

Impact of the Russia-Ukraine Conflict on Russian House Prices

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Abstract. With the gradual improvement of Russia's economic form and the gradual tension in geopolitical relations, the contradictions between Russia and Ukraine have gradually intensified and evolved into conflicts. However, in the face of growing Russian-Ukrainian relations, increasing domestic tensions and increasing international tensions, the Russian economy and the housing prices are still growing steadily, so understanding domestic employment, average income and Russia's international cooperation is crucial for both domestic and foreign investors. As a consequence, this paper collects data on housing price, employment rate and per capita income in Russia, and based on the changes of housing price, employment rate and salary level in Russia under the war environment, Through the analysis of macroeconomic, capital flow, international cooperation and other aspects of Russia's future housing price changes to analyze and forecast, and put forward some regulation suggestions for the government and appropriate foreign investors to put forward some investment suggestions.

Keywords: Russia-Ukrain Conflict, Employment and Income, House Prices, Macroeconomics.

1. Introduction

The Russian-Ukrainian conflict has not only attracted widespread attention from the international community but has also had varying degrees of impact on the economies of countries around the world [1-3]. Among these impacts, the real estate market stands out as an important part of a country's economic system and is closely related to the country's overall economic situation [4-7]. Focusing on the Russian real estate market, this study analyses and compares the changes in house prices in Russia's non-war zones before and after the outbreak of the Russian-Ukrainian conflict. The aim is to shed light on the mechanisms by which geopolitical tensions and conflicts affect a country's real estate economy. Specifically, the study attempts to analyze the internal logic of the growth of house prices in different regions under both the Russian-Ukrainian conflict. Finally, through scientific and theoretical research, possible mitigation measures and recommendations are proposed to inform subsequent research and policy formulation.

2. Development and Analysis of the Causes of Housing Prices in Russia

Two Analysis of the development and causes of house prices in Russia (employment and income). From 2019, as shown in Fig. 1, house prices in the three main representative cities of Russia, Moscow, Voronezh, and Vladivostok, are all on an upward trend, which gives a good indication of the overall change in house prices in Russia [8].

According to the Federal Statistics Service of Russia, in the first quarter of 2022, the quarter in which the Russian-Ukrainian war broke out, national house prices in Russia rose by 18.78 percent year-on-year after adjusting for inflation, the highest quarterly increase since 2007. Without adjusting for inflation, Russian house prices would have risen by as much as 32.5 percent in nominal terms in the first quarter. In the second quarter, Russian house prices continued to jump by another 11.69 percent year-on-year.

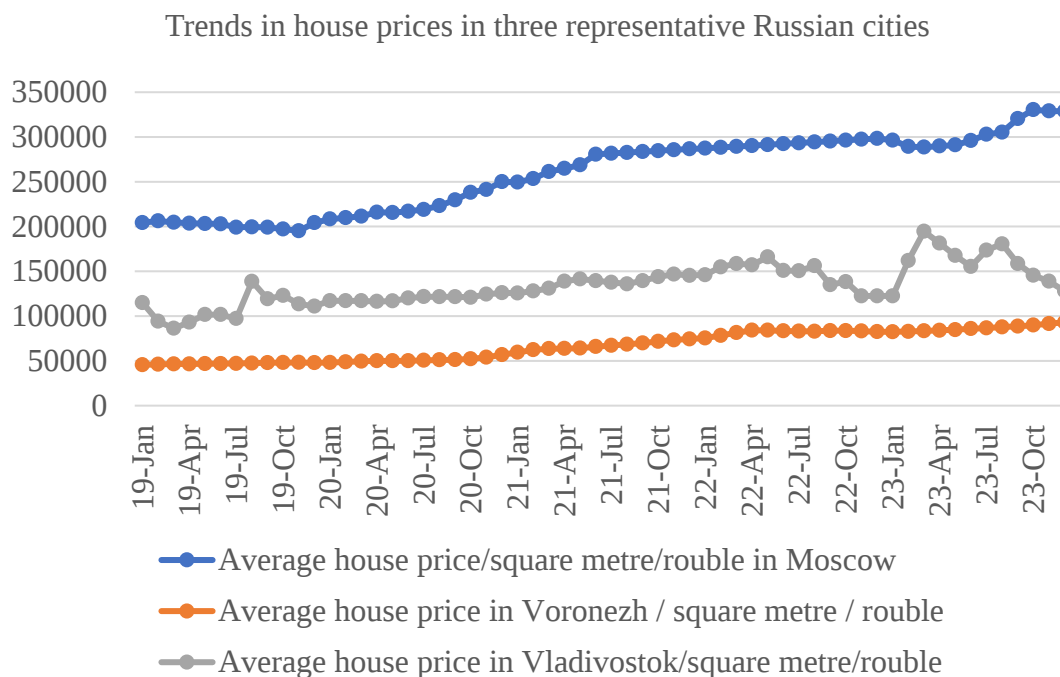


Fig. 1 Trends in house prices in three representative Russian cities

Rising employment, increasing average incomes, and capital flows in the form of inflation are all contributing to the soaring property prices in Russia. As foreign investment declines, Russia is paying more attention to stimulating domestic demand. At the same time, Russia is facing a sharp rise in labor costs and is heading towards an "expensive labor market" due to the withdrawal of many foreign brands and the high level of unmet domestic demand in the Russian market. However, the median wage in Russia has doubled in the last five years, as evidenced by the data. Wage growth is the result of full employment in Russia and record-low unemployment in Russia. As shown in Fig. 2, Fig. 3, and Fig. 4, there is a direct correlation between the incomes of residents in the three cities and their house prices.

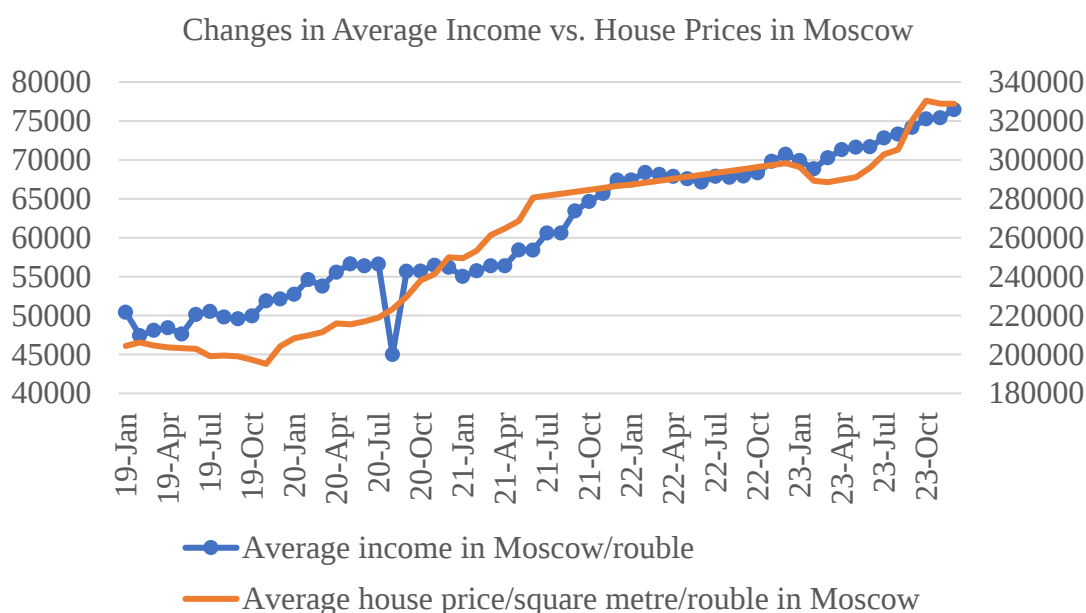


Fig. 2 Changes in Average Income vs. House Price in Moscow

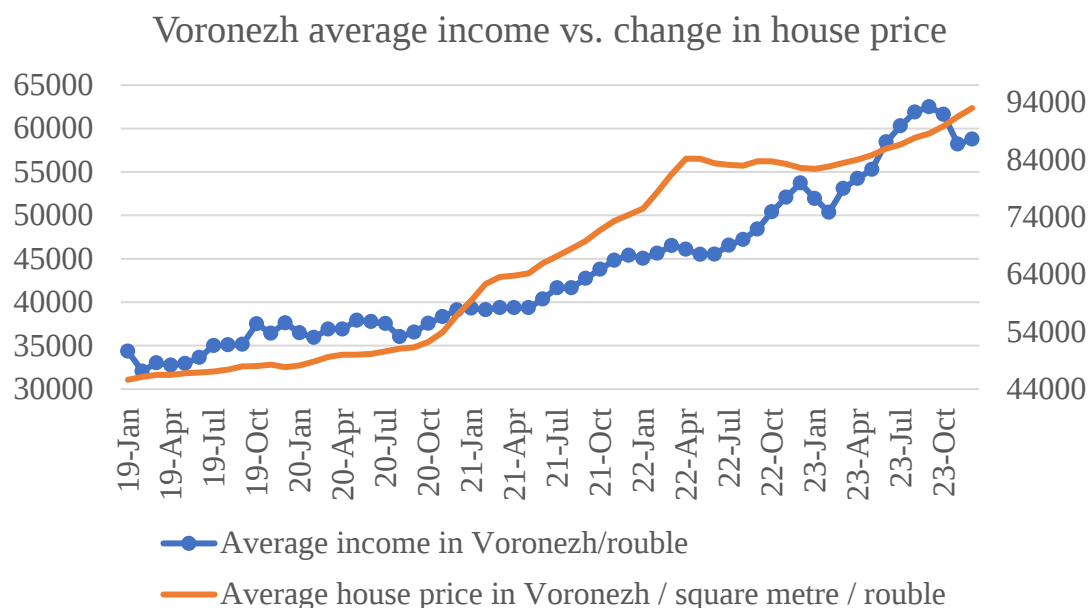


Fig. 3 Changes in average income versus house price in Voronezh

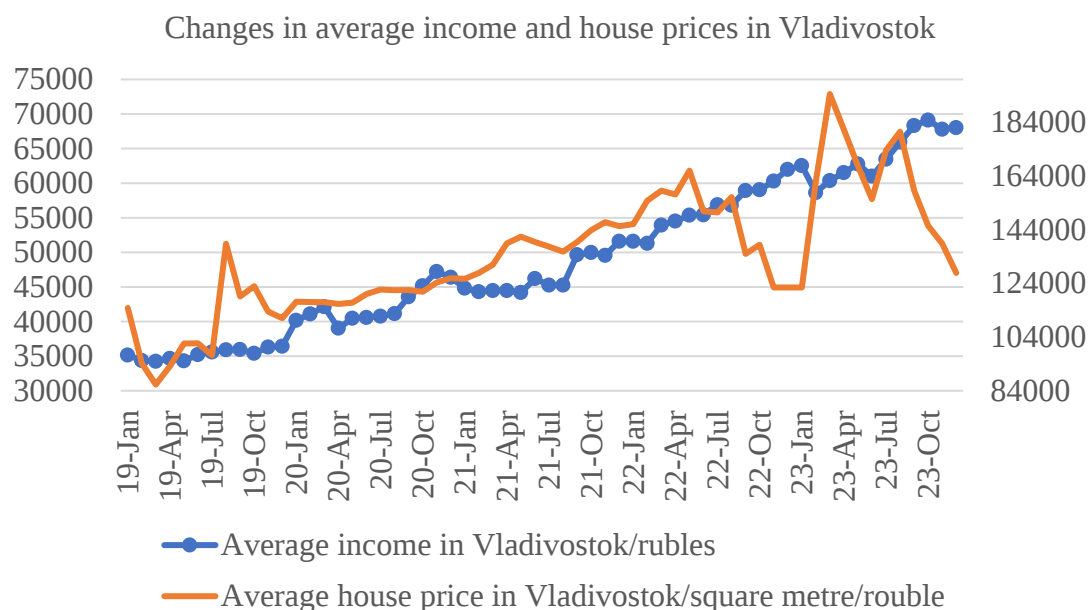


Fig. 4 Changes in Average Income and House Prices in Vladivostok

Rising income levels usually have a positive impact on house prices, but the exact effect depends on a combination of factors, including supply and demand, the investment environment, and policy measures.

When people's income levels increase, their purchasing power increases accordingly. This may result in more people being able to afford higher-priced homes, thus increasing the demand for housing. With a relatively stable supply, the increase in demand may drive up house prices.

Increased incomes may stimulate interest in property investment. They may put more money into buying property, real estate investment trusts (REITs), or other real estate-related investments, which could increase the demand for investment in the property market and have a positive impact on house prices.

The increase in higher income groups may change the balance between demand and supply in the property market. With increased demand, property developers may be incentivized to increase the

supply of new housing to meet the needs of higher income groups, which may have some mitigating effect on house prices.

Income increases are usually associated with economic growth and increased employment opportunities. When the economy of an area is doing well and employment is high, people's income levels tend to increase. In this case, the property market is likely to be more buoyant as people are more able to afford to buy homes, which may have a positive effect on house prices.

Data from the Russian State Statistics Service (Rosstat) show that in 2023 the unemployment rate in Russia fell to the lowest level in history since 1991 - 3 percent - and the total number of unemployed people was about 2,276,000 people. There are many reasons behind this situation, and one of the main factors is the shift in Russia's economic model under sanctions. As a result of the socio-economic changes of the 1990s, the Russian industrial sector was severely affected. Unable to cope with foreign competition, many enterprises closed down and restructured, reducing the demand for specialized jobs. Currently, Russia is gradually moving away from a resource-based economic model and actively increasing the production of high-value-added goods. Labor and capital are being transferred to efficient enterprises. In addition, the import substitution strategy has begun to work, which requires an increase in production, and thus an increase in the number of employees. The greatest competition for labor resources is concentrated in manufacturing, construction, logistics, and trade. Of course, an important factor in the rise in employment is the war in the Russian-Ukrainian conflict, which has generated a large number of jobs on the war front as well as in the military industry in the rear, etc. A large number of young adults as well as unemployed people have entered the army or the military industry to a greater or lesser extent, which in one step has led to an increase in the employment rate.

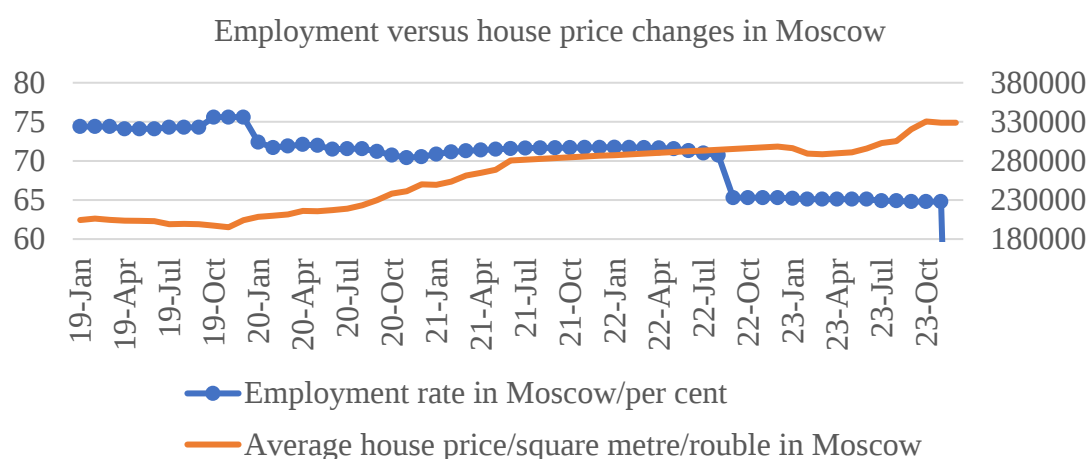


Fig. 5 Changes in Employment Rates vs. House Prices in Moscow

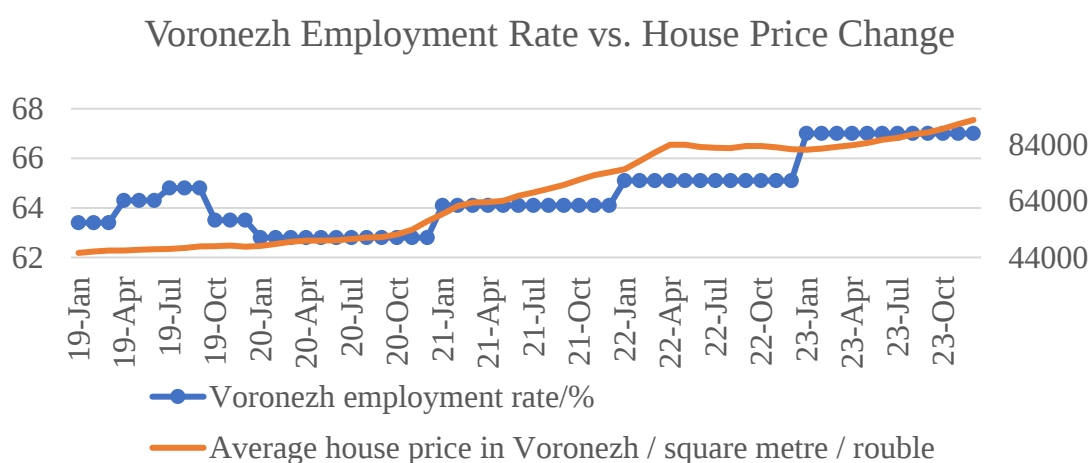


Fig. 6 Comparison of changes in employment rates and house prices in Voronezh

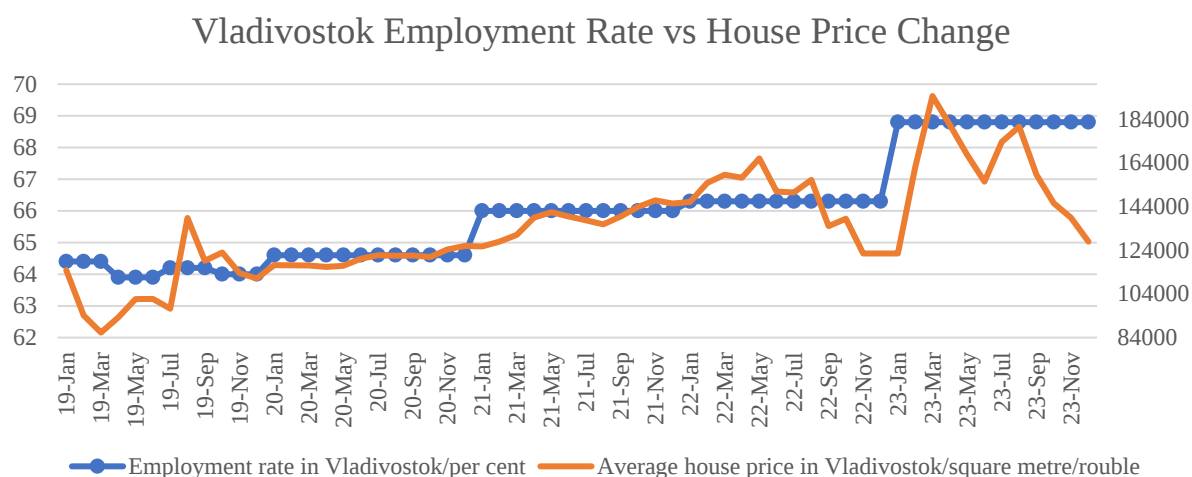


Fig. 7 Changes in Vladivostok's Employment Rate vs. House Prices

As shown in Fig. 5, house prices rose in Moscow as employment fell. The situation in Moscow may be different from the general case in that, despite the fall in employment, other factors may have a greater impact on house prices in a metropolis such as Moscow, leading to an increase in house prices. Although the drop in employment may hint at an economic downturn, Moscow, as Russia's economic hub and a national business and financial center, is still likely to attract significant investment. Investors are likely to put their money into Moscow's property market as they see property as a relatively stable investment. Moscow is one of the largest cities in Russia and attracts a large influx of people. This population growth could lead to an increased demand for housing, which could push up prices. Moscow is likely to undergo a process of urbanization and regional development, leading to increased demand for housing. While the slowdown in economic growth may lead to a decline in employment in some sectors, urbanization, and regional development may lead to new demand for housing, driving up house prices. Moscow's property market may face a lack of supply. Although declining employment may reduce the purchasing power of some people, if there is a shortage of housing supply, house prices may still rise because demand still exists. The government may take measures to stimulate the economy or the property market, which may support expectations of higher house prices. If market participants anticipate that the government will take measures to support the property market, they may actively participate in the market, which may drive up house prices. As shown in Fig. 6 and Fig. 7, Voronezh and Vladivostok employment and house prices have increased. While higher employment may have a positive impact on house prices, the exact impact depends on a combination of factors, including the economic conditions of the region, supply and demand, government policies, and the international environment. Higher employment means that more people have stable jobs and sources of income, and they are in a stronger position to buy property. This will increase the demand for housing and drive up house prices. A stable job market and increased employment opportunities may boost people's economic confidence, making them more willing to make large purchases, including property purchases. This boost in confidence may stimulate property market activity and have a positive impact on house prices. High employment rates are usually accompanied by population growth and movement of people, especially in areas that attract talent and have more employment opportunities. This may lead to increased demand for housing, especially in markets with relatively limited supply, and may drive up house prices. Higher employment is usually associated with economic growth and increased corporate profits. This may increase investor confidence in the property market, leading to a greater willingness to invest in property, thus driving up house prices. The Government may adopt a series of policies to support job growth and economic development, such as tax cuts, encouraging business investment, and increasing infrastructure development. These policies may stimulate the property market and have a positive impact on house prices. In summary, when Russia and Ukraine conflict, generally, rising incomes and employment will drive up house prices.

3. Impact of the macroeconomic environment on house prices

Having analyzed the reasons for the rise in house prices in each of the three cities above in terms of employment and income, we will continue to explain the phenomenon of rising house prices from a macroeconomic perspective in the following.

3.1. CPI, Inflation, National Debt (Fiscal Policy and Inflation)

As shown in Fig. 8, since 2022, the ruble has gone through a significant upward and downward process of depreciation - appreciation - depreciation successively in a short period. The reason for the depreciation is that with the gradual conduct of the war, the Russian government had to increase military expenditure and other financial inputs to maintain the normal operation of the country. To ensure adequate sources of funds, the Russian Central Bank in two years to print money 4.3 trillion rubles, and the government borrowing amount also remains high. The significant increase in the amount of domestic funds in a short period has created a serious inflation problem: as shown in Fig. 9, in 2022, Russia's domestic inflation rate is in the range of 8-18 percent, the highest level since 2002. Against this backdrop, Russia's Consumer Price Index continues to rise in 2020-2023, further corroborating the current state of its domestic inflation. The impact of inflation on house prices in Russia can be divided into the following two aspects: on the one hand, inflation implies an increase in the amount of money on the market, and the prices of various commodities rise, which naturally increases the price of commercial property. On the other hand, inflation generates speculative behavior among consumers. The increased demand for more valuable real assets, such as property, has fuelled the rise in house prices. It can be seen that the measures taken by the Russian government to close the fiscal gap led to inflation, which in turn led to an increase in house prices.



Fig. 8 2020-2023 United States dollar to rouble exchange rate

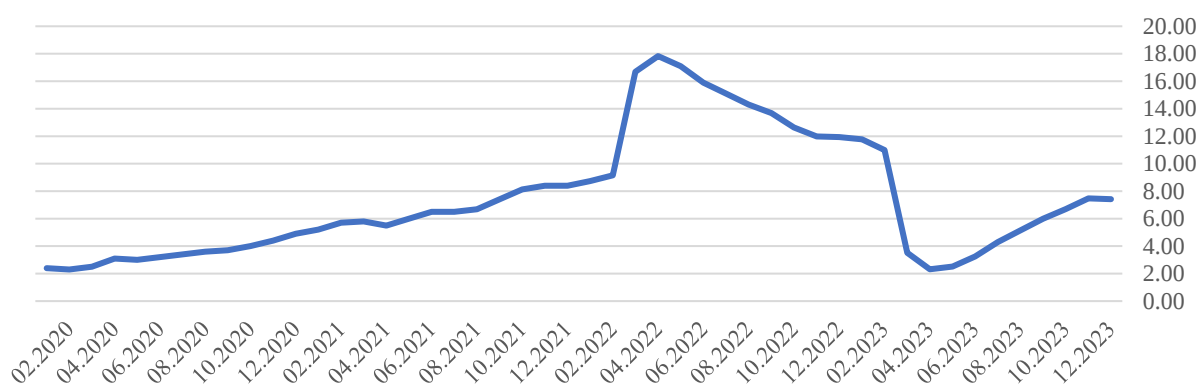


Fig. 9 2020-2023 Russian inflation

3.2. Capital Flows and the Investment Climate

The Russian-Ukrainian conflict has had a serious negative impact on Russia's capital markets. The economic and financial sanctions that Russia is currently facing have dampened the vitality of the

capital market, not only hindering the Russian government's financing activities but also reducing the investment confidence of global investors and worsening the investment climate in the Russian market. In 2022, capital outflows from Russia exceeded \$200 billion, a record. As real estate is one of the most important areas of investment for global investors, a large amount of disinvestment will reflect its impact on both the supply and demand sides. On the supply side, some of the real estate development projects in which foreign investors are involved may not be able to start due to capital outflows, thus reducing the supply of the real estate market; on the demand side, the transfer of assets and the weakening of the investment desire of Western investors weakened the demand for real estate market. Overall, the deterioration of the capital market environment in Russia has simultaneously dampened both supply and demand in the real estate market, with opposite effects on the rise and fall of house prices. Based on the actual performance of property prices, which are still on an upward trend, it can be surmised that the two effects have canceled each other out and have not significantly altered property prices.

3.3. International Co-operation

In the context of economic globalization and the face of sanctions and embargoes imposed by Europe and the United States, Russia is actively seeking economic cooperation with developing countries to maintain its economic stability. As one of Russia's most important partners, China's role in supporting the Russian economy cannot be ignored. In the energy sector, China, as a major energy consumer, has continued to deepen its cooperation with Russia in recent years, enabling Russia to use its energy advantages in exchange for a certain amount of money. At the same time, when it comes to settlement, the two countries have explored the use of local currencies for bilateral trade settlement, reducing reliance on the US dollar and lowering transaction costs. The trend of inter-governmental cooperation also gradually extends to individual investors in both countries: the number of Chinese businessmen investing in Russia has risen, supported by the Russian government's favorable policies. This includes a one-year property tax exemption for real estate investors in the Far East, the effects of which can be seen in the overall rise in employment and house prices in Vladivostok in Fig. 7. According to data from the Russian State Development Group, nearly half of China's total direct investment in Russia is used in the real estate business. Therefore, from the perspective of international cooperation, China plays a positive role in stabilizing the Russian economy and Chinese investors' investment in its real estate directly stimulates the local market and increases its house prices [9,10].

4. Judgment on the Future Trends of House Prices and the Government's Proposals

4.1. Judgement of Future Trends in House Prices

Now that the Russian-Ukrainian war continues, the impact of the external situation on the Russian economy has leveled off. As the war situation eases, the government is expected to step up its efforts to stabilize and develop the economy, taking a series of measures to promote economic recovery and stabilize the property market. At the same time, positive factors in international cooperation and investment will also have a supporting effect on house prices. Taking into account both internal and external factors, house prices are expected to maintain a relatively stable growth trend in the future.

4.2. Government Recommendations and Investor Recommendations

For the Government, the rise in property prices will affect social stability, the burden of living on residents, and so on. To maintain the stable development of the property market, the Government may adopt measures, such as strengthening the regulation of the property market, promoting the construction of more affordable housing, adjusting the interest rate policy, and so on, to smooth out the trend of over-rapid increases. It is suggested that the Government should give due consideration

to the relationship between supply and demand in the market when formulating these measures, to ensure the precision and effectiveness of the regulatory policies. At the same time, the Government is encouraged to cooperate with relevant enterprises to increase the supply of housing to meet the reasonable needs of residents.

For foreign investors, it can be useful to keep a close eye on policy trends and macroeconomic conditions in the Russian property market. With the uncertainty in the market, it is wise to invest cautiously and be aware of the relevant regulations. In addition, working with local professional advisors to understand market conditions and investment opportunities will help make more informed decisions. At the same time, keeping an eye on the development of international partnerships, especially the dynamics of Sino-Russian economic cooperation, can also be a guide to investment decisions.

5. Conclusion

A study of current house prices in three parts of Russia shows that although Russia has been suffering from the effects of the war, the gloom does not seem to have affected the Russian economy and property development to a greater extent and that there is still some room for Russian real estate to grow for foreign investors.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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