

Institutional Transformations of Russia's Housing Construction Sector in 2020

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Abstract—This paper shows the ongoing development of two key trends in Russia's housing construction sector: the strengthening role of the state and the formation of market leaders that control its privileged part. The latter are separated from the rest of the market by ever-deeper institutional barriers. These barriers arise due to “special” relations of such companies with the largest banks, their advantages in obtaining financing in the securities markets, better terms of interaction with development institutions, primarily JSC DOM.RF, PPK Fund for the Protection of Rights of Citizens Participating in Shared Construction, the Housing and Utilities Fund, with adequate access to the instruments of state guarantees, and other conditions provided by these institutions. It is shown that such an institutional mechanism provides the best conditions for achieving national goals in the housing sector. Conclusions are made regarding the risks and limitations in terms of achieving the goals of the National Project, Housing and Urban Environment, as well as the advisability of developing a strategy for transforming temporary anticrisis measures of state support into a long-term policy of public–private partnership and maintaining the multistructural character of the industry and market economy.

Keywords: institutional economics, housing construction, expanded reproduction, anti-crisis measures, national project

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Introduction. Ten years ago in Russia, in contrast to the United States, the global financial crisis interrupted the natural transition of the market from the growth stage to the stabilization stage, and the market entered a crisis period, maintaining the potential of the deferred population's demand, that is, the nature of crises in the two considered markets is different [1]. Therefore, government measures to support the housing construction sector should also be different, in particular, the importance of developing instruments for financial stimulation of supply in Russia is emphasized.

Since then, within ten years, to stimulate supply in the sector, state support tools were created for the housing land development and the maintenance of engineering infrastructure in multiapartment residential development, along with securitization instruments (issuance of securities of developers and their projects), instruments of state guarantees for loans and emission obligations, and tools for project planning financing using escrow accounts. At the same time, the demand stimulation is now represented by state benefits for many categories of the population and, most importantly, the unprecedented development of the mortgage, including with state support of banks,

since effective demand weakened due to a combination of macroeconomic and monetary reasons. In other words, the market did not cope with national growth targets in the housing sector without systemic government support and particular governmental anti-crisis measures.

As if to confirm the above, on September 3, 2020, speaking at the III Stolypin Forum¹, Deputy Prime Minister Yuri Borisov said that only the state can provide a way out of the crisis and real economic growth: the market economy cannot cope with this task. The state is “the largest player in the market and therefore must dictate its will in the interests of its producers.”

Of course, one cannot but agree that the importance of state institutions in economic life is growing, including in countries with developed market models. The state, especially during a crisis, is indeed becoming an irreplaceable subject of the economy, capable of accumulating significant resources and making systemic decisions. But it is one thing to strengthen the state's role in times of crisis and in countries where the bulk of GDP accounts for small and medium-sized

¹ <https://stolypinforum.ru/tpost/ixiucj49h2-iii-stolipin-forum-immunnaya-sistema-mir>.

businesses. Quite another is the strengthening of the state in the economy, where, according to some estimates, the public sector accounts for up to 70% of GDP (as in Russia) [2, 3]. As a result, in our opinion, in the coming years one can expect an increase in the trends of implicit “nationalization” of business through financial instruments of market control, when state support in various forms, directly (from the budget) or indirectly (through loans and emission of market debt instruments under state guarantees) is carried out with permanent or temporary loss of controlling stakes by the beneficiaries.

As shown by economic history [4–10], the long-term technological and socio-economic effects of such a crisis-related nationalization, in addition to the scale of state support, depend on the following factors:

—The depth and detail of the goal-setting of the state support strategy.

—Elaboration of accuracy and ways of determining the horizons of application of each of the state support mechanisms.

—The timeliness and methodological adequacy of the institutional maintenance of private capital markets as a phased replacement of state financing (de facto financial denationalization of economy sectors).

Let us consider how these factors are implemented in the multiapartment housing construction (MAHC) sector in the context of the crisis of 2020.

Anti-crisis measures taken due to the coronavirus pandemic. On September 23, 2020, at a meeting of the Government of Russia, National Action Plan to Ensure the Recovery of Employment and Incomes of the Population, Economic Growth, and Long-Term Structural Changes (hereinafter, the National Plan), previously approved by the President, was accepted for a period from June 2020 to December 2021².

The National Plan also comprises the Action Program for the Development of Residential Housing Construction and Mortgage Lending, which includes more than 200 initiatives of the Ministry of Construction, DOM.RF, industry associations NOSTROY and NOZA, and other institutional market participants.

This program suggests a forecast indicator of housing commissioning by the end of 2020 at the level of 75.8 million square meters, and after the implementation of the proposed measures the projected commissioning will amount to 82 million square meters. At the same time, it is indicated that achieving the planned indicator of the national project in terms of the volume of housing commissioning will be possible only with the implementation of all the proposed support measures. They suggest, in particular, three strategic directions for institutional reforms and modernization of management of the construction sector and real estate markets:

1. “New rhythm of construction:” acceleration of construction procedures and reforming of the regulatory legal framework for urban planning and construction.

2. Digitalization of the construction sector by the creation of a single digital space in construction and the use of a digital model of an object throughout its life cycle.

3. Creation of a program for accelerating the socio-economic development of urban agglomerations and cities that function as centers of economic growth.

These strategic directions include a number of specific medium-term institutional incentives that involve:

—Development of tools for accumulation of initial mortgage payments.

—Involvement in turnover the federal land plots for housing purposes.

—Increasing the role of federal development institutions such as AO DOM.RF, PPK Fund for the Protection of Rights of Citizens Participating in Shared Construction, and the Housing and Utilities Fund.

—Increasing the efficiency of providing land plots with the necessary infrastructure.

—Development of the institution for integrated individual housing construction.

—Development of the rental housing institution.

—Optimizing the processes of technological joining to utility networks.

—Reduction of emergency housing stock.

—Improving the quality of major overhaul of apartment buildings.

Operational monetary measures for emergency support of the industry and the market include the following:

(1) Extension of the concessional mortgage lending program at the annual rate of 5% for the period until December 31, 2021, the budgetary costs for the implementation of this measure amount to 372.6 billion rubles.

(2) Lowering mortgage rates for young families that are on the waiting list (there are 231.3 thousand such families) also to 5%, which in turn will require budget financing in the amount of 243.53 billion rubles.

(3) Government subsidies of preferential interest rates to banks on loans to developers to finance new projects with profitability of less than 15% and a debt coverage ratio of cash flows of less than 1.2; the volume of financing will be about 55 billion rubles.

(4) Allocation of at least 100 billion rubles annually within three years in order to complete the construction of problematic objects.

(5) Additional financing of the state program Stimulus (which helps developers to build social and engineering infrastructure at the expense of budget funds)

² <https://www.economy.gov.ru/material>.

in 2020–2021 by using allocations planned for 2023–2024.³

The system-wide measures in the National Plan also include coordination of measures of the national project “Housing and Urban Environment” and measures of other national projects, which is a positive change and will potentially allow for harmonization of measures and targets of the National Project with other priority projects and strategic planning documents of a higher level.

In addition, on June 23, 2020, the Chairman of the Central Bank of the Russian Federation Elvira Nabiullina, presenting the report of the Bank of Russia for 2019 to the State Duma, said that “...we also plan to reduce the risk-benefit ratios for mortgage loans. This will allow the banks to free up about 300 billion rubles of capital to expand lending.”⁴

The regulator plans to set lower risk-benefit ratios for mortgage loans, in the range from 20 to 100% (currently up to 200%)⁵. To apply lower ratios, banks will need to assess the borrower's creditworthiness by calculating the debt service ratio. The final indicator will depend on two components: the credit/collateral ratio and the borrower's debt burden. It is expected that borrowers with high initial payment and low debt burden will benefit most from the Central Bank's decision: those who spend no more than 30–40% of their income on mortgage servicing.⁶

In addition to the above measures, in June 2020, the Unified Institute for Development in the Housing Sector, DOM.RF, began the next stage of organizing the purchase of apartments in new buildings from developers within the framework of state support for the sector. In addition to Voronezh oblast and Krasnoyarsk krai, which have become pilot sites for the state program, it covers Kaluga, Lipetsk, Novosibirsk, Rostov, Smolensk, Tyumen, Ulyanovsk, and Yaroslavl oblasts, Republic of Bashkortostan, and Stavropol krai. The program for the purchase of standard housing under construction from developers is being implemented at the initiative of the President of the Russian Federation V. Putin as one of the measures to

support the construction sector and resolve the housing issue during the crisis.

The procedure for implementing this program provides for an auction. Within the auction framework, developers in the regions must offer a discount to the market sales price (in each specific building) averaged over the past six months. Accordingly, those houses for which the largest discount is offered will be considered for buying first. In addition, the proposed houses must be commissioned by June 30, 2021. The buyer is the closed-end mutual investment fund “Comfortable Housing” under the management of “DOM.RF Asset Management.” The total amount of funds allocated for direct purchase of apartments in order to support the construction sector during the crisis period will amount to 150 billion rubles. Of these, 50 billion rubles will be under state guarantees provided to the company by the Ministry of Finance within the framework of the execution of the corresponding order of the President of Russia, given to the Government following an online meeting on the development of the construction sector, held on April 16, 2020. This way, according to the company's estimates, up to 3 million square meters or about 3% of all housing being built in the country can be bought.

Features of multiapartment housing construction as an object of systemic state support and anticrisis measures of state incentives. In the field of housing construction, processes of rapid concentration of business, namely the emergence of market leaders who have significant institutional advantages in comparison with other companies, in fact began only in the last one or two years following the reform related to the introduction of escrow accounts and the transformation of the Agency for Housing Mortgage Lending and the Russian Capital Bank into the joint-stock company DOM.RF⁷ [11, 12].

The above-listed works predicted a significant increase in the role of the state in the control of the housing construction market, mortgage lending, and primary and even secondary housing markets. Until recent years, these areas remained weakly monopolized, to a large extent being associated with regional and local authorities (which regulate building permits, project approval, land allocation, and land use). To a large extent, housing markets were used to legalize

³ The federal program “Stimulus” started in Russia in 2016. According to its terms, a developer participating in an integrated development of the territory must draft a project and receive a positive conclusion of the state inspection, as well as transfer the site meant for the construction of facilities related to social, transport, and engineering infrastructure. The construction works are ordered by municipal authorities, who select the contractor. The construction itself is financed from the federal (67%), regional (29.7%), and local (3.3%) budgets. At present, Stimulus is part of the national project “Housing and Urban Environment.” A total of 183.7 billion rubles over five years is allocated for the implementation of measures within this program. By 2024, it is planned to bring the level of state support to 40 billion rubles per year.

⁴ <http://duma.gov.ru/news/48888/>.

⁵ <https://cbr.ru/press/event/?id=6855>.

⁶ <https://rg.ru/2020/06/22/bank-rossii-snizit-koefficienty-riska-po-ipoteke.html>.

⁷ A.A. Blokhin, S.G. Sternik, and G.V. Teleshev, “Transformation of institutional rent of apartment housing developers into institutional rent of credit organizations,” *Imushchestv. Otnosheniya Ross. Fed.*, No. 1, 6–17 (2019). A. A. Blokhin and S.G. Sternik, “Institutional rent as a non-market mechanism of economic growth,” in *Scientific Proceedings: Institute of Economic Forecasting, Russian Academy of Sciences*, Ed. by A.G. Korovkin (MAKS Press, Moscow, 2019). S.G. Sternik, G.N. Malginov, and M.A. Lavrent'ev, “The impact of the institutional reform of equity participation in construction on the primary market of apartment housing,” *Imushchestv. Otnosheniya Ross. Fed.*, No. 5, 25–43 (2020). S.G. Sternik, “Improvement of the housing conditions of the population: Challenges of achieving the national goal,” *Stud. Russ. Econ. Dev.* 30, 434–441 (2019).

shadow turnover and involve its cash flows in the official account of GDP indicators (due to the fact that at present when individuals purchase real estate or share investment rights for future housing no income declarations are required).

The authors also showed that since 2017 these markets have been and will be experiencing the redistribution of assets with bankruptcies and market exits of multiple relatively small and medium-sized developers and other market participants, with the rapid formation of several companies controlling the market and having access to relatively cheap financing in the bond and other markets. It was also predicted that the state control over these companies through DOM.RF would increase. In addition, it was assumed that these processes would intensify due to the growth in the volume of real estate owned by banks, the worsening quality of expertise and project management in banks participating in the financing of housing projects through escrow accounts, and the higher share of “bad” collateral.

Let us analyze to what extent these processes and trends have been confirmed in the crisis at the end of 2020.

The passport of the National Project “Housing and Urban Environment” (hereinafter referred to as the National Project) provides for an increase in the volume of housing construction to 120 million square meters per year by 2024. At the same time, the main growth of this indicator should be provided by an increase in the volume of multiapartment housing construction from 46.2 million square meters (baseline, fixed as of January 1, 2018) to 80 million square meters per year; the volume of commissioning of the housing constructed by the population (individual housing construction, IHC), should not change so significantly, only from 33 to 40 million square meters per year (Fig. 1).

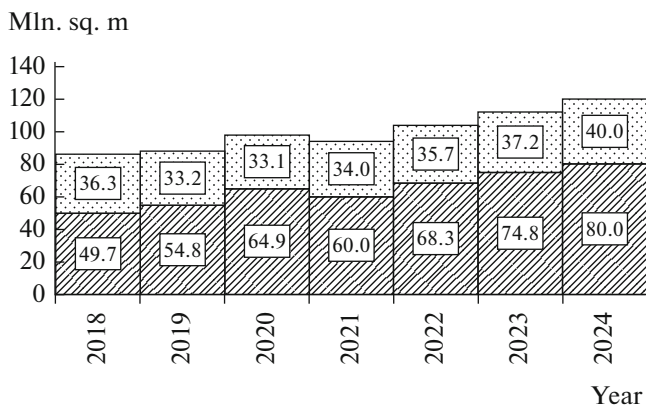


Fig. 1. Parameters for commissioning multiapartment housing on the horizon until 2024 in accordance with the project “Housing and Urban Environment:” constructed by the population; in multi-apartment buildings.

Source: passport of the National Project “Housing and Urban Environment.”⁸

⁸ <https://base.garant.ru/72192510/>.

Subsequently, in accordance with the Presidential Decree on National Development Goals until 2030,⁹ the Government of the Russian Federation was instructed to submit national projects by October 30, 2020, taking into account the updated time horizon for the implementation of national development goals. In particular, representatives of the Ministry of Construction indicate that the share of private construction may increase to 50 million square meters, however, even taking this into account, the volume of multiapartment housing construction is expected to increase significantly¹⁰.

It should be noted that in the economic sense these two categories of housing construction (MAHC and IHC) have significantly different requirements in terms of the expanded reproduction mechanism:

—Individual housing construction (IHC) carried out by citizens is mainly aimed at meeting individual needs of citizens (households), namely improving (quantitatively and/or qualitatively) the characteristics of the available housing stock. Once such needs are met, as a rule, there are no sustainable construction business activities to satisfy demand of other citizens (households). Thus, the process is one-time in nature and does not require the formation of a tool for expanded reproduction on the scale of the entire economy, while its stimulation can be targeted and sufficiently flexible, tied to the needs of a particular region/category of citizens.

—Multiapartment housing construction (MAHC), taking into account both the nature of mass construction and the need for a multifold increase in the volume of such construction in order to reach the indicators of the National Project, apparently, requires a functioning and sustainable tool to expand reproduction in order to increase the volume of commissioning from year to year on the horizon until 2024–2030 (and possibly beyond).

At the same time, in order to maintain a stable expanded reproduction in the multi-apartment housing construction sector as the main source of increasing the volume of housing construction, it is unavoidable that several limitations and risks be faced.

Limitations and risks associated with the scale of development business and institutional factors. In our opinion, such limitations primarily include the high proportion of companies with just one or two projects (at least 60% of the total number of developers) (Fig. 2).

This category of market participants is characterized by difficulties in scaling up the business in comparison with the largest developers, especially in the context of significant institutional differences and the transformation of the institutional rent of developers

⁹ <http://www.kremlin.ru/events/president/news/63728>.

¹⁰ <https://tass.ru/nedvizhimost/9693593>.

Number of residential complexes for a given developer

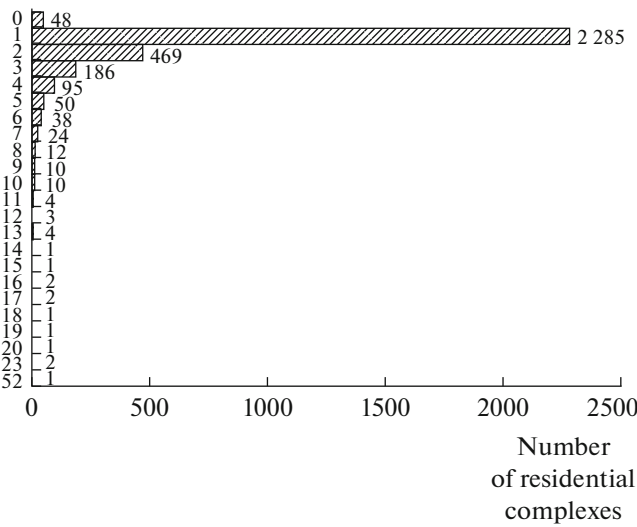


Fig. 2. Distribution of developers by the number of projects.
Source: erzrf.ru, authors' calculations.

into the institutional rent of credit institutions¹¹. It is also necessary to take into account that a significant part of construction projects is characterized by low levels of debt coverage in case prices decrease (Fig. 3), which creates additional restrictions for developers in the unfavorable scenario in the real estate market.

It should be noted that these limitations are imposed by the potential capital deficit of developers, which on the horizon until 2022 is estimated to be up to 1 trillion rubles¹², as well as by significant differences in terms of developers' access to financial resources:

—In terms of the extent of access to equity holders' funds (systemically important developers have significant concessions from the point of view of the transition to escrow accounts).

—By the extent of access to project financing (a significant share of projects has a low debt coverage ratio, as indicated above, and is less reliable in terms of bank financing).

—By the level of concentration of revenues from the sale of multiapartment housing (Fig. 4).

¹¹A.A. Blokhin, S.G. Sternik, and G.V. Teleshev, "Transformation of institutional rent of apartment housing developers into institutional rent of credit organizations," *Imushchestv. Otnosheniya Ross. Fed.*, No. 1, 6–17 (2019).

¹²<https://raexpert.ru/researches/development/housing-sector2018>.

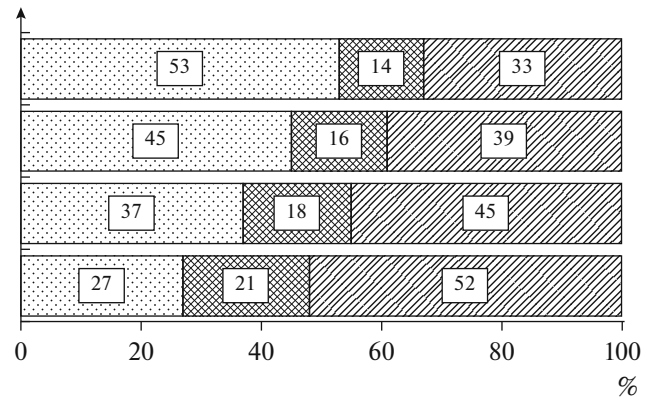


Fig. 3. Distribution of projects by debt coverage level in different scenarios:
▨ high LLCR < 1.15; ▩ moderate LLCR 1.15–1.3; ▨ low LLCR > 1.3.
Source: E&Y Review of the Russian housing construction market.

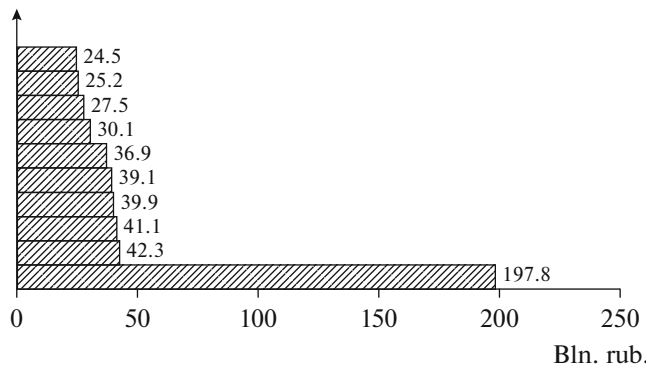


Fig. 4. Estimated revenue of the largest developers in Moscow oblast for 2018, billion rubles.
Source: public reports of companies for 2018.

—By the extent of access to financing through the placement of bonds and other financial instruments¹³ (Fig. 5).

Taken together, the above factors can deepen the already existing differences. Small (especially regional) developers experience a significant capital shortage amid low margins in regional development¹⁴. At the same time, large developers operating in the most profitable markets have a wider range of concessions and sources of financing and so the amount of profit sufficient not only to replenish capital and

¹³S.G. Sternik, "Improvement of the housing conditions of the population: Challenges of achieving the national goal," *Stud. Russ. Econ. Dev.* 30, 434–441 (2019).

¹⁴<https://realty.rbc.ru/news/5d6f8ad99a79476b1e5c6c17>.

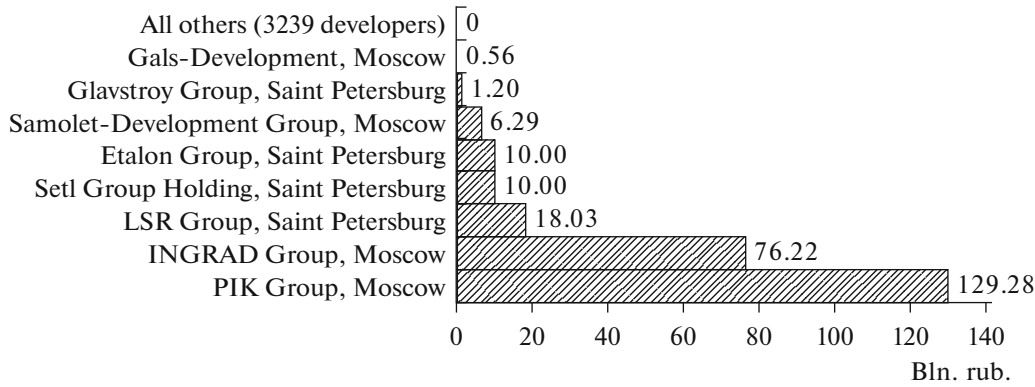


Fig. 5. Volume of outstanding ruble instruments (shares and bonds at Moscow Exchange).

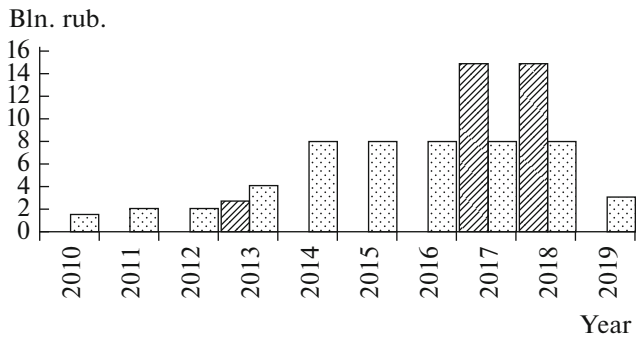


Fig. 6. Dividends of PIK Group (▨) and LSR Group (▤), 2010–2019.

Source: data from PIK Group: <https://www.pik.ru/about/share-capital/dividends> and LSR Group: <https://www.lsrgroup.ru/investors-and-shareholders/stock/dividendy>.

maintain expanded reproduction but also to make dividend payments (Fig. 6).

Thus, from the point of view of the formation of a stable way of expanded reproduction, the multiapartment housing construction sector as a whole is characterized by rather significant disparities related, inter alia, to the fact that the largest systemically important developers (PIK Group, LSR Group) operate mainly in high-margin markets (Figs. 7 and 8).

At the same time, even an expanded list of 43 systemically important developers, in terms of the geography of their projects, is represented by about only one-third of the federal subjects of Russia. This is happening also against the background of the fact that growth rates of equity holders' funds on escrow accounts exceed growth rates of project financing (here we assume that large developers, in contrast to small and less financially stable ones, do not experience significant difficulties in attracting project financing (Fig. 9).

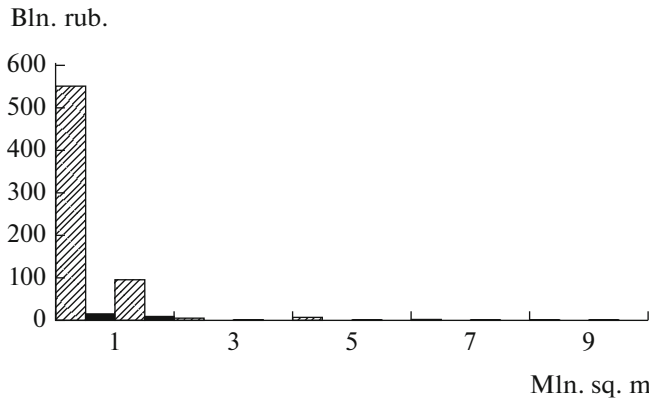


Fig. 7. PIK Group: distribution of the fair value of the portfolio (▨) and the area for sale by city (■).

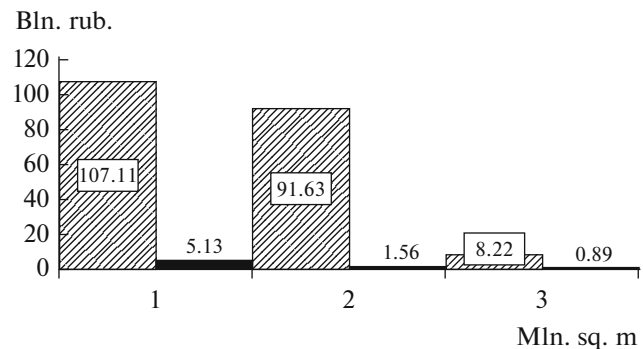


Fig. 8. LSR Group: distribution of the fair value (▨) and the area for sale by city (■).

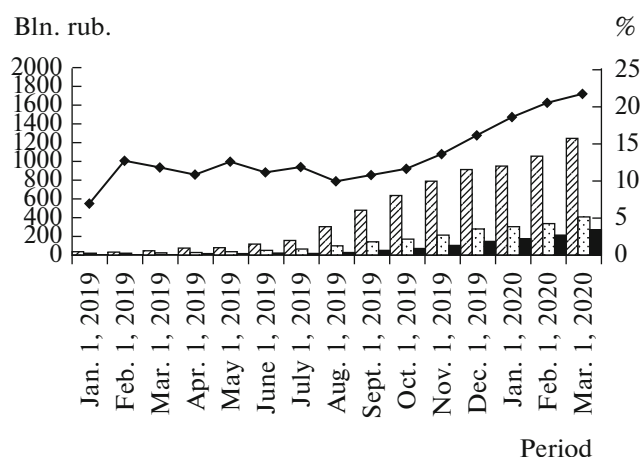


Fig. 9. Comparison of the dynamics of the volume of funds on escrow accounts and project financing of developers: ▨ amount of loan agreements; ▩ amount of current debt; ■ amount on escrow accounts; —◆— coverage of project financing by means of escrow accounts.

Source: Central Bank data¹⁵, authors' calculations.

Thus, in the current situation, small regional developers with relatively low credit ratings and unstable financial indicators are unable to support the expanded reproduction mechanism in the respective markets using only internal resources (moreover, they are on the verge of bankruptcy and could increase the number of problematic objects). Direct additional capitalization of a large number of small regional developers most likely has no prospects, which will inevitably result in the consolidation of the sector around systemically important developers, who institutionally become increasingly more and more associated with large banks and the state corporation DOM.RF. In the future, systemically important developers will be able to perform the function of the so-called “federal operators,” four–five representatives of the alpha business, carrying out construction in most federal subjects of Russia and concentrating 60% or more of the revenue of the entire sector¹⁶.

Conclusions. The foregoing suggests the following conclusions.

The combination of institutional transformations that were taking place before the pandemic in the sector of multiapartment housing development and the additional effects caused by the economic downturn during the crisis form preconditions for dividing developers into at least two categories (in terms of the possibility of implementing expanded reproduction,

and hence achieving the goals of the national project “Housing and Urban Environment”):

—Developers who are able to independently support expanded reproduction (these include both large systemically important developers and some of the most stable regional developers in certain regions).

—Small companies that carry out one or several projects and are unable to scale their business outside their region.

An almost insurmountable institutional barrier has formed and keeps deepening between these two groups of companies, which enables participants in the privileged part of the market to receive institutional rent.

The list of measures taken due to the crisis, in our opinion, does not fully harmonize the distribution of support with the goals of the national project “Housing and Urban Environment” due to their concentration in a relatively small number of regions of the Russian Federation and mainly among companies of the first of the above categories. Moreover, we believe that at the current stage of the economic history of Russia there are institutional prerequisites for higher efficiency of state policy aimed at overcoming the economic downturn and at transferring the national economy to the regime of growth and positive structural and technological transformations. To this end, the “temporary” anticrisis state support for business should be transformed into a strategy for targeting towards diversified economy at the levels of “state corporation—large private business—medium and small business” depending on phases of cycles in global, sectoral, and regional markets using Russian and international experience in program budgeting.

We expect that in the current crisis of 2020 Russia has a chance to correct the shortcomings of the methods of economic recovery from the crises of 2009 and 2014, when state support did not lead to a further increase in the domestic and international competitiveness of many businesses. This did not happen only because the state support was not on time and was not technically enough transformed into a launching pad for further private investment with a shift in priorities towards socioeconomic development of society. In our opinion, to maintain a certain level of competition in the sector, the decrease of which is inevitable in the current conditions, it is advisable to consider the use of public-private partnerships for the development of large territories in the regions through the means of the so-called “master-planned development” [13–21]. Under such a scheme, a large (possibly state) developer carries out the whole complex of general planning of the territory, preparation of infrastructure, communications, while private (including small) development companies receive separate plots for construction at a price characterized by inherent normative profitability of projects, in accordance with the

¹⁵https://cbr.ru/banking_sector/equity_const_financing/.

¹⁶It should be noted that the Ministry of Construction of Russia from October 1, 2020 will function as a single state customer in the construction of departmental facilities, but it is difficult to assess how this is translated into the field of housing construction. https://roskapstroy.ru/news/news_1288/.

parameters established in the master plan (number of floors, price parameters of housing, etc.).

From the point of view of the state, such projects potentially make it possible not only to purposefully improve the financial situation, including of small construction companies, but also to maintain the required level of competition in the sector. In addition, such projects could harmonize the targets of the national project “Housing and Urban Environment” with the tasks of spatial and regional development of Russia and the development of transport and other types of infrastructure (for example, gasification projects), while maintaining a high degree of centralized control and risk sharing in project implementation.

This approach will significantly strengthen the role of the state in multiapartment housing construction in the coming years without the actual nationalization of this area, which is understandable under conditions of a crisis. At the same time, this will allow preserving the possibilities for its subsequent relative “denationalization,” which will become in demand at the stage of higher economic growth, after overcoming this crisis.

CONFLICT OF INTEREST

The authors declare that they have no conflicts of interest.

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