

ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM
JUNE 21–23, 2012

Realizing Russia's Potential
THE RUSSIAN HOUSING DEVELOPMENT FOUNDATION: MINIMIZING RISKS
WHILE MAINTAINING RETURNS
Industry Breakfast

JUNE 22, 2012 — 8:30–9:45, Pavilion 5, Business breakfast Hall 5.4

St. Petersburg, Russia
2012

Moderator:

Evgenia Pismennaya, Observer, Vedomosti

Panelists:

Alexander Braverman, General Director, Russian Housing Development Foundation

Herman Gref, Chief Executive Officer, Chairman of the Management Board, Sberbank

Holger Muller, Head of the Department for Providing Services to the Real Property Sector, PwC

Michal Rutkowski, Country Director for the Russian Federation, The World Bank

Damian Secen, General Director, Macquarie Renaissance Infrastructure Fund

Andrei Sharonov, Deputy Mayor for Economic Affairs, Government of Moscow

Igor Shuvalov, First Deputy Chairman of the Government of the Russian Federation

Viktor Vekselberg, President, Skolkovo Foundation

E. Pismennaya

Thank you, all, for your interest in our breakfast.

Judging by how many of you there are, the housing problem disturbs not only ordinary people, who are currently on waiting lists. There is hope that housing construction will become a good business in Russia.

At first glance, the topic sounds fairly bureaucratic – the ‘Road Map’ of the Russian Housing Development Foundation – but judging by the participants, everyone understands how important it is. We have a very interesting guest, and I think that our discussion will be very interesting. With us today we have representatives of investors, consultants, lenders, and regions, and around the middle of breakfast, we are waiting for Igor Shuvalov, who is the government representative responsible for the Housing project. I think he will summarize the discussion. Herman Gref also promised to attend, despite the fact that he has his own breakfast meeting.

I suggest that we start the discussion, and while we still do not know how the discussion will go, we hold a vote. Then, after we have finished our discussion, we will vote again and compare the results. You have folders on your tables; there are three cards in each of them: green, pink, and light blue. The question is: are you ready to invest in the Russian Housing Development Foundation’s projects? The pink card mean ‘yes’, the light blue card means ‘no’, and the green card means ‘undecided’. Please hold them up, just like in the good old days.

Are you ready to invest in the Russian Housing Development Foundation’s projects? Who is ready? Please hold up the pink cards. Representatives from the regions, well done. Who says “No”? Blue cards. The undecided are raising green cards. There is also a fair a number of them. I see the journalists are particularly undecided.

I would like to give the floor to the main figure at our breakfast, Mr. Braverman. How do you convince those who are not willing to invest?

A. Braverman:

Thank you very much, Evgenia, for agreeing to moderate this breakfast. Friends and colleagues, thank you for coming.

It is important for us that we, having worked together, receive feedback so that we can improve what we do. Now my Deputy Director General, Svetlana Kuznetsova, and I will present our Road Map based on projects which have already been concluded.

First, a few words about our Foundation. The Foundation was established in accordance with Special Law No. 161-FZ dated 24 July 2008. Its main objectives are to promote residential construction and utility infrastructure, develop the production of building materials, create industrial estates and business incubators, and other regional development projects. In other words, the goal is to promote the development of anything that increases the tax base, provides additional jobs in the regions, and is connected to land resources, of which there was a shortage when the Foundation was created.

What has the Foundation managed to do in just over three years' work? Actually, we began working in November 2008. We were involved in reclaiming more than 480 plots of federal land with an area of more than 16,000 hectares in 65 federal territories. Today 65 projects on 108 plots of land belonging to the Foundation, with a total area of 10 million square metres are currently being implemented. Additionally, we have provided plots of land for the production of building materials in eight federal territories. Eighteen factories are under construction on those plots, and we expect to commission the first one this autumn in Novosibirsk Oblast.

We have agreements with all 83 federal constituent entities of Russia, and we are glad to welcome governors here. A special thanks to them for attending, and most of all I am grateful to Nikita Belykh. We have established our most active business contacts with Kirov Oblast: our first buildings, which were once visited by President Putin while he was Prime Minister, were built in Kirov Oblast. We have agreements with all of the natural monopolies: Gazprom, the Federal Grid Company, Interregional Distribution Grid Company, Mezhrefiongaz, and with many banks: primarily Sberbank, and also Vnesheconombank, as development institution. We

cooperate with the state authorities, with professional organizations, both financial and non-financial, such as development institutions, like ours. Among them, for example, is the Agency for Housing Mortgage Lending (AHML), whose Director General, Alexander Semenyaka, is with us here today. Sasha, thank you for finding the opportunity to come. We work together with Russian Technologies and many other structures.

Despite the fact that the Foundation has been operating for little more than three years, we already have more than 500,000 square metres of residential housing project development. We can tell you about our experience and describe our usual schedule, beginning from the moment the plot of land is provided. The usual time taken to construct a residential building is a minimum of 3.5 years; however, our Foundation's average time is 1.7 years, about half that time. If we consider the time from the start of developing the plot, to the moment of entering the first stage, the Foundation again works 1.7 times faster. Today, we would like to briefly tell you about project Istra, a low-rise residential construction. In the lower-right corner of the slide, you can see the condition the plot was in when it we took it on. It was completely in ruins. The plot was auctioned, as were all the others: the English auction is the only way for a developer to acquire land. Jumping forward a bit, I will say that the State Duma unanimously passed at the second reading a law on Dutch auctions to lower prices. Its author, Elena Nikolaeva, First Deputy Chairman of the State Duma Committee, is here with us today.

I will return to project Istra. The size of the plot is 65 hectares, the period of development is five years, and the total area of the buildings to be constructed is 140,000 square metres. The developer has signed a contract with the Ministry of Defence to supply 500 apartments for military personnel and their families, and has begun to implement the project.

Here are the basic requirements we set forth for the project. First, at least 75% of the apartments should be economy class housing, which is in line with Order No. 303 of the Ministry of Regional Development. Deputy Minister Ilya Ponomarev is here today; a very big thank you to him. We currently have 141,000 square metres

in Istra, 75% of which are economy class; the parameters are clearly described. The price is not fixed and should not be fixed: we adjust it based on volume, infrastructure support, and credit support, which is provided by Sberbank as a developer, and by end customers in the form of mortgage loans. Our main partner, Sberbank, is not just a partner, but a network partner.

Our usual procedure is that we sign an agreement with the head of the federal territory – in addition to the framework agreement, which was signed with all 83 federal territories – that describes the procedure to develop the plot. Natural monopolies, municipalities, we and, usually, the AHML are involved in the development. During the signing of the agreement at the road show, banks also become involved: we cannot directly include them in the agreement, since they are institutions that are entirely different types of legal entities.

Let us see what we have accomplished under Istra. The MPV, market potential value, without connections to utilities, was negative. We had a situation where the middle class, which is our target market, wanted to go there, the city developed in this direction, there was a federal involvement, but the lack of utility infrastructure and the possibility that that infrastructure would need to be paid for by the federal territory or the developer made the MPV negative. According to the mechanism which we had envisaged, we have taken on more than RUB 600 million of these expenses and invested the money in infrastructure, in particular, in water supply and sewage.

Additionally, the agreement on the procedure for the development of the plot means that the time required for the approval of the project plan can be almost cut in half, which was demonstrated by the example of Istra: the project plan was approved in two months after development began on the plot. As we have already said, we have agreements with state agencies, in particular, with the Federal Service for State Registration, Cadastre and Cartography. Therefore, we helped the developer register its rights, and later, the developer was very tightly controlled by us and Sbergatelny Bank. Sometimes the developer deviated from the given parameters, and everything did not go smoothly, and even now not everything is going smoothly.

It is why we are presenting this case as an absolutely real example. There are fines, penalties, and forfeits: everything that usually accompanies a construction project. We have now implemented the first phase of the project. Vladimir Putin, when he was Prime Minister, visited that area of comprehensive residential development. We are confident that the project will be completed; moreover, it will be completed within the following parameters which I would like you to focus your attention on, specifically for investors. The IRR, the internal rate of return, on this project is 36%. Construction costs were reduced by approximately 30% compared with similar projects. The final sale price of the residential space will be 15% lower than in Istra Region and 7% lower than the price set by the Ministry of Regional Development. Finally, we have successfully reduced the total energy requirements for the entire life cycle by approximately 30%, due to the fact that our auction requirements demanded the use of energy-saving technologies, environmentally friendly materials, etc.

E. Pismennaya:

Alexander, thank you very much. As promised, Herman Gref has joined us. He will not have breakfast with us because he has his own breakfast meeting to come. Am I right? So I would like to give him the floor.

Mr. Braverman said that you are the main lender. As the main lender, please tell us: what happens with the risk and return, and generally with project financing?

A. Braverman:

I would like to add literally one word. At least two weeks before each project we hold a road show. All of the aforementioned participants in the process are at that road show. I want to emphasize that every single road show is always attended by a representative of the regional branch of Sbergatelny Bank. That does not mean that they do not compete with other banks, often with local banks, when the project is not very large. But they are always there.

H. Gref:

Thank you very much, Mr. Braverman.

There is a large group of us present today, including Andrei Donskikh, Deputy Chairman of Sberbank. By the way, Mr. Braverman, Sberbank, as you have called it, was left behind in the Soviet Union. It is now called Sberbank. We have great reverence for our clients. Mr. Braverman, your Foundation is our privileged client. We are very pleased to work with your team because it is truly professional.

Frankly speaking, the prospects looked fairly dull at the beginning. In Russia, when a number of resources, in this case land, are given to state institutions, traditionally officials begin skimming off these resources. But a miracle happened: Mr. Braverman was appointed to this project, and because of this, contrary to our traditions and logic, the Foundation began to work transparently, and, even more to our surprise, effectively.

We really are very pleased to work with his team because in this case, we do not have to spend a lot of time negotiating anything. These are very professional people; they understand what to do very well, and they are very well-versed in finance. Our presence in these projects says only one thing: we assess the MPV positively, and there are good reserves. We are currently the number one bank from the point of view of implementing Basel II regulations; we have the most developed system of risk management. Our chief risk officer never approves any transaction unless there is a good MPV reserve and all risks connected with the project are hedged. Hedging risks is a key concept for this team because these people position themselves well. They do not position themselves as great developers; they position themselves as a state institution, which helps private investors to hedge risks and bring projects to a normal level of profitability. I would like to sincerely thank Alexander and his entire team for this work and recommend them in every way.

Of course, we do not claim to be the only bank that participates in these projects. God forbid! We need only one thing: a level playing field for everyone. If we lose one of these competitions, we express our respect for our competitors who have

won. But I think it is necessary to use state mechanisms of soft support to market structures, especially considering the fact that we now have a huge problem with bureaucracy. The main thing is not even that Alexander creates the conditions for the development of infrastructure: he creates a new type of relationship between businesses and government institutions, a new type of public–private partnership, thanks to his help in implementing projects.

Thank you for your cooperation. I would like to wish you all success.

E. Pismennaya:

Thank you very much. We hope that these projects will be beneficial not only for Sberbank, but also small, private banks.

A major innovator of our country, Mr. Vekselberg, has joined us. Thank you that you also found the time. This once again confirms that the topic of housing is very pressing for our country.

Housing should be not only inexpensive, but also modern. Mr. Vekselberg, please tell us, what contributions can innovators and, in particular, your start-ups from Skolkovo, make to residential housing construction?

V. Vekselberg:

Good morning. Thank you for calling me a ‘major innovator’.

I would like to say that the challenge facing the Skolkovo Foundation is to create an environment for innovators where all the major innovators can live and successfully work. Why are we participating in this breakfast, which, it seems, is not directly related to start-ups and innovations, which we so actively support and promote? Issues connected with the urban environment, residential housing construction, and urban development are not decided by our foundation. Instead, they are decided by the Russian Housing Development Foundation. We are interested in the experience they have gathered, and I think that the project we are implementing will probably be interesting for the Russian Housing Development Foundation, and not just for them.

You know, we have five clusters which are engaged in various areas of innovation, but we have decided that there is a sixth cluster. It is our city, a city as a habitat and a place to work. We have set ourselves the challenge to build this city on the principles of four 'E's: ergonomics, environmental friendliness, energy efficiency, and the effectiveness of the environment as a place for the people we want to attract to our activities to live and work. When we raised the question of what a city should be and why people should come here, we received a lot of answers, which we generally divided into two groups. Answers from the first group boiled down to the fact that an educated person wants to live amongst his or her equals, where they can debate, argue, or discuss something new. Answers from the second group asserted that educated people want to live in a comfortable environment for their family life.

Maybe we are the happiest city planners today: we have actually begun to build a city from scratch. It is assumed that about 30,000 people will live and work there. There will be about 20,000 workers, maybe slightly fewer. A sufficiently diverse infrastructure will be created in the city, which, importantly, will unify elements which up until now existed separately. There will be a scientific research and education centre there: Skolkovo Institute of Science and Technology, with campuses and facilities for conducting research and educational activities. We have named it SkTech. Approximately 3,000 people will live and work in this university, including students and professors.

We will also have a large technopark, bigger than 200,000 square metres, with modern laboratories and all the infrastructure necessary for start-ups' activities. Large corporations' research centres will also be located within the city. Each of them will be able to get on with their business. Residential areas will be interspersed with office buildings to create a new, convenient, and comfortable environment, a new atmosphere.

Moving on to the implementation of the 4 'E's: we are faced with very interesting and serious problems. It has been found that today, the stereotypes associated with the pursuit of low-cost housing present a barrier to applying modern technology in

the creation of comfortable living conditions. Therefore, we felt it necessary to create a testing area in our city where we could pilot the most modern methods of urban planning and technical solutions. Later, they can be used all over Russia, specifically, I think, in cooperation with the Russian Housing Development Foundation. The successes and failures, which we certainly expect, will serve as the basis for decision-making in urban planning in other areas. One way or another, we have set ourselves a fairly ambitious challenge: to surpass Moscow in terms of energy efficiency, that is, in the consumption of units of heat and units of energy for each unit of area, and in the consumption of water, and other indicators. In the future, these indicators may become a reference point for the whole country.

The social aspects of urban planning are very important to us. Of course it is good if a building is convenient and comfortable. But it is also important that all elements of social infrastructure are also nearby. What does this mean? This means education and child care, preschools and schools. It means the system of medical services. We all talk about the family doctor, the infrastructure which means that it is possible to receive quality medical services at any time. Usually, cities develop naturally, in the context of infrastructure which is already established. We are happy to have the opportunity to create a social environment that will best meet the everyday needs of people. Of course, we also have cultural needs in mind: the need for cinemas, theatres, and exhibition halls. Restaurants, general-use areas, and sport fields are also necessary. In combining all of these elements, we, it seems, have achieved a certain harmony. We have adopted and approved the general plan, which is now being implemented. We have begun the construction of the utilities infrastructure, and hope that by 2014, we will commission the first housing complex.

We are planning that the city will be open to everyone. Movement around the city will naturally be limited: traditional transport is not supposed to be used in the city. We will build park and ride facilities: city workers and residents will arrive in normal cars, leave them there, and change to inner-city transport: electric cars. Thanks to that, we want to achieve a certain environmental effect and pleasant living conditions.

I would like to once again emphasize that the city for us is the sixth cluster. At this site, we want to develop and promote all of the most progressive, up-to-date urban planning technology using the latest engineering methods, materials, and architectural concepts. We think that we have succeeded so far. A star team of architects, who were part of our urban planning board, has begun to develop individual large projects. We would very much like the Skolkovo Innovation Centre, to become a comfortable and attractive place not only for work, but also to live in. We would like to apply the experience we have gained to other construction projects and areas in Russia.

Thank you.

E. Pismennaya:

Thank you, Mr. Vekselberg. You are ahead of me: I was just thinking about how good it would be if garden cities emerged not only in your area, but also in other places. I hope the Russian Housing Development Foundation will achieve this. What do you think, Mr. Braverman, will we achieve the concept of a garden city?

A. Braverman:

When I am asked, “How did you achieve it so quickly?”, I always answer with an apology: “I won’t anymore”. Indisputably, our team, as Herman Gref said – at one point Pavel Borodin worked with us; he was with us during the most difficult time – does not cover, even with our speeds, all of the Russian Federation. So we will talk to you about the standard which will be developed pursuant to President Putin’s Executive Order No. 600, signed on the day of his inauguration. This Executive Order created a standard which was intended to be extended to the whole country. We think that by applying the most progressive, innovative technologies which the Skolkovo Foundation has today, we will be able to make housing that is not only good, but also very comfortable.

E. Pismennaya:

Thank you.

Igor Shuvalov, first Deputy Prime Minister of the Russian Federation, whose presence we announced at the beginning of the meeting, has arrived. Join in the discussion, Mr. Shuvalov, because you will be summing it up.

It is great that there are areas where we are building great cities. But in all the other areas of Russia, we will build different housing. Andrei Sharonov is sitting near me; he is currently the Deputy Mayor of 'Big Moscow'. As far as I understand, you have a lot of land which can be developed. Please tell us what you would like from the Russian Housing Development Foundation. Maybe you have problems with the creation of a comfortable environment for people to live in? Thank you.

A. Sharonov:

In 2009, Moscow signed an agreement with the Russian Housing Development Foundation. It was very important for us because in Moscow there is a large amount of federal land which could be put into profitable use, including for the construction of residential housing. The mechanism offered by the Russian Housing Development Foundation, in my opinion, is one of those that really works. Under this agreement, four sites are now under construction. The total amount of housing delivered under these projects should exceed 0.3 million square metres: this is quite a large amount. We are cooperating and will continue to cooperate with the Russian Housing Development Foundation in these and other new projects.

I would like to say that this is a great pleasure for the city. As an illustration, I chose the allocation of costs between the partners: the investor, the Russian Housing Development Foundation, and the city. For three sites, the final picture looks as follows: the Russian Housing Development Foundation will receive revenue of about RUB 6 billion, the developer, after the completion of the project, will make a profit of RUB 23 billion, and the city's costs for the three sites will be RUB 10 billion. This is simple economics. For example, the city took on 100% of the costs for the construction of educational institutions: kindergartens, schools. For utilities –relining sewers and creating new facilities – 60% of the costs are taken on by the city, and

40% by the developer. The developer took on 100% of the costs of the electricity supply cable networks. In regards to the costs of the expansion of the existing street and road network and the creation of an additional transportation junction where the streets intersect, 20% of the costs were taken on by the developer and 80% by the city. The costs of building internal roads and utilities around specific constructions were taken on by the developer.

I repeat, all that is pretty expensive, even for Moscow, but we still continue to work with the Russian Housing Development Foundation. This mechanism allows federal land, which, in many cases, is now empty, to be put to profitable use. The identification and utilization of such land resources in a densely built megapolis, like Moscow, is extremely important.

E. Pismennaya:

Thank you very much. Surprisingly, even for Moscow, it turns out to be expensive. Yes, Mr. Braverman?

A. Braverman:

Thank you very much, Zhenia.

Mr. Sharonov, our mutual relations with Moscow are really a priority for us, especially considering what is being created now in Big Moscow. But we follow the same rules when we implement all of our projects: everyone must do what is prescribed by law, regulatory acts, and so on. In our cases, expenses for social utilities are entirely the responsibility of the city. Yes, it is expensive, but it is not an heroic achievement, it is an obligation.

Moreover, for each of our projects, we always clearly specify who, what, and in what timeframe everything must be done. We think that this should be reflected in the federal standard. As for connections to utility networks, which belong to natural monopolies, the share of the costs of the city and the developer and so on, our board of trustees has adopted the following rule. If there is a financially-backed demand by representatives of the target segment for low-cost housing, if the city is

developing in this way, if there is a plot of land in federal ownership, but the MPV is negative, if the developer does not have enough money, we will 'add' some necessary funds and include in the programme the natural monopolies whom we have agreements with. Our inclusion, according to statistics, costs 35.4% less than in other cases.

Additionally, Igor Shuvalov is Chairman of the Commission for Russian Housing Development.

A. Sharonov:

In fact, Mr. Braverman, I never used the phrase 'heroic achievement'. Indeed, it is the competence of the federal territories, the competence of municipalities. I simply want to say that this event is not cheap for the city.

E. Pismennaya:

You are arguing, but building is what is important. I would like to give the floor to Nikita Belykh. You said you have built a lot.

N. Belykh:

Thank you very much I will not use the word "achievement" either. But Mr. Braverman confirms that if there are projects in the country about which we can speak not only in the future tense, but in the past tense, they were only implemented in Kirov Oblast. A year ago now, we commissioned buildings which people already live in. A large number of apartments in them were allotted under a programme to ensure veterans' housing for the 65th anniversary of Victory Day, so we implemented this project faster, and probably better, than others. Thus, we have a wonderful relationship with the Russian Housing Development Foundation, and we really do work closely with it. Now, we have several projects that are being implemented.

I would like to identify a few problems. The first concerns the distribution of land. The current auction procedure to some extent contradicts the logic of building low-

cost housing. We encountered this with the first plot of land when an auction was held for the first five regions. At auction, the price of the land increased by 14 times. Then that was a record: in all the other regions the prices changed slightly. I, frankly speaking, am very upset about the fact that building low-cost housing in the face of such entry costs could lead to failure. Nevertheless, the process has been established, but the procedure itself can be reviewed. If we are discussing the construction of low-cost housing, then to do so in the conditions under which there are risks of exceeding costs at the initial stages is quite a problem.

The second problem concerns the difficulty of formalizing issues. But this is exactly the work that turned out to be the most effective, thanks to what we call administrative resource. We went to the site within six months after winning the auction and began construction. Here we must give credit to the Russian Housing Development Foundation for their interaction with federal institutions and with the natural monopolies. The city, the region, and the Russian Housing Development Foundation really did a lot, and they did it in synchronization. It is clear that it is just these procedures that are difficult to spell out. There is a paragraph in the agreement that says that the Russian Housing Development Foundation provides support. But it is difficult to regulate. It turns out that it is precisely those things which are clearly prescribed and regulated that do not affect the implementation of the project, and those things that are difficult to prescribe have the most impact. I think we need to see how we can further build mutual relations in this direction.

The third problem: currently, the Foundation is undertaking two big, separate projects for us: construction of low-cost housing and of low-rise housing. The construction of low-rise housing, which Elena Nikolaeva can tell you more about, is still a complicated project from the psychological point of view: in people's minds, their own low-rise housing is associated with low-cost housing. We are trying to reduce the cost per square metre, but all the same, this housing ends up being a product in a different price category. In high-rise buildings, we can anticipate and envisage apartments and studios with an area of 27–30 square metres, which have the highest demand. But if we discuss low-rise housing, apartments with an area of

27–30 square metres are, in principle, not possible. It is possible to reduce the cost per square metre by 20%, but if the apartment has twice the area of a standard apartment, it is clear that the price of the final product will be higher for consumers. Therefore, I really like that the Russian Housing Development Foundation has been holding architectural competitions for the last few years. They solve the very important challenge of finding suitable projects, especially in low-rise buildings. I think that in addition to organizing road shows, they should also organize a show room so that the projects can be represented not only as pictures, but also as real buildings. We, naturally, are ready to provide a site: I acquired a land plot from the Russian Housing Development Foundation to use as a large show room where the projects by the winners of those architectural competitions can be exhibited. I am even ready to pay so that the customer, it does not matter whether it is the end buyer or the developer, could see not only beautiful pictures – drawn from everything we have learned over the last 5–10 years – but also to see how it actually looks. I repeat: in order to implement projects for low-rise construction, we much take into account the existence of a psychological barrier. People often associate low-rise housing with *dachas*, with something else, but not with a permanent residence. I am speaking about the general population, and not of those who lived in their cottages 20 years ago.

We have had great experiences working with the Foundation. Once again, we do not use the word ‘achievement’; we are simply modest winners. We participated first in this project, implemented it faster and better than others, and continue our work in this direction. I simply gave an account of the problems which arise during the implementation of these projects.

E. Pismennaya:

Very quickly; we will not have enough time for Mr. Shuvalov.

Alexander Braverman:

I will be very quick, Mr. Shuvalov.

There is a problem with the increase of land prices in a traditional English auction. Mr. Shuvalov, reporting on the activities of the Government in the Duma, made a promise to introduce a procedure for holding Dutch auctions. I remind you that in a Dutch auction, there is a ceiling price that is established by the Ministry of Regional Development, and during the auction, the price is lowered. The cost of land, according to our statistics, in the final price of housing is 10%. Another 4% is savings on connections. If the developer is generally competent, he will definitely add another 5% for his profits. In total, 20%: this is a very good indicator.

Now, in regard to competitions. We really are reviving architectural competitions and continue to hold them. Mr. Belykh, we will be grateful if you truly have the opportunity to make a showroom. We would now like to name the contest in honour of the wonderful architect, the late Vyacheslav Glazychev. This is a huge loss for the Foundation: he was a strong, good, and solid man.

Finally, about low-rises. In 2011, 94% of the plots for which a decision was made by the land commission headed by Mr. Shuvalov, were allocated for low-rises. By actually building housing which is ready to live in, and not discussing it, we can solve the psychological problems, whereby low-rise housing is perceived to be a second home, like a *dacha* in the countryside, and not a primary residence.

Thank you.

E. Pismennaya:

Thank you, Mr. Braverman. I will not comment on your presentation; I will give the floor to the investors for whom we have all waited to invest in housing projects. With us today is Damian Secen, General Director, Macquarie Renaissance Infrastructure Fund. Are housing projects of interest to investors? Thank you.

D. Secen:

Ladies and gentlemen, it is a pleasure to be here today. We think this initiative is being taken very seriously, given the audience we have in front of us. This is an extremely impressive panel, and we are delighted to be part of it. The Macquarie

Renaissance Infrastructure Fund is the first major infrastructure fund in Russia. We have made four investments, and one is a power station near St. Petersburg. One of the things we always notice in infrastructure projects is the need for a project champion. Unless there is someone who has true ownership and who will drive the project, it never seems to be achieved, and it is a pleasure to see Mr. Alexander Braverman, who is responsible for this project and seems to be driving it. We think that is incredibly important. The second thing is that that vehicle needs the ability to cut red tape to be able to accelerate the permits and approvals process. If Mr. Braverman can establish that with confidence to investors, I am sure investment will follow into these projects. In order to get foreign investment into projects, you need to have foreign partners. It might be an interesting idea to have a local construction company and a foreign construction company, and if you have that partnership then I am sure you will get foreign investment into these projects. The last thing I would say from an infrastructure perspective is that the risk with property development is that the money is made from the property development itself. People very quickly construct the housing but the infrastructure is slow to follow. The final thing we wish to suggest is that there should be very clear standards. For example, if we are talking about the Moscow Region – in relation to minimum standards for car parking – and if we are talking about the other regions, then heating, electricity, and utilities are extremely important, not just the housing itself. We think this is an extremely exciting and very sensible initiative, and we congratulate the team here today on this very good development for Russia.

E. Pismennaya:

Thank you for your brevity.

Here in the hall is Holger Muller, Head of the Department for Providing Services to the Property Sector, PwC. Can you please respond to Damian's statement?

H. Muller:

We are short on time and I will just make some quick comments. People are not really talking enough about the potential here in Russia. The average Russian lives in 20 square metres per capita; the average European in 40. If you brought Russia to European standards, everybody would live in a house of 70 square metres and you would need another 40 million houses. There is therefore enormous potential here in the Russian market. So far, I have not seen so many investors interested in this. There are two reasons for this in my opinion. Most foreign investors right now are concentrating on Moscow and St. Petersburg. The main reason is that it is difficult to go out into the regions to monitor your project, because it is a long way and you have to send people there. The risk I have seen is very high, because of utilities and because of permits. That is where the fund can come in and help enormously: by reducing the time taken in obtaining permits and, even more importantly, by reducing uncertainty. If you know for certain that you need 500 days to get everything, that is bad enough, but even that is not known. With the fund, you reduce this uncertainty and the periods that are required, plus there is the other help with the financing of land plots. I think this should be very interesting for foreign investors. More events like this one are needed in order to advertise these possibilities and the enormous potential that we have in developing housing in the Russian regions.

E. Pismennaya:

Thank you.

Also with us today is Michal Rutkowski, Country Director of the World Bank for the Russian Federation, Europe and Central Asia. He is not just a World Bank employee, but, one might say, the creator of a dogma. We have a ranking named Doing Business, and we intend to go up 100 places. What do you think, Michal, if we use the technology we have just heard about, would we be able to go up at least a couple of places in the rankings?

M. Rutkowski:

Thank you very much. I am going to speak English because it is easier for me to express myself.

I am happy that doing business indicators are the subject of such an important survey in Russia. This is the only survey in the world that allows for detailed microeconomic comparisons of the business environments in so many countries.

I will just say a few things, given the time. Yes, it is true that Russia is in 120th position, but if you look at the different indicators you will see that there are 10 indicators for doing business. Looking at the best of them, you see that, in enforcing contracts, for instance, Russia is 13th in the world – it is already in the top 20. If other indicators are at the same level as that for enforcing contracts, the job which is put forward will have been done. We can see the same among the regions, when we do a simplified version of doing business indicators for the regions of Russia. Yesterday, we showed the results of the 2012 comparison. There are enormous differences among the regions. For instance, according to the last survey, it is basically very easy to do business in Ulyanovsk. If the whole of Russia was at the level of Ulyanovsk it would make it into the top 20. I encourage everybody to note that there are examples where the Russian Federation is very high up in terms of doing business indicators. It is all doable, it is all possible, and it has happened here. That is why we are very optimistic about progress. Russia has already progressed, 120 positions further than the previous year. Progress needs to be accelerated, and I think that initiatives such as the Russian Housing Development Foundation are fantastic for motivating and benchmarking further progress. In doing business, we do not actually measure what the interest of the RHDF is, because we are measuring the ease of registering property, but this is based on warehouses, not on housing. A lot of regulations apply to both. By extending your indicators to housing, you are basically helping to improve the business climate in Russia, which is the ultimate purpose of what we heard yesterday from President Putin – improving the investment climate and increasing the investment rate – and that has got to come from private investment, given the budget constraints. We are very happy that this initiative is here. If, from the World Bank side, we can be of any help,

please turn to us. We will do our best to bring the best of world experience to help you. Thank you.

E. Pismennaya:

Thank you, Michal. If we ascended the rankings of Doing Business as quickly, everything would emerge much faster.

Mr. Shuvalov, you have, as a member of the government, new responsibilities connected with the implementation of the Affordable Housing project. When you leave the government, we ask, what will you have accomplished? Of course, you may stay in the government for a long time yet. But, in all seriousness, what goals do you hope to achieve? How do you see the large Housing project?

I. Shuvalov:

Good morning.

I do not want to present the Affordable Housing for Russian Citizens project; we have already discussed it at length. This project will now acquire completely different features. Today's panel, as I understand it, has, in general, been organized to tell investors about the opportunities that exist in Russia, and see what we can do to enhance these opportunities. When meeting people here during the St. Petersburg International Economic Forum, I hear the same thing. For example, at a meeting just held with representatives of Citigroup, I heard that the main thing for investors is to understand who their counterpart is, who the person they are working with is, what kind of group it is, can they be relied on professionally, and so on.

This panel is called the Road Map of Russian Housing Development. In 2004, when President Putin delivered his speech on the priorities of socio-economic development, housing was one of those priorities. We understood that it was necessary to build a vast infrastructure to support that project. The very people who manage that network are sitting here today. Thus, Alexander Semenyaka heads the special financial institution, the AHML, which should work in the housing market. A special agency, Rosstroi, has been set up in the Ministry of Regional Development:

let us wait and see how it is to be organized. When we worked with potential or actual investors, we were told that the main limitations in this sector are connected with land resources, that there are many other problems, such as the availability of capital, but the main problem is land resources.

Mr. Braverman said that I am the chairman of some committee. Committee is an exaggeration. My job is simple: to take land from departments. Everything else is decided in other offices and by other people, and they come to me when they need someone to take land and someone else resists. Mr. Braverman and I have been friends for more than 15 years. When that project had already come to a head, and we understood that it needed to be implemented – I know how Mr. Braverman works, how he carried out his previous projects, how he brings new standards to what he does – I can honestly say that I asked him to join the Affordable Housing project.

It was important for us that while there are various regional markets, they are all very similar. All over the country, a high level of monopoly was established, with close ties developed between contracting organizations and regional management. There is no real competition, no market for affordable housing, and it is clear that this situation cannot change in one year. There, in capital construction, above all else is cash, and then local teams can earn, then municipal and regional teams. It is not a secret, everyone understands that, and when I held negotiations with Mr. Braverman, after having agreed, naturally, with Mr. Putin and Mr. Medvedev, my main task was this: to try to develop the best practices, the best standards, and to begin to spread them into the regions, starting with those which want them. In those which do not want them, we resolved to push this in such a way that if the regional and municipal leaders did not want to move in the given direction, it would mean a change in their future fate.

Unfortunately, up until now, not all leaders at the federal and regional level have understood that ensuring affordable housing is a political and economic task. Sometimes it is more pleasant for people to think about anything except what the main and necessary conditions for the life of any family are. When we were

designing the priorities for the development of the country, people often considered that we were engaged in social policy. No, it is the economics of a new era. It means housing, a roof over our heads, comfortable housing, which meets European standards. It means, of course, a healthy lifestyle, the ability to maintain health, you and the members of your family, the ability to acquire skills and qualifications needed for work. These are the three pillars on which the modern economy and the lives of normal families are built.

As you know, the apartment issue not only has damaged us, it continues to damage us, and we cannot solve it. I am sure that successful people are sitting in the audience, but even among them there are those who want to solve their own housing problem. Millions of people in the country are not satisfied with their housing; they have the need for more space, or just for a section of a house which is shared with the family, since the young grow up, get married, and so on.

If we speak briefly about the Road Map of the Russian Housing Development Foundation, then on the first stage, their team had to develop better standards and offer them to the market. These standards, I believe, have been developed. The second stage is to make sure that these standards are extended to the entire country. That task has not been completed; it is still being worked on and will require many years of work. It is a very difficult task. So the government hopes that the Russian Housing Development Foundation, together with the Ministry of Regional Development, Rosstroi, the AHML, banks, including Vnesheconombank, and of course, with the participation of the state will be able to bring together all the elements of this complex project so that land resources cease being a limiting factor.

But we are moving forward: we have begun to give the Foundation new functions, and now they are they are being assigned new tasks. It is necessary to not only overcome the limitations connected with land: we need to find certain architectural solutions, change our idea about what modern housing should be, how to build it, and what modern technology should be used. This is connected with the task of ensuring energy efficiency and energy conservation in housing. The Housing project

is itself so complex and interesting that it will open a new path for local energy, new materials, and new technologies in construction, new ways of organizing and managing labour and utilities. It seems very primitive, but it is, in fact, a complex task. If normal management is organized for housing services, if people observe it near them, changes will quickly happen across the country. And we will make a huge leap in all the rankings.

Once again, I want to confirm that Mr. Braverman is my friend. We have been friends for many years, he is a great professional, and he has selected a good team. His work is sometimes criticized because he angers those that want unjust auctions. They began to accuse him of holding improper auctions. Let him see his work through to the end and through the help of his mechanisms, to spread these standards throughout the country. He is sometimes very brutal in his statements: for example, about the costs of social infrastructure, that it is 'not a heroic achievement' for Russian federal territories and municipalities. Sometimes it is an accomplishment, Mr. Braverman, because the leadership of federal territories often face many challenges. They are ordered from above to set salaries for doctors and teachers, but when they need to build a new school or improve the municipal infrastructure, there is no money. So where can they get it? Of course, the easiest way is to say to an investor: "Do you want to earn some money? Come and earn money, but share your earnings, build a school with your money." This is wrong, I do not support such an approach, but I just want us to understand how hard it is right now for the leaders of federal territories and the leaders of municipalities. They are faced with a task: convert all third-party cash flow and profits from businesses which operate under regional and municipal authorities into the tax base, so that there is the possibility, through the help of taxes, to complete the functions they are supposed to perform under law. This is a very difficult job.

A few words about the project itself. No one gave me this project. Frankly speaking, I asked the President for it, since the Affordable Housing project was like an abandoned baby.

E. Pismennaya:

There will be more demand for this.

I. Shuvalov:

It is always so. When the Housing project appeared among other priority national projects – Mr. Medvedev had just begun working as First Deputy Prime Minister – a great deal was accomplished. There were a lot of good prospects, money was sent to the AHML: in general, we worked in all directions. But I should say that in the ministries and departments, no one is interested in the topic of housing. Maybe I have given the impression that all employees of these ministries and departments live in five-room apartments, they have second homes in the country, and they do not have any problems. That is not so. The people who work there most definitely have housing problems.

But we love to talk about higher things, about changes to the investment climate, about increasing our place in the rankings, about creating modern infrastructure, about the aerospace industry, and other important tasks. However, there would be no aerospace industry if your chief engineer or employee who performs high-tech operations on innovative productions lived in an apartment with a leaky roof, if there is not a system that can ensure his or her normal housing, if the whole country is entangled with fraudulent companies that look like managed businesses but just steal money. We had good intentions; we wanted to create competition on the market. And what have we achieved? People cheat left and right. That is why no one likes this subject. The ministers of regional development worked a lot, but not on housing, because the question was: for whom should we ensure housing? War veterans? Of course. Soldiers? We worked on this with the Ministry of Defence.

But the problem of housing does not amount to this. It is necessary to understand how a person, through his or her savings and state support, if necessary, can purchase comfortable, low-cost housing. It is necessary to ensure that the margins in this market are normal and usual for civilized markets. What is happening now? There is a construction site, someone comes, builds a twenty-storey tower with 150

per cent interest yield, quickly gets the money and leaves. What is happening now in this market is a disgrace, it should not be this way in the Russian Federation; it is shameful. We have a request for comfortable housing, we have land, energy resources, construction materials, wood, and finally, it is possible to produce bricks and untraditional, modern materials.

We tried implementing a special project with Mr. Vekselberg in Ekaterinburg, in the Moscow suburbs and a few other regions, to introduce better standards so that they would spread further. This has yet to be achieved. No one is interested. Everyone is interested in supporting the high level of local monopolism because where there is capital development, there is also the quickest access to corruption. This system needs to be destroyed.

If we are speaking about the indicators of effectiveness, I certainly will not make such statements as Gorbachev, and Khrushchev before him, made: why there will not be any communal apartments, and so on. I would divide my tasks into two periods: three and six years. In three years, that is the middle of the political cycle, when they begin to ask, and at the end of six years, we need to answer definitively. All of this will be reflected in real indicators and appear in the document which the government will adopt in November: The Main Activities of the Government.

For this project, I would suggest the following indicators, which, I think, need to be discussed with businesses: access to land resources, and how much it will change in 2015–2016 in relation to 2012; the situation with regards to connecting to utilities; with the financial obligations of municipalities and federal territories; with the approval of urban planning documents: not even all of them, but at least the documentation related to construction sites; access to capital for contractor organizations and developers; and finally, the degree of monopolization or the level of competition on the local market. We and the regional authorities must now understand that the norm is when construction companies build a lot and make a lot of money, and not when they build a little and make a lot of money. The normal price for a square metre of housing with a good yield, even if it is low-rise, comfortable housing built to modern standards, should still be RUB 30,000–35,000.

I am not speaking about Moscow or St. Petersburg; I am speaking about comfortable housing on a national scale.

People really need to understand that it is entirely unnecessary for housing to be built with the two-and-a-half-brick layout. It is about different technologies. But we do not need to begrudge land resources: taxation for plots for such individual buildings must be the most beneficial. Of course, if I live in a large building, I should pay a lot of taxes. But if it is usual building by European standards, where each member of a family has their own bedroom and so forth, the taxation should be neutral or even encouraging.

That is how I would determine housing affordability indicators: they are the indicators used by the entire world. In six years, the rate of introduction of new housing should be doubled; we must significantly increase the supply and go beyond the 100 million square metres mark. I do not know if this is possible or not, but this is what I would like to see after six years: annual supply of new housing on the market of more than 100 million square metres.

It is a very difficult task. I believe that we have the strength to do it, but without private initiative, without big investments, including foreign investors, who will come with their capital and their expertise, without your help we will not do it. Our developers, our construction organizations are not interested in solving this problem: they have a different business model, a different level of earnings, and that system is very hard to break.

E. Pismennaya:

Thank you very much.

A. Braverman:

Can I make a small remark? I just wanted to tell Mr. Shuvalov that we have implemented much of what he is talking about. We launched our own mortgage corporation in this market just to prevent collusion between big developers, and to ensure equal conditions for everyone. Our mortgage corporation bought the last plot

of land from the Russian Housing Development Foundation, and the homes or apartments in the buildings are now sold at a price of RUB 28,000-29,000 a square metre.

I. Shuvalov:

Friends, allow me to leave. My next meeting is at 10:00, and it is not very good to be late.

Thank you very much. I ask everyone who can to help me in this project. We have time, we have the ability; let us do this together, as much as we can.

E. Pismennaya:

Yes, thanks to you, we understand that this is serious. Thank you very much. Mr. Shuvalov delivered the closing words better than I could. Everyone understands that the government is serious, that Mr. Braverman has good support. We have a lot of notes here with requests to speak, which means we hit the mark.

Let us vote again by showing our cards. The question: are you ready to invest in the Russian Housing Development Foundation's projects? The pink card means 'yes', the blue card means 'no', and the green card means 'undecided'. Do we have any green cards? Do we have anyone undecided? One. No blue cards.

The round table was a success, Mr. Braverman, because there were no blue cards, which mean 'no', from the beginning, and from ten green cards, only one remains. Thank you very much. I wish you a productive time at the Forum.