

## AHML expects mortgage market growth to exceed 50% in November, with average rates sliding below 10% for the first time ever

### Highlights

According to the Bank of Russia's 10M 2017 statistical data, the mortgage market keeps growing at a record pace

- » **813,400** mortgage loans issued in 10M 2017 for a total of RUB 1.5 tn. Overall mortgage originations for the period overtook FY 2016.
- » This represents a **y-o-y increase of 21%** in volume terms and **30%** in value terms
- » According to AHML's preliminary estimates, **November saw further market growth**, with more than 110,000 mortgage loans issued for a total of RUB **210–230 bn**  
For the second month running, the monthly growth rate has been above **50%**, and above **40%** over the six month period.
- » Mortgage interest rates continue to decline setting ever new records  
**9.81%** for newly constructed properties (vs 11.62% a year ago)  
**10.02%** for secondary housing (vs 12.94% a year ago)
- » **5–7%** (RUB 65–90 bn) is the current share of mortgage loans issued for refinancing outstanding mortgages. Next year, the number may reach 20% of total originations.  
**RUB 5.1 tn** is the volume of the mortgage loan portfolio (+10.5% YTD).
- » **RUB 1.84 m** is the average mortgage loan size (+7% YTD).  
The market expansion is therefore driven by new loans, with the average loan on the balance sheet totalling ca. RUB 1 m.

**AHML Research Centre**

+7 495 775 4740

research@ahml.ru

DOM.RF

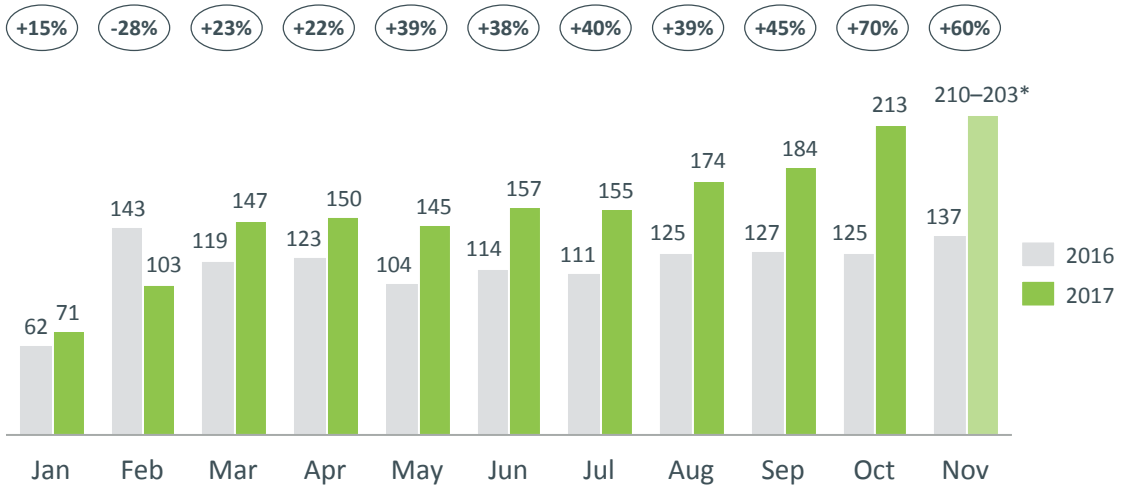
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## Mortgage origination

- Since May 2017, the market has been growing at a rate close to 40%. In October, growth accelerated with RUB 213 bn issued in mortgages, up 70% y-o-y and 29% compared to the record high of 2014.

### Mortgage origination, RUB bn



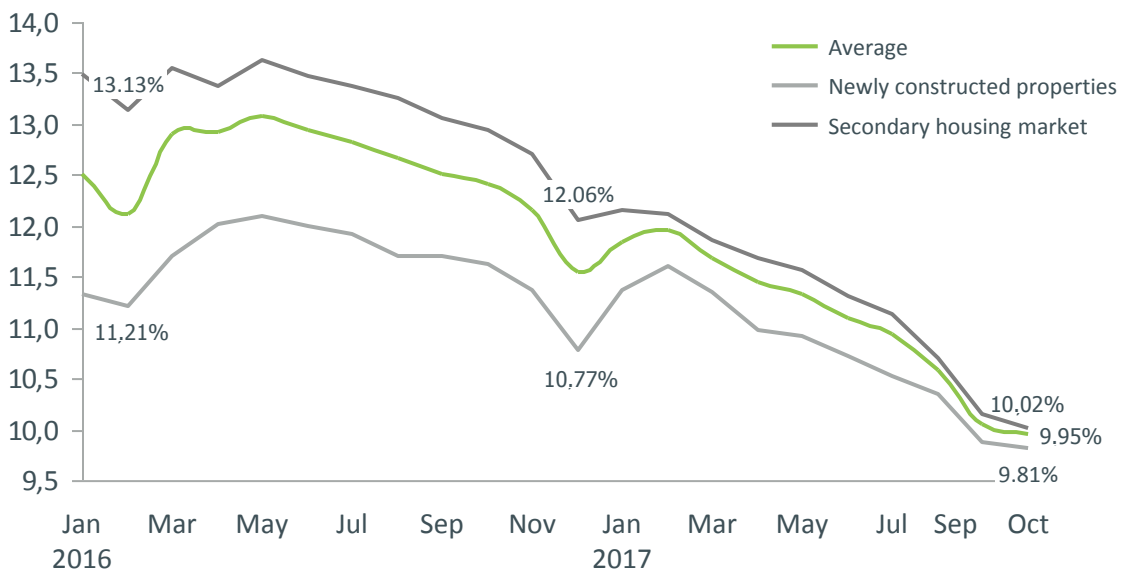
\* Forecast  
Source: AHML

- According to AHML's preliminary estimates, the growth trend continued well into November supported by historically low interest rates, with more than 110,000 mortgage loans issued for a total of RUB 210–230 bn. The volume was up 50–70% y-o-y and up 40–50% against the level of 2014. This monthly origination was close to an all-time high of December 2014 when RUB 227 bn was issued.
- In 10M 2017, 813,400 mortgage loans were issued for a total of RUB 1.5 tn, up 21% y-o-y in volume terms and up 30% y-o-y in value terms.
- Growth in refinancing loans has become the key trend of 2H 2017, as evidenced by the overall mortgage portfolio expanding by RUB 51 bn to RUB 5.1 tn in September (compared to RUB 82.2 bn and RUB 99 bn added in August and July, respectively).
- The 3 pp drop of interest rates to 10% and below stimulated demand for mortgage refinancing products and boosted their active development in Q3 2017.
- While the share of mortgage refinancing loans is estimated at 5–7% of total mortgage origination in 10M 2017, in 2018, it may exceed 20%.

## Mortgage rates

- Thanks to massive interest rate cuts, the originations almost reached an all-time high of RUB 227 bn recorded in December 2014.
- In October, mortgage rates for newly constructed and secondary market properties stood at 9.81% (down 1.81 pp y-o-y) and 10.02% (down 2.92 pp y-o-y), respectively. The average mortgage rate was 9.95%.
- In the market segment, the rate has dropped by more than 3 pp since January 2016 and hit an all-time low for the mortgage lending market since 2004.
- The average mortgage rate for 10M 2017 stood at 10.94%, 1.73 pp down y-o-y.
- In December 2017, the leading banks offered mortgages at rates starting from 9.25%, while AHML's rates started from as low as 9%.

Weighted average interest rates on mortgage loans issued, % p.a.



Source: AHML

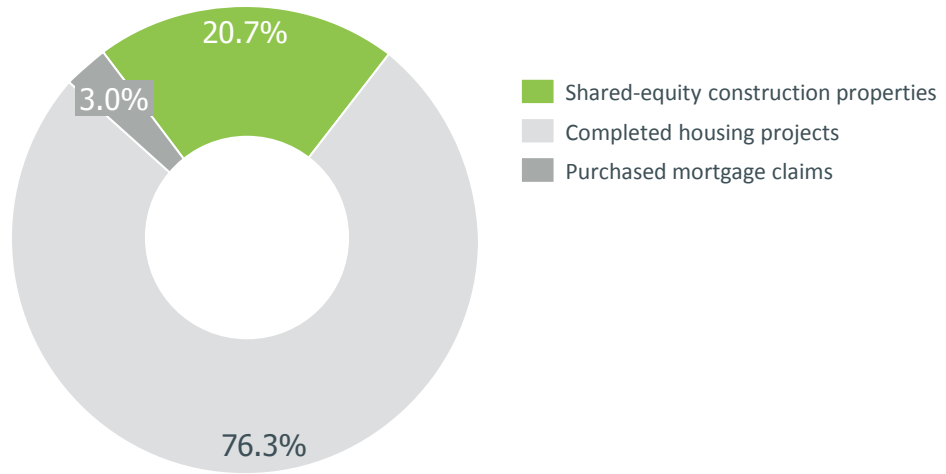
- The fall of rates below 10% comes as a milestone for the mortgage market, as it signals the start of the low rate cycle for the Russian economy.
- As the current monetary policy focuses on positive real interest rates, the mortgage rates may go down to 8% by the end of the next year.

*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 confirmed by the official statistics of the Bank of Russia. For example, the preliminary estimates for mortgage lending in September stood at RUB 180–190 bn, whereas the official data from the Bank of Russia put it at RUB 184 bn.*

## Mortgage portfolio

- As at 1 November 2017, the overall mortgage portfolio<sup>1</sup> stood at ca. RUB 5.1 tn, with over RUB 1 tn coming from secured mortgage loans issued for shared-equity construction properties in the primary market.
- The portfolio growth YTD is RUB 485 bn (+10.5%).

### Breakdown of credit institutions' mortgage portfolio, %



Source: AHML

- The banks' mortgage portfolios have **low overdue debt levels**, with the share of 90+ days overdue loans down to 2.34% as at 1 November 2017 (vs 2.88% a year ago). For non-mortgage loans, this number stands at 12.4%.
- The Bank of Russia's intention to limit high-risk lending (with down payments below 20%) will further improve the mortgage portfolio quality.

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

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## AHML Research Centre

### Moscow

Email: [research@ahml.ru](mailto:research@ahml.ru)

Subscription to analytical materials:

<http://дом.рф/about/analytics>

### AHML

10 Vozdvizhenka St., Moscow, 125009, Russia  
Vozdvizhenka Centre business centre

Tel: +7 495 775 4740

<https://дом.рф>

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