

Problems of Attracting Investments for the Acquisition and Construction of Real Estate

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Abstract—We have analyzed Russian and global experience of investing in housing. We reviewed the fundraising models existing in the Russian real-estate market: mortgage and equity construction. The paper analyzes some statistics relating to the state-of-the-art in housing construction in the Siberian Federal Okrug (SFO), i.e. housing commissioned (m^2), the average price per m^2 in RUB thousand, the scope and value of mortgage loans issued, the number of registered equity construction contracts, mortgage interest rates offered by major banks in the SFO, and data on the numbers of mortgage loans and equity construction contracts. In Russia, the construction market had been on the rise until 2015. In 2016, the SFO and the whole country experienced a decline in construction, which continued into late 2017. The SFO avoided too significant a decline by lowering the mortgage rates, which helped sustain the demand for housing and increase the value of mortgage loans issued. Despite considerable changes in the equity construction legislation, people still tend to purchase housing as close as possible to the commissioning. The paper presents problems arising when raising funds for housing construction or purchase; it also dwells upon possible solutions.

Keywords—mortgage loans, equity construction, Russian and global experience, housing construction.

I. INTRODUCTION

Investment in real-estate construction is a single solution of the financial, industrial, and social problems relating to the development of a modern society. The social problem is essentially about the provision of housing. This problem is observed in most countries of the world, as the purchase of own housing is the priority for any household: without solving it, there is no discussion of the society's social priorities.

On this basis, exercise of citizens' constitutional rights to decent housing is seen as an important socio-political and economic problem of the entire world community. The approach of choice largely defines the general scale and pace of housing construction, the real welfare of people, their moral and physical wellbeing, political assessments and behavioral motivation. [1, 2]

Considering the global experience of housing provision, note that a number of factors (political, economic, legal, and other factors) have resulted in creating a housing investment technology based on three principles: contractual savings,

mortgage loans, and state-provided support. A bit apart from these models is the equity construction model, which is possible due to the fact that this housing investment mechanism might be unrelated to any use of mortgage. Specific mechanisms of implementing these models are very specific to each individual country.

Analysis of the global experience indicates the following most common investment technologies.

Contractual savings model is a type of deposit model which enables specialized institutions to raise funds on a contractual basis from long-term housing savings while providing depositors with mortgages. This model can be implemented in different ways: a fully closed financial flow cycle (the German Bausparkasse) or a partially closed cycle (the British Building Societies), a special housing savings program in France, or fully open savings and loans associations in the United States. [3]

Mortgage loans represent a model, under which a financial institution issues a loan under mortgage. Long-term mortgaging is essentially about creating a mortgage market system to enable people to purchase residential property in both primary and secondary markets. In most countries of the world, mortgaging is not only the way to go when solving the housing problem but also a field of economic activity where banking and sundry credit institutions have a key role to play.

Equity construction means that the construction or investment company raises investors' funds for real-estate construction. Upon completion, either the entire building or an apartment therein becomes private or equity property of such investors. [4] Note that this model is rather convenient as buyers can pay for their future housing in installments distributed for until construction is complete; it is also a very efficient investment in the light of possible drastic increases in housing prices by the end of construction.

In case of Russia, housing funds mostly come from mortgage loans and, despite the far-from-perfect legislation, equity construction. Since 2005, Russia has been trying to implement an alternative funding model founded upon savings-based housing cooperatives similar to the German Bausparkasse (construction savings banks). There are also other types of

institutions capable of converting people's savings into investments: savings and mortgage banks, mutual housing funds, building and housing cooperatives, and savings-based housing cooperatives involving construction companies. [5, 6]

According to [7], 78.6 million square meters of living space was constructed in Russia in 2017, a 2% decrease y-o-y. The expected considerable decline in housing construction was avoided thanks to a total drop in mortgage rates, which sustained the popular demand for housing. In Siberia, the country's leading region in terms of housing construction as of recently, housing construction and commissioning rates have been declining for two consecutive years, see *Table 1*.

TABLE I. HOUSING COMMISSIONING IN SIBERIA (LEADING REGIONS OF THE SFO)

SFO region	Housing commissioned in 2017, thousand sq m	Housing commissioned in 2016, thousand sq m
Novosibirsk Oblast	1,726	2,220
Krasnoyarsk Krai	1,042.9	1,353.2
Kemerovo Oblast	980.5	1,089.2
Irkutsk Oblast	966.1	912.6
Tomsk Oblast	481.1	470
Omsk Oblast	438	772

Novosibirsk Oblast is the SFO's leader in terms of housing construction; in 2017 alone, it commissioned over 1.7 million square meters of living space; for each million of square meters in residential high-rises, there was about 0.6 million square meters in small apartment blocks and single-family houses. In 2017, the housing construction of Krasnoyarsk Krai declined by 23% y-o-y; 768.9 thousand square meters was constructed by developers, while the remaining 273.9 thousand square meters was constructed by the region's inhabitants for themselves, using their own or borrowed funds. Kemerovo Oblast commissioned 980.6 thousand square meters of living space in 2017, a 10% decrease y-o-y; single-family housing accounted for more than half of it. For Omsk Oblast, the y-o-y decrease was near 50%. One of the reasons behind this situation is the reduced purchasing power of people, which entails lower sales. Some regions demonstrated a small increase against 2016 though. For example, 966.1 square meters of living space was commissioned in 2017 in Irkutsk Oblast, 323.7 square meters of which had been constructed by the region's dwellers in the Angarsk Urban District, Irkutsk and Shelekhov Districts, and Bratsk District. The increase was the product of the old and dilapidated housing resettlement program. In 2017, Tomsk Oblast displayed a 0.6% increase y-o-y and exceeded its plans by 1.3%. Single-family houses and small apartment blocks accounted for about a third of it; the rest were residential high-rises.

Mortgage issuance in the SFO rose by 30% in 2017 against 2016, making mortgage the fastest-growing segment of the credit market. In this respect, Novosibirsk Oblast (34.7 RUB billion), Krasnoyarsk Krai (32.9 RUB billion), and Irkutsk Oblast (23.5 RUB billion) took a convincing lead. The rapid

growth of mortgaging is easy to explain: this is the least-risk type of loans for banks, as the housing purchased serves as the collateral; as a result, mortgage makes a considerable contribution to the growth of popular lending in general. Despite the increase in mortgaging, the number of registered equity construction contracts continues to decline, see *Table 2*.

TABLE II. 2017 DATA ON MORTGAGE LOANS ISSUED AND EQUITY CONTRACTS REGISTERED

SFO region	Number of housing mortgage loans [8]	Number of equity contracts (private persons) [9]
Siberian Federal Okrug	153,246	67,060
<i>including:</i>		
Altai Republic	721	210
Republic of Buryatia	4,508	1,929
Republic of Tyva	1,319	10
Republic of Khakassia	3,947	1,758
Altai Krai	18,302	7,436
Krasnoyarsk Krai	27,903	15,014
Irkutsk Oblast	19,681	6,735
Kemerovo Oblast	20,133	3,158
Novosibirsk Oblast	26,960	25,585
Omsk Oblast	15,909	2,083
Tomsk Oblast	8,895	1,981
Zabaykalsky Krai	5,778	1,161

As of today, we may highlight the following ways to raise funds in the real-estate market:

1. Furtherance of federal targeted programs for housing construction
2. Fundraising efforts of municipal authorities
3. Updating, improving, and further enhancing the legislative framework
4. Developing and improving the economic instruments of the investment and construction process
5. Furtherance of debt financing
6. Innovative development of the residential property market
7. Creating a comfortable habitat and increasing the diversity of offer in the housing market.

II. CONCLUSION

In conclusion, we would like to note that retrospective studies into once-created systems for sustainable and efficient housing investment, especially the ones based on mortgaging, enable a good understanding of the legal and economic aspects of this problem while also taking into account how it arises and which external economic factors it may be affected by. Special attention should be paid to the fact that the entire world's experience of creating a mortgage system is linked to crises, to the

times of economic instability. This allows viewing the mortgage system establishment process as a way to stabilize the national economy by raising funds to be invested in the real sector as well as by strengthening the financial market.

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