

Fees increased for changing the permitted use of Moscow land plots – what investors should know

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Since 19 November 2020, an adjusted mechanism now applies for calculating fees for changing the type of permitted use (the “TPU”) of a Moscow land plot. Such a fee may be payable by a private owner or the lessee of publicly owned land plots (except for those in federal ownership). The approval of the new calculation procedure has led to a significant increase in the amount to be paid for changing the TPU.

Even before acquiring the relevant site, investors must now take into account the cost of changing the TPU in the financial model of the planned project. As a result, the changes introduced will negatively affect the investment performance of development projects and increase construction costs. In turn, the purchase or lease cost for end users will rise.

These innovations are outlined in more detail below after a summary of how the TPU is regulated.

Background: what is “TPU” and why is it necessary to pay for its change?

Arguably, the construction process begins with the TPU of a land plot. It is the TPU that determines what can be built on the land plot.

If, in the Unified State Register of Immovable Property, the current TPU specified for a land plot does not correspond to the actual planned use of the plot (e.g. after the implementation of a development project), the developer must change this TPU.

The developer-owner of the land plot can independently choose the required TPU from the list of “main TPUs” contained in the land use and development rules, and make the appropriate changes to the information contained in the Unified State Register of Immovable Property.

When the developer builds on public lands where the TPU is to be changed, it will also be necessary to amend the respective land-lease agreement.

As a general rule, no fee is charged to the owner of the land plot or its lessee for changing the TPU. However, in Moscow, the legislation provides for an exception whereby payment needs to be made to change the TPU to another type that allows the construction or reconstruction of the object.

Depending on the status of the developer (i.e. whether it is owner or lessee of the land), the following types of payment will need to be made in order for a developer to change the TPU of a land plot located in Moscow:

- **fee for changing the TPU** – paid by the developer-owner of the land plot for changing the TPU; or
- **an increase in the amount of rent for a state-owned land plot** – the result of the change in the procedure for calculating the amount of rent for a land plot after the change of TPU paid by the developer-lessee.

What has changed?

[Moscow Government Decree No. 2019-ПП dated 19 November 2020*](#) (“**Decree No. 2019**”) has adjusted the mechanisms for calculating payments related to the change in TPU in both the instances stated above. The adjustments, however, differ depending on whether the developed land is privately or publicly owned.

Payment for changing the TPU of a privately owned land plot

Decree No. 2019 approved only one change in the formula used to calculate the fee for changing the TPU of a privately owned land plot. It has led, however, to a very significant increase in the fees charged to Moscow developers.

Decree No. 2019 added a “location coefficient” to the previously applied formula. This coefficient is 2.0 for land plots located in old Moscow and 8.0 for those within New Moscow.

As a result, from 19 November 2020, the fee for changing the TPU for private owners of land plots increased twofold for territories within the boundaries of old Moscow and eightfold for enlarged territories.

At the same time, the grounds for applying preferential conditions for fee payment for TPU changes (e.g. instalments for the construction period) and full exemption from payment remain in force, notwithstanding the amendments.

Fee for changing the TPU of a land plot leased from the city of Moscow

Prior to the adoption of Decree No. 2019, the amount of rent for a land plot during the first year after the change of TPU depended on:

- the cadastral value of the land plot after the change of TPU;
- a multiplying coefficient valid for the modified TPU (most often **1.5%**); and
- building density indicators (**up to 80%**), but only for land plots within the Third Transport Ring of Moscow.

Due to this, the rent for the first year of lease after the change of the land plot's TPU within the Third Transport Ring of Moscow could reach 81.5% of the plot's cadastral value, and outside of it 1.5% of the cadastral value.

Since 19 November 2020, the procedure has completely changed for calculating the amount of rent after the change of TPU. Now the amount to be paid does not depend on the building density indicator, but on these variables:

- the functional purpose of the premises in the object according to the land plot development plan;
- the total area of the object;
- the baseline value of the premises when they have certain functions;
- a rent coefficient, yield of land and location; and
- the cadastral value of the land plot.

Conclusion

Overall, after the adoption of Decree No. 2019, the fee for changing the TPU of a private land plot within the boundaries of old Moscow may be approximately 120 to 160% of the cadastral value (instead of 60 to 80% earlier). For New Moscow, the percentage will be significantly higher.

Although the new procedure for calculating the amount of rent for a land plot after changing the TPU is, in our opinion, more advanced and aimed at diversifying construction in Moscow, it will also increase the budget of development projects since the payment for changing the TPU is no longer limited to 81.5% of the cadastral value of the site.

For more information on this eAlert, please contact CMS Russia experts [Artashes Oganov](#), [Natalia Gegechkory](#) or your regular contact at CMS Russia.

** In Russian*

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