

Russia picks up the pace

Following a stagnation of the Russian cement market in recent years, domestic cement producers are expected to see moderate growth in demand in 2020. However, as the government ramps up its national construction projects, market expansion is forecast to accelerate from 2021 onwards.

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While office construction was down in 2019, other construction markets offset the segment's decline, resulting in an expanding non-residential construction sector



Following considerable growth in 2018, the expansion of total construction output in Russia slowed to 0.6 per cent YoY in 2019, according to official statistical data. However, residential and non-residential construction performed well in terms of completed projects.

Non-residential construction

The total volume of non-residential construction in 2019 increased 13.8 per cent YoY to 32.6Mm², a level not seen since 2013. Growth was particularly robust in educational buildings (+61 per cent), new

shopping centres and other commercial construction (+20 per cent), alongside industrial buildings and warehouses (+18 per cent). Meanwhile, the commissioning of healthcare facilities decreased by 18 per cent YoY. Office and administrative construction fell by eight per cent YoY, as reported by the Russian Federal State Statistics Service (Rosstat). However, the country's key office market of Moscow registered YoY growth of some 70 per cent in 2019, according to real estate consultants SA Ricci, while Knight Frank estimates the commissioning of office

buildings in the capital increased by 75 per cent in the 9M19 when compared with the year-ago period. The high growth rate was bolstered by a low base in 2018.

Residential construction

After three years of declining output, Russia's residential construction started to recover. In 2019 commissioning of residential buildings grew by 4.9 per cent and amounted to 79.4Mm².

The driver behind this growth was the boom in individual housing construction (single flat units), which jumped by 10.7 per cent YoY. However, the growth of housing completions against a backdrop of falling population incomes was mainly due to the state registration of already-existing buildings that were not previously registered by state authorities.

In terms of the industrial residential construction segment (multi-flat units) output edged up by only 0.5 per cent in 2019 when compared with 2018.

Looking ahead, the Russian government plans to spend over RUB1trn (US\$13.4bn) up to 2024 in the national "Housing and Urban Environment" project and increase the volume of residential construction in the country to 120Mm²a.

In addition, the Moscow Renovation Program, started in 2017, targets the renovation of more than 5000 residential buildings. Over 3Mm² of multi-flat residential buildings are expected to be commissioned each year from 2020. The authorities also plan to expand the programme to all cities with a population of over 1m people.

The "Save and high-quality roads" national programme to increase the building of concrete roads is also expected to boost cement-based construction.

Recent years have seen some dramatic shifts in the financing of multi-flat residential buildings in Russia. Until mid-2019 the construction of these projects was financed directly by investors and paid directly to the developer. However, since July 2019 all residential buildings are financed by bank credits only and the funds raised by the buyers are kept in escrow accounts until the building is commissioned. This has led to an increase in construction costs and initiated the withdrawal process of small- and medium-sized developers from the market. In 2019, 184 construction companies were declared bankrupt (+22 per cent when compared with 2018) and at least 350 more developers are at risk of bankruptcy (+77

Russian cement producers such as Eurocement have seen demand for cement pick up in 2019



Russia's cement producers account for 98 per cent of domestic market supply



The construction of shopping centres and other commercial buildings continued to expand in 2019

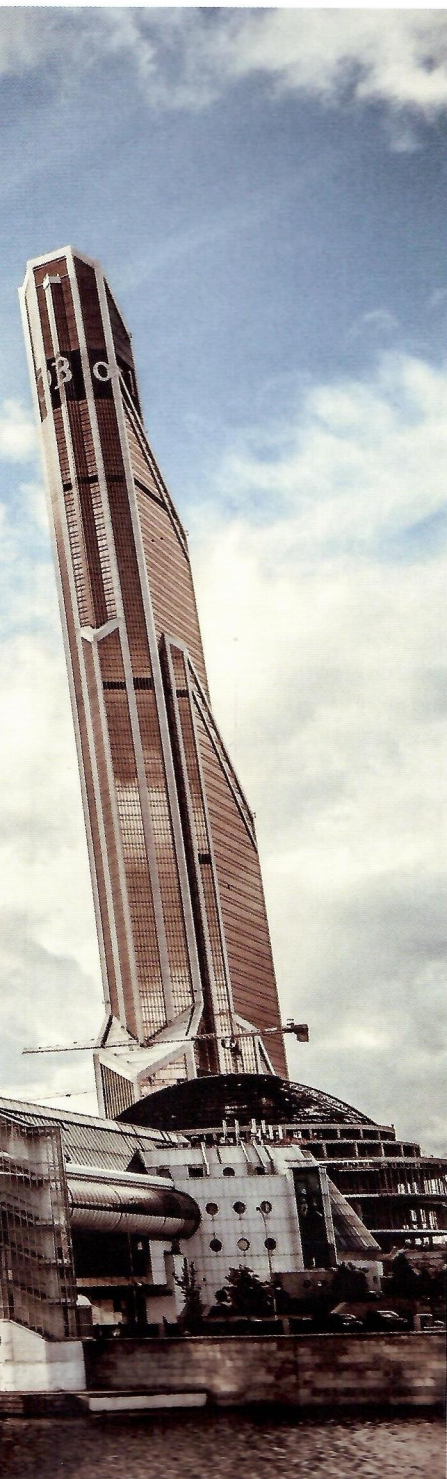
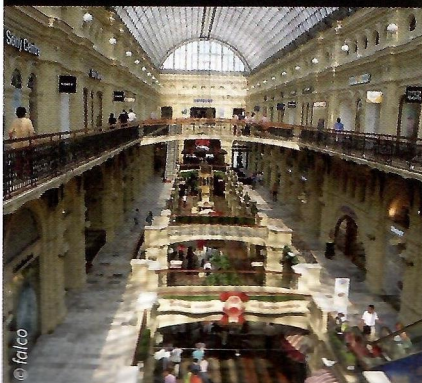
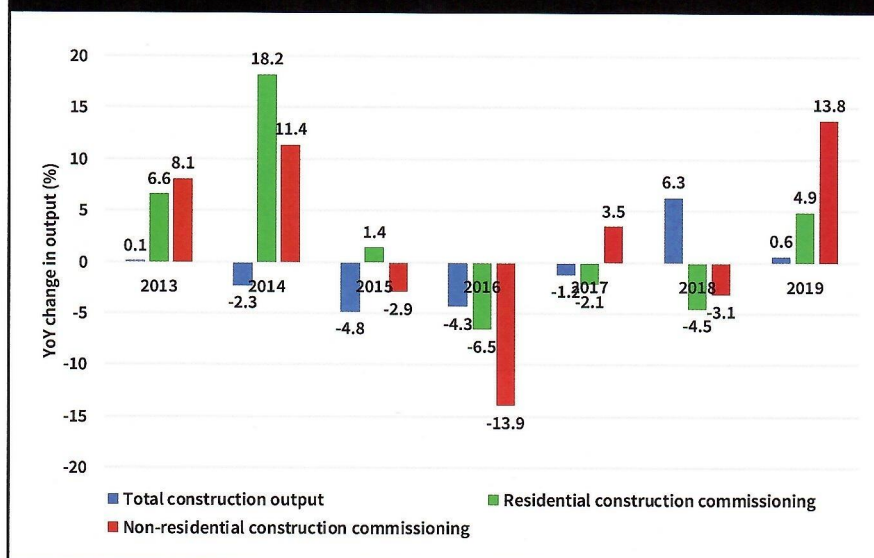


Figure 1: annual change in total construction output, residential and non-residential commissioning in Russia, 2013-19



per cent when compared with 2018).

However, multi-flat residential buildings that reached the 30 per cent completion threshold in 2019 will be able to use the old financing scheme. As a result, in the 1H19 developers pushed for their projects to reach this threshold, leading to an increase in demand for all basic construction materials. This has created the potential to maintain existing construction volumes for the next 1-2 years despite the slowdown in the sector in the 2H19.

Construction financing

Traditionally, the construction sector in Russia is financed mainly through borrowings. Bank credits for the construction sector grew by 5-11 per cent on average in 2016-18. However, the construction industry attracted bank loans of only RUB1.15trn in the 1H19, down 13 per cent YoY.

Another effective source of financing for residential construction are mortgage loans. Following a contraction in mortgage borrowing in 2015, the market picked up in 2016. In 2018 the mortgage market expanded by 50 per cent in value to RUB3trn. Nevertheless, the sector contracted again in 2019 – this time by five per cent. In terms of the number of mortgage loans the YoY decrease in 2019 was 14 per cent YoY.

Cement demand resumes growth

After a four-year contraction, domestic cement demand resumed growth in 2019. Consumption expanded by 7.1 per cent YoY to 58Mt, delivering a performance that was better-than-expected by market players at

the start of the year.

The recovery started in the 4Q18 and while it continued throughout 2019, the market slowed in the second half of the year as the change in financing arrangements prompted a boom in the 1H19.

Positive dynamics were also seen in key cement-consuming sectors of the building materials industry. In 2019 ready-mixed concrete production advanced by 12 per cent YoY, ready reinforced concrete products by 5.5 per cent while the output of cement-based dry mixes (dry mortars) was up five per cent.

Domestic cement supply

Russia's cement market is served mainly by domestic producers, which account for 98 per cent of supply. Cement production

advanced by 7.4 per cent YoY to 57.7Mt in 2019 (see Figure 2). However, the average capacity utilisation rate remains low at around 55 per cent.

Rising prices

In 2019 the average producer price for cement, excluding VAT and delivery costs, increased by 4.5 per cent YoY to RUB3717/t (US\$57.50/t) – exceeding the country's inflation rate of three per cent.

Retail prices, including 20 per cent VAT and delivery costs, advanced 7.5 per cent YoY to RUB4894/t (US\$75.70/t) in 2019.

Increasing trade volumes

Rising levels of cement demand led to a four per cent rise in imports during 2019 to 1.4Mt. Belarus is the largest importer into Russia, accounting for 59 per cent of total import volumes, followed by Kazakhstan (19 per cent) and Iran (14 per cent).

Russian producers also enjoyed a nine per cent rise in cement exports in 2019, reaching 1.1Mt. Kazakhstan was Russia's largest export market (42 per cent), followed by Belarus (30 per cent), Ukraine (18 per cent), Finland (four per cent) and Azerbaijan (three per cent).

2020 forecast

While the new Russian government will endeavour to reach the targets for various national construction projects, GS-Expert does not expect high rates of domestic demand growth. Cement consumption and production in the country are only expected to increase by 1-3 per cent in 2020 when compared with 2019 levels. However, higher growth rates are anticipated from 2021 onwards. ■

Figure 2: cement consumption and production in Russia, 2010-19

