

What is preventing the Russian wooden house construction market from developing?

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TECHNOLOGY

Author: Andrei CHERNAKOV

The head of the Wooden House Construction Association spoke to Construction.ru on how the presidential charge on the development of this market segment is being fulfilled.

The Director General of the Wooden House Construction Association, Oleg PANITKOV, answers questions from our journal.

— Mr Panitkov, before we start talking about the problems of wooden housing construction in Russia, give us some general figures that might help us understand the share of this segment on the Russian construction market.

— In 2015, wooden housing construction made up 9.8% of total housing construction volume, and 25% of low-rise construction.

Besides this, the official statistics for putting residential houses in operation as far as wall materials are concerned contain a column of “other materials”. And there, according to our assessments, wooden structures make up as much as 50%. So, taking into account those “other materials” the wooden housing construction share of the total volume of housing construction is about 15.7% of the total and about 35% of the low-rise total.

One more important figure: the total volume of the wooden housing construction market in 2015 was evaluated at as much as 536 bln roubles.

— The figures are impressive, but the authorities want them to increase. As far as I know, the share of wooden housing construction is expected to grow 2.5-fold and reach 40%. We shall speak about this a bit later, but now will you please determine the main problems and bottlenecks in this sector of construction?

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— The most serious problem is the presence of so-called grey construction that legal business cannot compete with. We evaluate grey construction as being as much as 50% of all wooden housing construction. In some segments, up to 70% of the total volume is built by jobbing workmen. They take contracts away from legal companies and misinform customers by declaring too-low prices which legal companies, paying all taxes, cannot compete with. But actually their building a house may turn out to be twice as expensive.

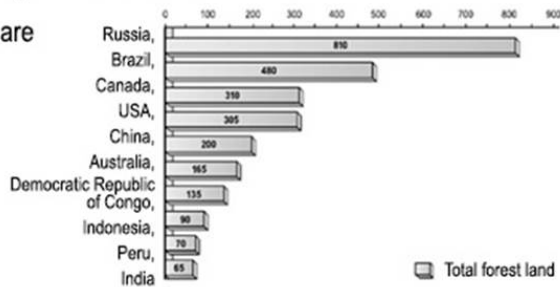
Oleg Panitkov: «The wooden housing construction share of the total volume of housing construction is about 15.7% and about 35% of the low-rise total. In monetary terms, the total volume of the wooden housing construction market in 2015 was evaluated at as much as 536 bln roubles».

Unfortunately, legal producers' underutilization of capacity is about 30—40% at present. Consequently, the prime cost of the final product is growing.



International experience. Timber consumption share.

- Wooden housing construction share
 USA – 67%
 Canada – 50%
 Japan – 45%
 Russia – 10-15%
- Wooden construction growth potential is 3-fold
- !!! Housing export potential is 1 bln sq.meters (according to German experts')



— I wonder if there are tinker teams in other countries.
 — They exist everywhere, including Western Europe. I know for sure that they exist in such developed countries as Austria and France.
 However, local market participants are more informed about the risks connected with such teams. Secondly, an adequate system of credit and insurance works in these countries, which tinkers cannot rely on. That's why such teams occupy a smaller part of the market there than in Russia: less than 5%, and, in Eastern Europe, up to 10%. Due to the absence of these market instruments, the grey economy has grown to a great size in Russia.

And this means underpaid taxes, disinvestment, and the demotivation of legal businesses regarding investment in its development. Legal companies cannot invest in capital assets, in renovation or in technical and instrumental bases.

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If measures on preferential taxation and credit for the technical base renovation were taken (including the reinvestment of profits in production), it would be beneficial for both producers and a state which is interested in the renovation of the technical base of domestic enterprises.

Besides, the share of illegal construction materials is rather big. This mainly includes uncut board and laminated veneer lumber — that is, undried materials delivered from the so-called 'black board' sawmills.

There is much off-the-books LVL in wooden structures, ie products without any technological control. There are many such 'garage' productions in the Kirov region and in the Republic of Komi especially. Thus the technology is discredited in the customer's eyes as to the quality of precast frame technology and production of glued laminated lumber.

— Any other problems with the wooden housing construction market's development?

— First of all, there is actually an absence of credit. In the current financial conditions, house owners have to credit construction at the rate of trade credit, which is too high and not available to a customer. Building a house and buying a washing machine is not the same thing. And if in Moscow about 20% of building owners used consumer credit when it was available, at present this figure is zero: nobody can afford it.

Oleg Panitkov: «Due to capacity underutilization, legal companies cannot invest in capital assets or in the renovation of technical and instrumental bases. Besides this, the share of illegal construction materials in wooden housing construction is rather big»

There is one more problem complicating the development of the wooden construction segment: unfair prejudice against the usage of wooden structures in regulatory documents. This is mainly connected with the fire code.

In our opinion, modern wooden structures should be considered like others regarding judging their fireproof capacity. But according to the existing standard technical documents, wooden structures may be used only in specific types of buildings. Thus all structures and buildings made of wood are designated as flawed.

Meanwhile, investigations carried out by scientific research institutions in Russia (e.g V.A. Kucherenko CSRIBS, etc.) prove that modern wooden technologies have rather high fireproof qualities. For example, timber-frame construction has structural protection and the above-mentioned glued laminated timber performs better than metal due to modern physical processing processes. Within the course of the investigation, the glued laminated bar resisted fire for 90 minutes – none of the metals can do this.

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— Was it an impregnated beam?

— It was without any impregnation, but it was processed with modern equipment. Besides, wood has predictable fire resistance for a structure: during a fire it retains its bearing capacity. It means that such buildings are safer, and during a fire people may leave them safely and even have time to take their personal items, unlike houses with metal structures which break down immediately in high temperatures.

— What is your proposal?

— The existing regulation base should be modernized and brought into line with modern technologies and fire safety.

And there is one more problem connected with exporting. Round timber export is known to have been recently forbidden, but instead of this, so-called low-tech plank is exported. The added value of the plank is also very low, and it is not profitable for the state to export such a product. An actual absence of state control results in wrongdoings while exporting.

— Pure resource slavery...

— ...and at the same time, the prices for primary materials are growing on the internal market, thus increasing the final cost of the houses under construction.



Housing put in operation (as to the walls materials) in Russia

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------|---------|---------|---------|---------|---------|---------|---------|
| STONE | 1811,5 | 1737,5 | 1501,7 | 1318,6 | 1175,0 | 1603,8 | 1679,6 |
| BRICK | 25649,1 | 24612,3 | 26434,4 | 26766,9 | 26558,0 | 29717,6 | 28592,1 |
| PANEL | 8537,9 | 8532,8 | 9066,0 | 8293,2 | 9194,7 | 9792,2 | 10373,6 |
| BLOCK | 7250,2 | 7250,9 | 8051,6 | 9365,4 | 10389,4 | 12879,8 | 11861,5 |
| WOODEN | 7541,9 | 6767,3 | 7224,1 | 7261,3 | 7672,8 | 8360,9 | 8224,5 |
| CAST | 5844,5 | 6800,3 | 6977,9 | 8879,4 | 10372,9 | 13287,6 | 13824,1 |
| CONCRETE | 2889,9 | 2551,4 | 2812,6 | 3666,5 | 4918,4 | 8275,6 | 10421,9 |

• WOODEN HOUSING CONSTRUCTION SHARE 9.8% (INCLUDING "OTHERS" – 15.7%)

— Well, there are rather a lot of problems in your sphere, and the authorities are likely to be aware of them. Following the Presidium of the State Council on the problems of the construction complex, President Putin charged the RF Government with working out a comprehensive set of measures on the development of wooden housing construction in the Russian Federation. How is the presidential order being fulfilled? What has been done? At what stage of implementation is the corresponding road map?

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— Several conferences have been held, the most constructive one having been organized by the Federation Council in Kostroma. The standpoints of the business community and the government, represented by the Ministry of Trade and Industry (Minpromtorg), were aligned there.

And I can say that the report delivered by Vladimir Potapkin, Director of Minpromtorg's Department of Chemical, Technological and Timber Processing Complex, actually depicts business's expectations on the development of wooden housing construction.

As far as the road map developed by Minpromtorg is concerned, the business community's proposals are 90% included and synchronized – and this is a very good result. The Ministry of Construction, Housing and Utilities has its own road map, but the degree of synchronization is lower — about 70%.

— What is the difference between the approaches of these two institutions?

— From our standpoint, Minpromtorg better understands the importance of civilized credit market formation for wooden housing construction, of wooden structures, houses and sets export development. It is not by chance that Mr Potapkin stressed that there is great potential in Russia for the development of the wooden construction complex and the economy on the whole.

Oleg Panitkov: «We propose a set of measures on stimulating the market's industrialization; preferential taxation; and we stand for the introduction of a company accreditation system, project quality and performances evaluation»

Solution mechanisms for the all the mentioned problems have been proposed. The only non-formalized aspect is the struggle against grey teams.

— And it is not surprising taking into account the social boom that may happen if the business 'valve' is sealed for millions of citizens engaged in the so-called garage economy...

— If the market is rearranged and adequate crediting and insurance are organized, it will make them move out of the shade and follow the general rules.

Another important aspect is to inform people that it is rather dangerous to engage illegal teams of builders.

— What else does your Association propose?

— We propose a set of measures on stimulating market industrialization; preferential taxation; and we stand for the introduction of a company accreditation system, project quality and performances evaluation. The promotion of this system will lead to the formation of a transparent informational field for the selection of constructors and housing projects.



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I want to stress that we do not stand for compulsory insurance as it is — we are for the development of “three wheeled” insurance.

Firstly, this involves the formation of principles for the aggregate estimate of companies, their financial reliability, quality control procedures, and business model sustainability. Secondly, we stand for stimulating customers to buy turn-key ready houses and flats, as they are negotiable security for banks and lower the risks of the latter. And thirdly, we want to see quality insurance.

Ideally, we see the market of wooden housing construction as being the same as in developed countries, where a legitimate company-producer offers a customer a ready-made house with claimed exploitation and quality performances. In this case, banks will be interested in lending credit as their risks are decreased. And it means that the loan rate of such projects will be available for the population.

— Thank you for the interesting talk! We wish success to all legitimate companies on the Russian market of wooden housing construction!

Richard P. Vlosky, Ph.D.
Director, Louisiana Forest Products Development Center
Crosby Land & Resources Endowed Professor of Forest Sector Business Development
Room 227, School of Renewable Natural Resources
Louisiana State University, Baton Rouge, LA 70803
Phone (office): (225) 578-4527; Fax: (225) 578-4251; Mobile Phone: (225) 223-1931
Web Site: www.LFPDC.lsu.edu



President, Forest Products Society; President-Elect, WoodEMA i.a.

