

# Mortgage market data for 1H 2017: Historically low rates, record high volumes

## Mortgage market highlights

### 1. In 1H 2017, the Russian mortgage market grew by 16%, hitting a new high since 2014

- More than 423 thousand mortgage loans were issued for a total of RUB 772.9 bn – an all-time high for any first half-year period in the Russian mortgage market
- AHML estimates that the growth continued into July, with new mortgage loans of around RUB 155 bn (up 38%). Over five months of the period, the growth rate exceeded 20%

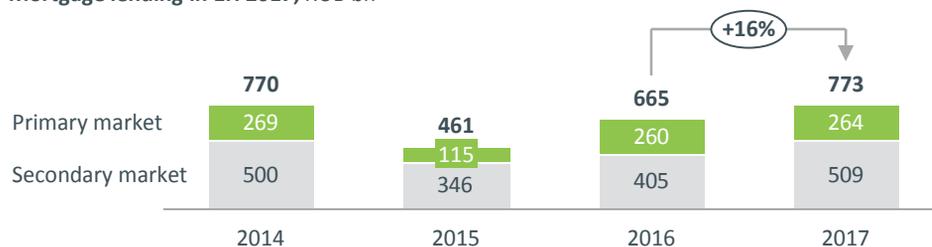
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### Mortgage lending in 1H 2017, RUB bn



Source: AHML

### 2. The growth was driven primarily by mortgage interest rates reaching Russia's record low of 11.1%. Compared to 1H 2016, average rates declined by almost 2 pp

- In June 2017, weighted average mortgage rates declined to 11.1%, including 10.7% in the primary market and 11.3% in the secondary market. The reduction year-to-date has reached 0.7 pp and exceeded 1.8 pp compared to 1 July 2016. In July, AHML set the first ever single-digit (9.75%) interest rate for a wide range of borrowers
- As mortgage rates continue going down, average rates have already hit the level of around 10% in the primary market and 10.6% in the secondary market

### Weighted average mortgage rates, % p.a.

	Primary market			Secondary market		
TOP-15	10,14%	-0,04%	↓	10,57%	-0,34%	↓
AHML	9,75%	-0,75%	↓	10,00%	-0,75%	↓

Source: AHML

### 3. Mortgage portfolio quality remains high

- As at 1 July 2017, the share of 90+ days overdue mortgage loans is 2.5% (RUB 119 bn), which is 5.3 times below that for overdue non-mortgage loans (13.6%)

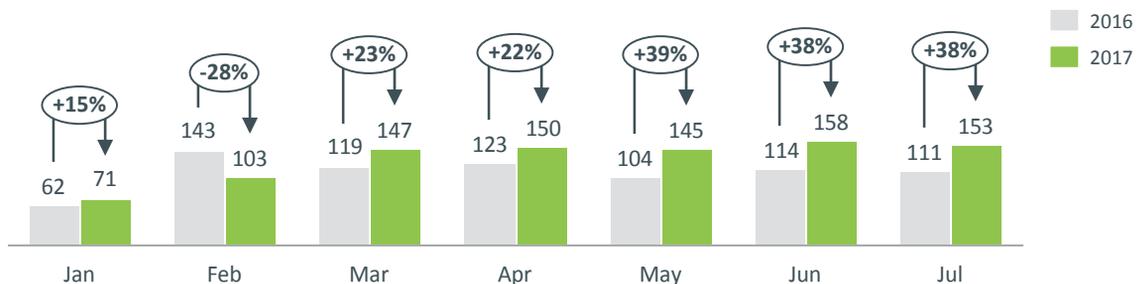
### 4. AHML forecast of 1 million new mortgage loans for RUB 1.8 tn in 2017 may be beaten

- The rapid decline in mortgage interest rates and stronger demand for housing lays the foundation for a new record in mortgage origination since 2000

## Mortgage origination

- In 1H 2017, over 420 thousand mortgage loans were issued for a total of RUB 772.9 bn, up 16% compared to 2016. After a short recession driven by the end of the mortgage interest subsidy program for newly constructed properties, the mortgage market is growing at a steady pace, hitting ever new records: in June 2017, RUB 158 bn worth of mortgage loans were issued, an all-time high for June
- According to AHML's preliminary estimates, the growth continues into July:** over 84 thousand mortgage loans for a total of RUB 153 bn were issued, up 38% y-o-y and almost equal to the 2014 record of RUB 158 bn. For a fifth month in a row, the mortgage market has been expanding by 20% and above, adding as much as 40% every month since May. **The key driver has been the decline in mortgage interest rates, which are currently at their record lows in Russia**
- The average loan size in 1H 2017 was RUB 1.825 m compared to RUB 1.703 m as at 1 July 2016. Given the stable housing prices, this means that people are taking out mortgage loans to purchase larger apartments

## Mortgage lending, RUB bn

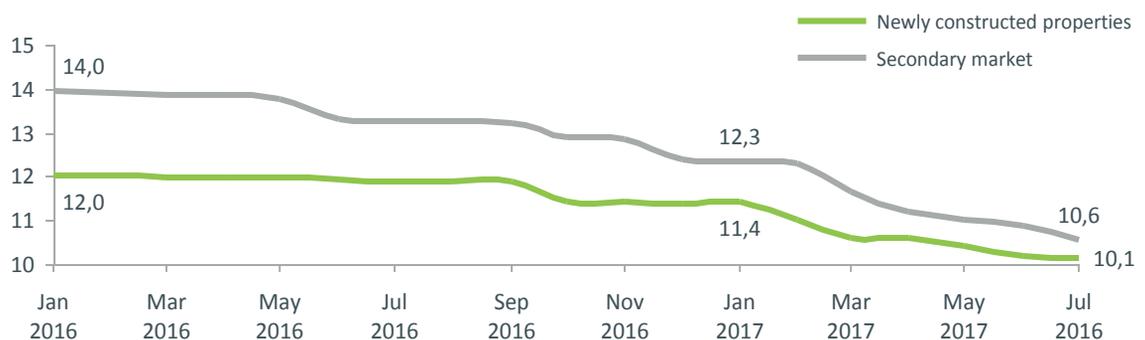


Source: AHML

## Interest rates

- Following the reduction in the key rate and the cost of funding, mortgage interest rates in 1H 2017 went down by 0.6 pp to record lows: 10.7% for newly constructed properties (primary market) and 11.3% for completed housing (secondary market)
- The trend continued into July, as leading banks went on with their rate reductions. In July, the rates of Top 15 mortgage lenders declined to 10.1% in the primary market and 10.6% in the secondary market. AHML has set its first ever single-digit (9.75%) interest rate for a wide range of borrowers

## Weighted average interest rates of Top 15 mortgage lenders, %



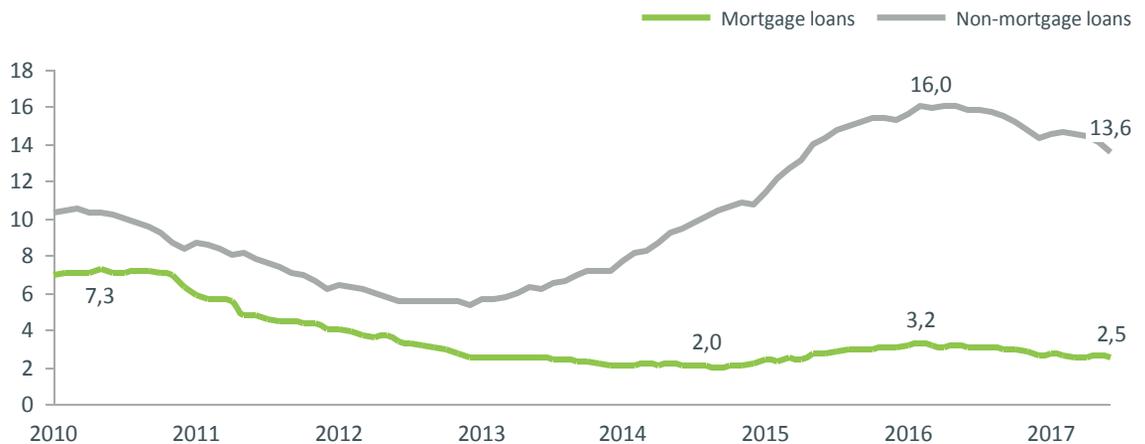
Source: AHML

- We expect the rates to decline further. By the end of 2017, rates of 10% and lower will be treated as the new normal. In turn, this will be driving stronger demand for comfortable standard housing**

## Portfolio

- Currently, the market has a high-quality portfolio and **low overdue debt levels**, with the share of 90+ days overdue loans coming in at 2.5% as at 1 June 2017 compared to 3% just a year ago

### Loans overdue for 90+ days, %



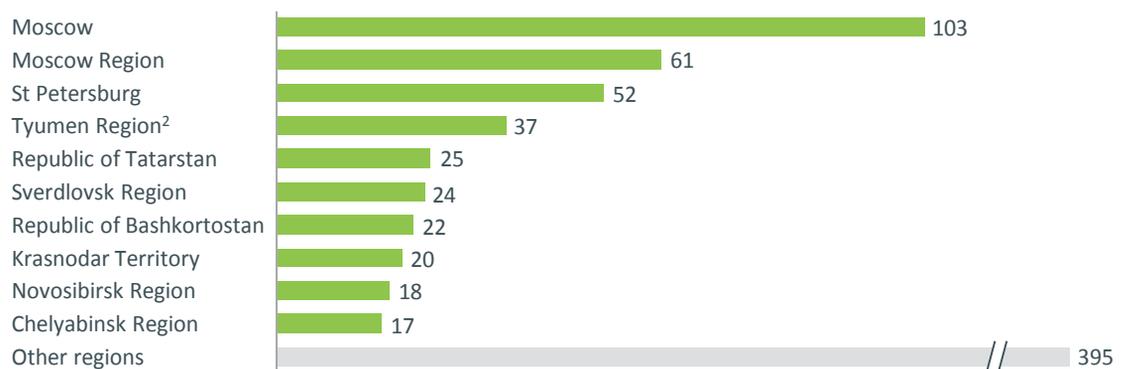
Source: AHML

- As at 1 July 2017, the overall mortgage portfolio<sup>1</sup> reached RUB 4.8 tn, up 11% from the level of June 2016. RUB 970.8 bn (a fifth of the total portfolio on banks' balance sheets) comes from loans supported by existing rights of claim under shared construction agreements
- Compared to the end of 2014, overdue loans denominated in rubles rose by 37%

## Regional mortgage markets

- The top ten regions account for 49% of the total volume of mortgage loans and also for the largest volumes of housing: 53% of apartment blocks under construction and 47% of commissioned apartment blocks in 1H 2017

### Mortgage lending in 1H 2017, RUB bn



Source: AHML

<sup>1</sup> Including mortgage claims purchased by credit institutions

<sup>2</sup> Including Khanty-Mansi and Yamal-Nenets Autonomous Areas

- Mortgage interest rates in the regions are almost the same (an average of 10.6–11.5%)
- An average of 34% of all mortgage loans in Russia are issued to purchase housing under construction. For the top ten leaders, the share exceeds 40%: mortgage lending in these regions has a greater impact on the construction industry and stimulates economic growth due to multiplier effect

#### Loans for housing under construction, %



Source: AHML

*The preliminary mortgage market estimates are provided by AHML 3–4 weeks prior to the release of the Bank of Russia's official statistics. The estimates rely on the Agency's in-house econometric model, mortgage lender surveys and Frank Research Group data. Thanks to the high quality of AHML's models and analysis methodology, the preliminary estimates are generally confirmed by the official statistics of the Bank of Russia. For example, the preliminary estimates for mortgage lending in June stood at RUB 150 bn, whereas the official data from the Bank of Russia put it at RUB 158 bn*

	6M 2017	6M 2016	6M 2017 / 6 M 2016	2016	2015	2016/ 2015
<b>Mortgage origination</b>						
Mortgage loans issued, '000	423.5	390.1	+11%	856.5	699.5	22%
▪ Share of secured mortgage origination for shared-equity construction properties, %	30.1%	36.2%	-6.1 p.p.	35.7%	N/A	N/A
Mortgage loans issued, RUB bn	773.0	664.9	+16%	1,473.3	1,161.7	27%
▪ Share of secured mortgage origination for shared-equity construction properties, %	34.2%	39.1%	-4.9 p.p.	38.7%	N/A	N/A
Weighted average rate on rouble mortgage loans, % p.a.	11.5%	12.7%	-1.2 p.p.	12.5%	13.4%	-0.9 p.p.
▪ Primary market, % p.a. (as at the period end)	10.7%	12.0%	-1.3 p.p.	10.8%	N/A	N/A
▪ Secondary market, % p.a. (as at the period end)	11.3%	13.5%	-2.2 p.p.	12.1%	N/A	N/A
Average loan, RUB m	1.83	1.70	+7.6%	1.72	1.66	+3.6%

	As at 1 Jun 2017	As at 1 Jun 2016	1 Jun 2017 / 1 Jun 2016	As at 1 Jan 2017	As at 1 Jan 2016	1 Jan 2017 / 1 Jan 2016
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### Mortgage portfolio

Outstanding mortgage debt <sup>1</sup> , RUB tn	4.82	4.30	+12%	4.61	4.10	+12%
▪ Incl. on banks' balance sheets	4.67	4.19	+11%	4.49	3.98	+13%
– Incl. 90+ days overdue, RUB bn	119	128	-7.0%	119	121	-1.70%
▪ % of total debt on banks' balance sheets	2.54%	3.05%	-0.51 p.p.	2.65%	3.03%	-0.84 p.p.

	6M 2017	6M 2016	6M 2017 / 6 M 2016	2016	2015	2016/ 2015
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### Housing construction

Monthly supply of new housing, million sq m (as at the period end)	6.4	6.8	-6.6%	17.3	19.8	-4.4%
Supply of new housing, million sq m (for the period)	28.0	31.5	-11.3%	80.2	84.2	-6.0%
▪ incl. in apartment buildings, million sq m	16.5	17.7	-6.8%	48.4	48.0	+0.8%
Constructed apartments, '000 (for the period)	410.7	442.2	-7.1%	1,167	1,195	-2.3%

<sup>1</sup> Including the debt on banks' balance sheets and the rights of claim acquired by the banks for mortgage loans

Sources: Federal State Statistics Service of Russia, Bank of Russia, AHML estimates

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