributed to the acceleration of the pace of construction, which resulted in 413 mln sq. m of housing being commissioned in 2021–2024. The average annual commissioning of housing in that period amounted to 103 mln sq. m, which is 29% higher than the indicators in 2018–2020 and 2013–2016. This shows that the preferential mortgage program contributed to the development of the construction market, which until 2021 was stagnating in terms of the volume of commissioned housing (*Fig. 2*). Around 1.6 mln

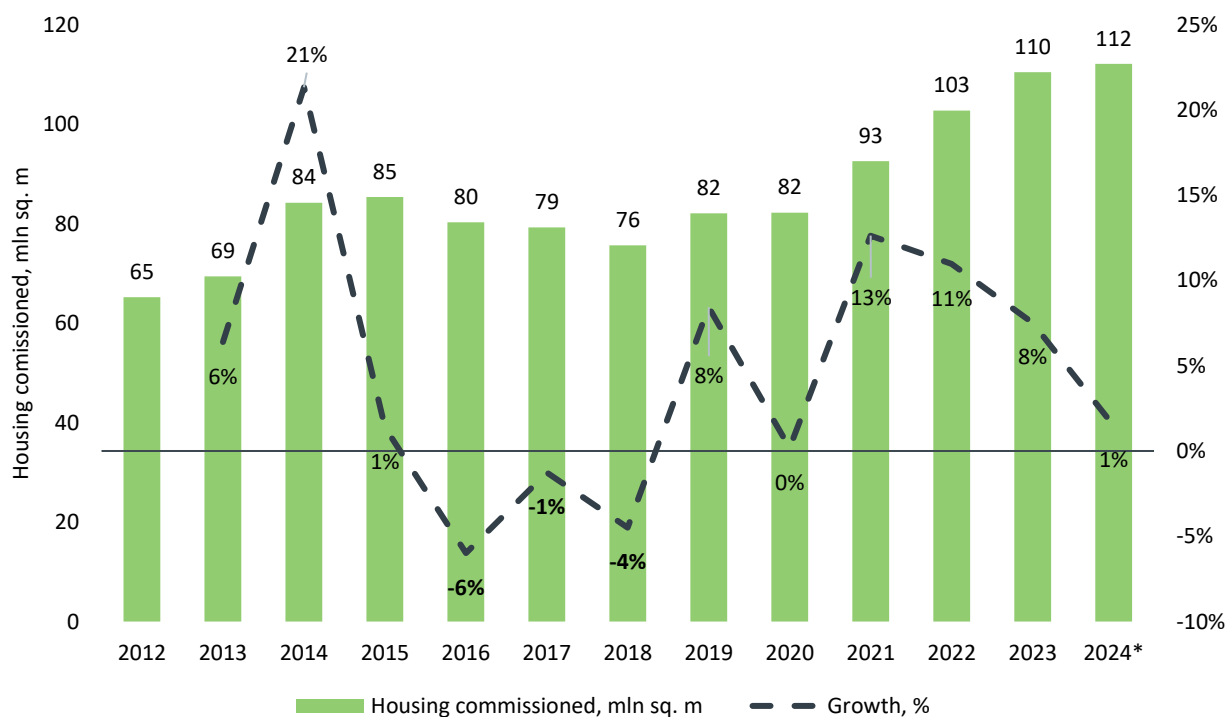
people improved their housing situation over the period of the preferential mortgage program<sup>1</sup>.

**Figure 1. Residential floor space by year of construction**



Source: Rosstat

**Figure 2. Housing commissioned in the Russian Federation**



Sources: Rosstat, ACRA

<sup>1</sup> <https://дом.рф/programmy-gosudarstvennoj-podderzhki>

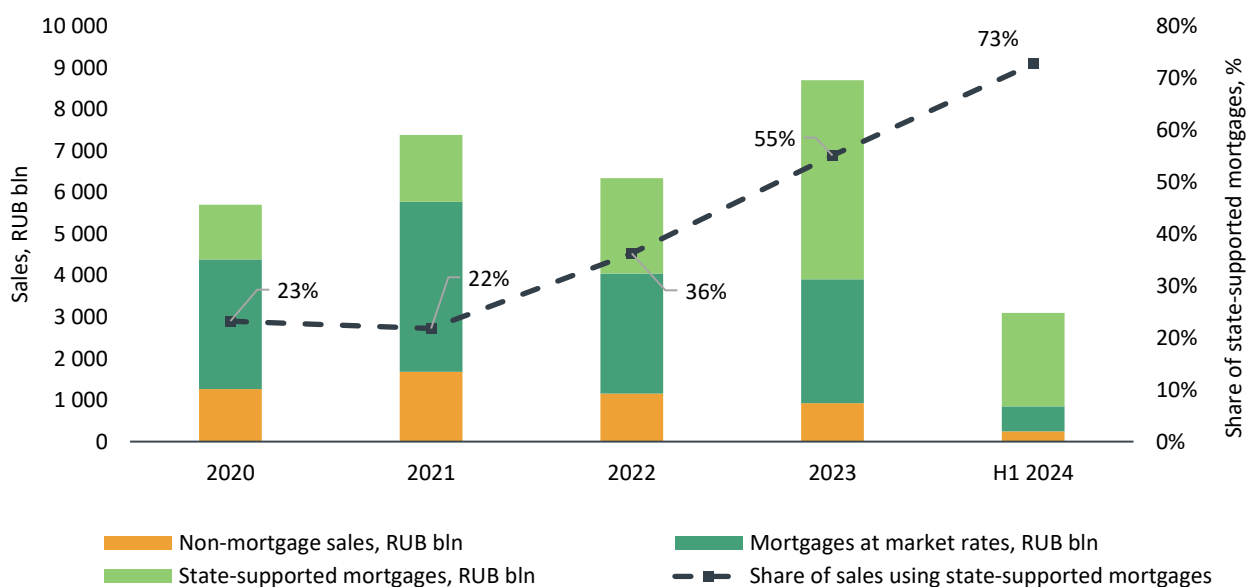
## INFLUENCE OF STATE-SUPPORTED MORTGAGE PROGRAMS ON DEVELOPERS

### The importance of state-supported mortgage programs for real estate sales

Companies in the housing construction industry benefitted unconditionally from the growth of real estate prices and the increase in its sales volumes. They recorded strong financial results during the preferential mortgage program period, which is one of the factors in the improvement of their credit quality. Favorable market conditions and the transition to the mechanism of using escrow accounts led to an upgrade of developers' credit ratings by an average of two to three notches (for more details on this, see ACRA's research [Bond Market of Residential Construction Issuers before and after the Escrow Reform](#) from July 5, 2024).

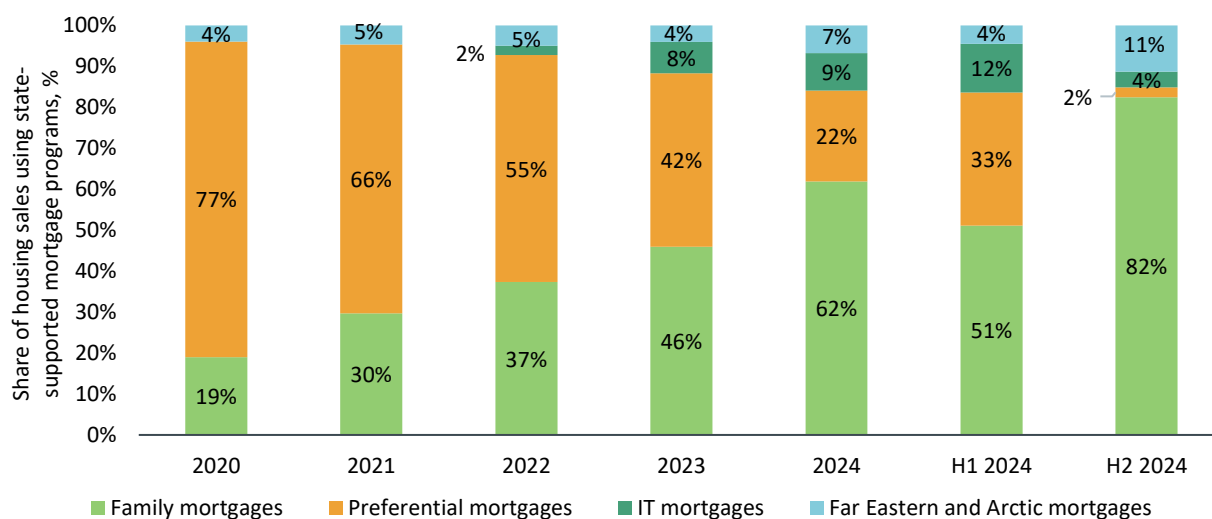
The impact of state-supported mortgages on the income of companies operating in the housing construction industry is difficult to overestimate. The preferential mortgage program played a special role here. Already in the year of its launch, the share of housing sales using state-supported mortgage programs amounted to 23% of the national indicator. Subsequently, this share continued to grow and in H1 2024, it reached a record 73% (Fig. 3).

**Figure 3. Share of housing sales using state-supported mortgages in the total volume of residential real estate sales**



Sources: [DOM.RF](#), ACRA

Family and preferential mortgage programs were most popular among borrowers. At the launch of these programs, preferential mortgages accounted for the largest share of issued loans: in 2020, they accounted for 77%, while family mortgages accounted for 19%. However, by 2024 the situation had changed: as of the end of H1 2024, the share of family mortgages had grown to 51% of the total volume of housing sales using state-supported programs, while the share of preferential mortgages, on the contrary, had fallen to 33% (Fig. 4).

**Figure 4. Breakdown of housing sales using state-supported mortgage programs**

Sources: DOM.RF, ACRA

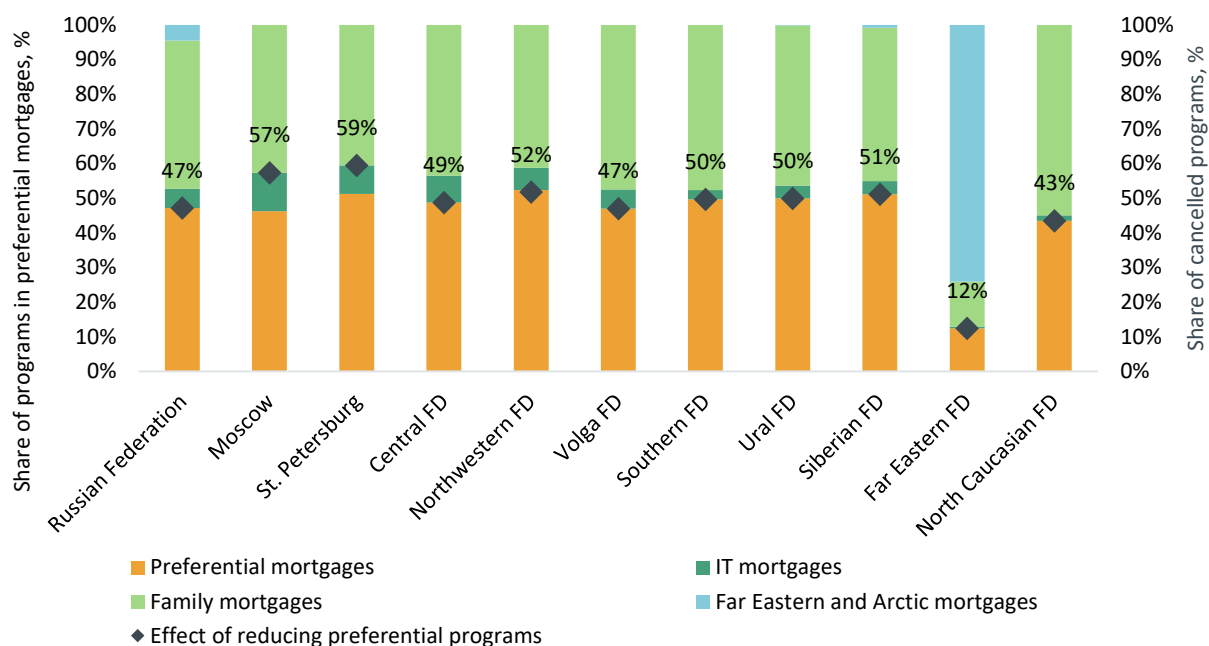
## CONSEQUENCES OF THE CANCELLATION OF PREFERENTIAL MORTGAGES AND THE TIGHTENING OF CONDITIONS OF OTHER PROGRAMS

### Influence of the cancellation of preferential mortgages on the residential construction sector

A combination of negative factors pushed the Government of the Russian Federation to cancel preferential mortgages on July 1, 2024 and tighten the conditions for issuing family and IT mortgages. It is logical to assume that the impact of this was most keenly felt in Moscow and St. Petersburg, which previously led in terms of provision of state-supported mortgages (around 30% of transactions were cross-regional, in which Russians from different regions purchased housing in the aforementioned economic centers). Now preferential and IT mortgages have been completely cancelled for Moscow and St. Petersburg. In addition, prior to July 1, 2024, a number of measures were enacted to toughen the conditions for family mortgages and had a serious negative impact on central regions.

The ending of IT mortgages in Moscow and St. Petersburg has significantly affected the reduction in the volume of mortgages issued in these regions: in Moscow, about 11% of all mortgage loans with state support were issued under this program for the entire period of the programs, while in St. Petersburg the indicator was around 8%. Moscow is the absolute leader in terms of the popularity of IT mortgages, the capital accounts for 40% of the total volume of loans issued in Russia under this program, while the combined share of Moscow and St. Petersburg is 54%.

During the period of state-supported mortgages, more than half of the mortgages provided in Moscow and St. Petersburg were part of programs that are now cancelled. 57% of mortgage loans were issued under preferential and IT mortgages in Moscow, and 59% in St. Petersburg (Fig. 5). On average in Russia, the share of preferential mortgages in the total volume of loans issued under mortgage programs with state support was 47% (excluding Moscow and St. Petersburg).

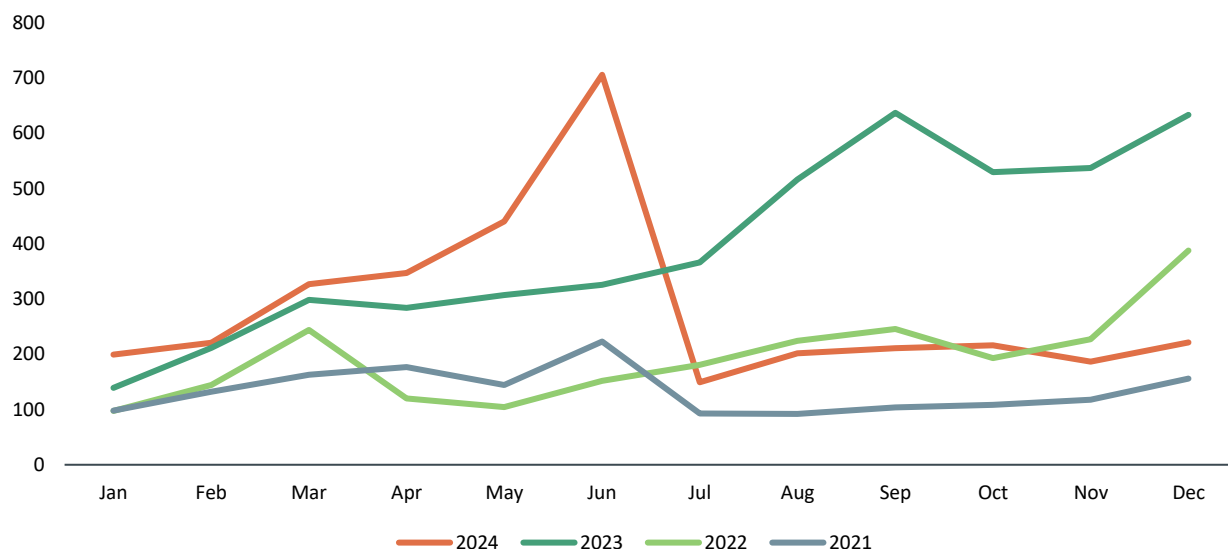
**Figure 5. Use of state-supported mortgage programs in different regions of the Russian Federation from 2020 to 2024**

Sources: DOM.RF, ACRA

Developers operating in the Far Eastern Federal District are less susceptible to the negative consequences of the cancellation of preferential mortgages. In this federal district, the share of sales under the preferential mortgage program is only 12%, while the average figure for Russia is about 47%. The Far Eastern and Arctic mortgage programs account for the bulk of the sales in this region — about 74% of all state-supported programs.

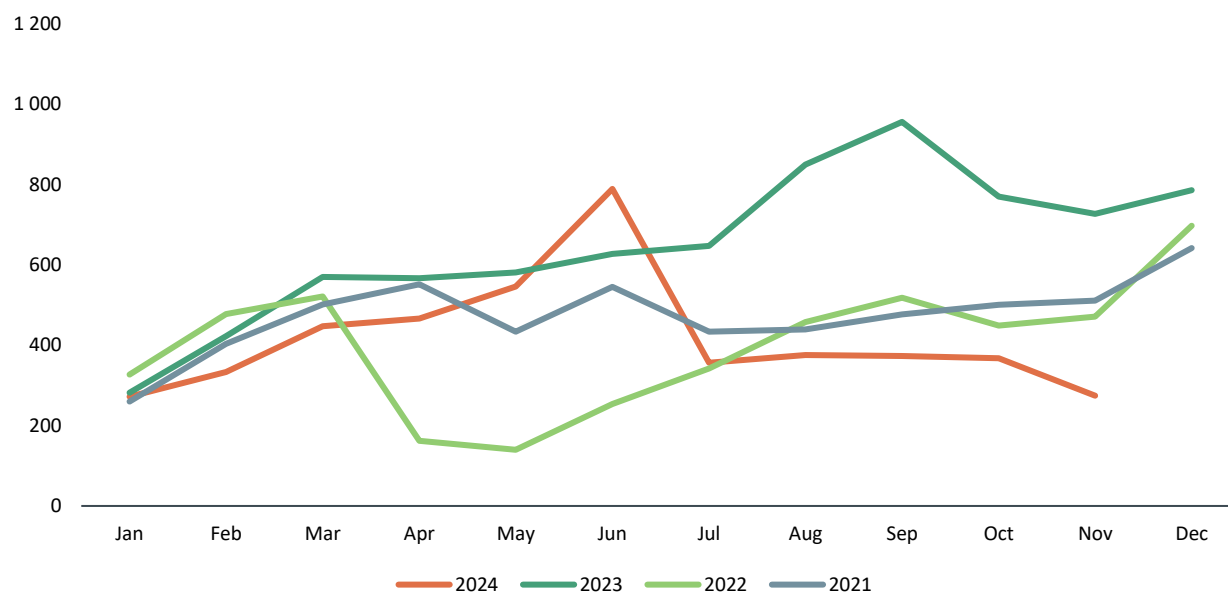
In the Agency's opinion, the structure of demand in the primary residential real estate market may change in 2025. The main impact will be the reduction of state-supported mortgage programs and high market mortgage rates. On the other hand, increasing the targeting of mortgage programs with state support against the backdrop of significant savings of the population in deposits can help maintain demand for real estate without the need for mortgage loans. In addition, various marketing initiatives of developers can also support sales. Nevertheless, state-supported mortgage programs will remain the main source of sales, especially against the backdrop of the Bank of Russia's high key rate.

According to the latest information, the sales under state-supported mortgage programs amounted to RUB 1,174 bln in H2 2024, which is 48% lower than in H1 2024. For the whole of 2024, state-supported mortgage sales reached RUB 3,430 bln, which is 29% lower than the record figure of 2023, but 49% higher than sales in 2022. The market continues to be supported by the family mortgage program, which grew to 82% of all state-supported mortgages issued in H2 2024. A significant reduction in lending was observed in the IT mortgage segment — only RUB 45 bln in H2 2024 vs. RUB 268 bln in H1 2024. ACRA notes that sales under state-supported mortgages decreased significantly after the cancellation of preferential mortgage programs and introduction of stricter conditions for issuing IT mortgages. However, in comparison to 2021 and 2022, the decline in sales does not look so significant (Fig. 6).

**Figure 6. Government-backed mortgage issuances, RUB bln**

Sources: DOM.RF, ACRA

Despite the high key rate, people continued to take out mortgage loans at market rates. The volume of these loans issued in H2 2024 totaled about RUB 850 bln, which was 28% lower than the figure for state-supported mortgage programs (RUB 1,186 bln) in the same period. Average monthly mortgage issuances at market interest rates decreased by half in 2024 compared to 2023, while government-supported mortgage issuances decreased by 29%. The total volume of mortgage lending is also declining, but it is still close to the levels of 2021–2022 (Fig. 7). However, given the trends of the closing months of 2024, the total volume of mortgage lending may fall this year, primarily due to a significant decrease in mortgages issued at market rates. Given the continued tight monetary policy of the Bank of Russia, mortgage lending may decrease by 30% in 2025 relative to the levels of 2024.

**Figure 7. Volume of issued mortgages, RUB bln**

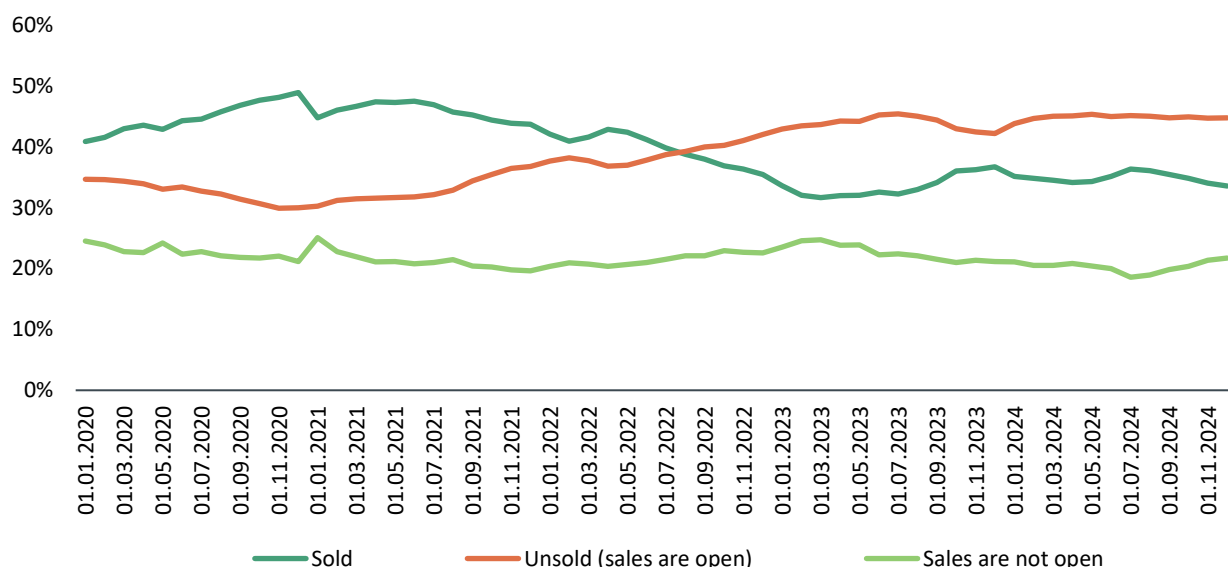
Sources: DOM.RF, ACRA

ACRA does not expect a significant drop in prices in the residential real estate market due to the cancellation of preferential mortgages. Developers are also not inclined to sell properties at a significant discount, as they have managed to create a significant risk absorption buffer in the conditions of high demand. In addition, rising prices for building materials and the shortage of labor force drive construction costs up.

Under the current conditions, developers tend to take a wait-and-see attitude and refrain from selling properties that are ready for commissioning. This is especially true for projects where funds in escrow accounts fully cover project debt. Since the beginning of 2023, the share of unsold properties has been in the range of 43–45% (Fig. 8), and as of the end of 2024, the Agency did not see any significant growth.

According to the estimates of the Audit Chamber<sup>2</sup>, a 20% decrease in real estate prices will force banks to increase reserves by RUB 4.5 tln. ACRA believes that the introduction of new support measures in mortgage lending is more likely than a significant decrease in prices.

**Figure 8. Sales of apartments in residential properties being constructed in Russia**



Sources: DOM.RF, ACRA

Nevertheless, price stability does not ensure stable cash flows to companies in the sector. In a scenario where the key rate remains high and there are no changes in state-supported mortgage programs, the reduction in developers' sales in 2025 could amount to up to 20% in monetary terms relative to 2024. At the same time, the Agency notes that the macroeconomic situation and the industry remain unstable, which significantly complicates the forecasting of future sales.

ACRA assumes the possibility of a market consolidation around the industry leaders. Thanks to significant financial resources, larger players have an advantage in implementing marketing strategies. As the first months after the tightening of state-supported mortgage programs showed, it is the marketing initiatives of developers in combination with family mortgages that are the main incentive for sales in the sector.

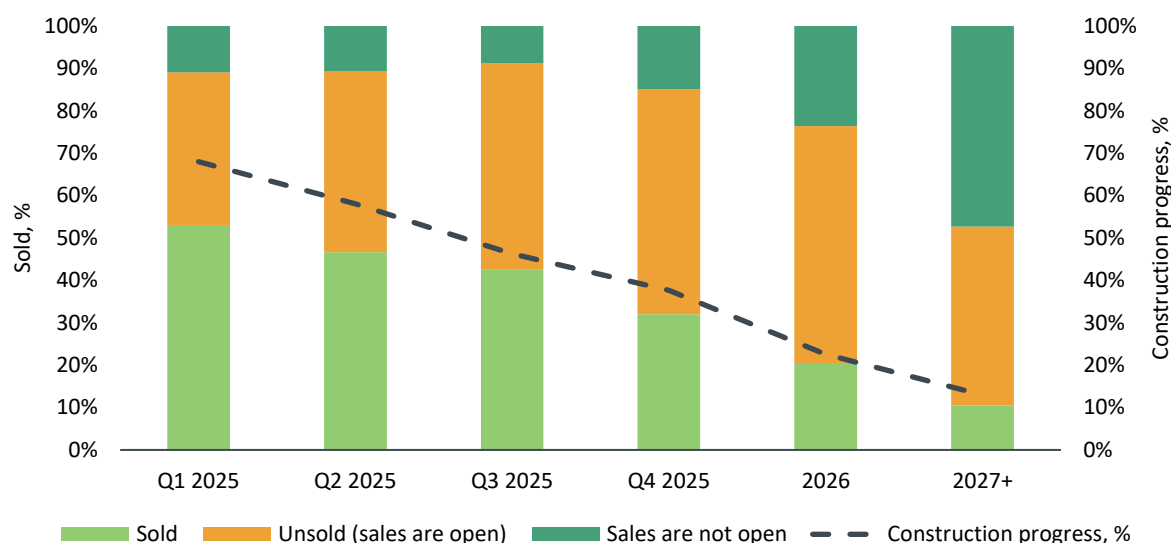
The Agency does not expect a significant deterioration in the credit quality of issuers in the housing construction industry in the short term. ACRA considers a sharp decline

<sup>2</sup> <https://ach.gov.ru/news/opublikovan-byulleten-schetnoy-palaty-9-lgotnaya-ipoteka>



in demand amid a persistently high pace of construction to be a significant risk for companies in the sector, because in that situation, developers would face high project debt servicing costs due to insufficient funds in escrow accounts. Ultimately, this could push margins down to negative values, but this scenario looks unlikely. There has not been a sharp drop in sales relative to construction progress for developers' projects with planned commissioning dates from 2025 to 2026. However, some imbalance between sales and construction progress is already evident (*Fig. 9*). ACRA expects a reduction in real estate offered for sale starting in 2027 if this steady downward trend in demand persists.

**Figure 9. Volume of residential properties being constructed in Russia, by expected commissioning date, as of February 1, 2025**



Sources: DOM.RF, ACRA

In such a scenario, industry companies' cash flow may decline, while leverage may grow insignificantly. Developers with high levels of corporate debt may face a deterioration in their credit quality, as they would have fewer resources to service their obligations. In ACRA's opinion, companies that are overly optimistic about the situation in the housing construction market and actively increasing corporate debt, despite negative market signals and the tight monetary policy of the Bank of Russia, are also potentially at risk.

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