

Improving the Efficiency of the Investment Strategy of the Development Company

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Abstract. In the implementation of capital construction projects, especially housing and commercial real estate, there is a need for a comprehensive study and analysis of the interaction of entities operating in the real estate market, as well as consideration of the place of development in this process.

First, the external and internal environment of the investment project is analyzed, goals, priorities and criteria of the investment project are formed. Then the variants (alternatives) of investment are created, from which the best is chosen according to the criterion of maximizing the positive effect while minimizing the negative consequences. A system of management, monitoring and evaluation of the results of the implemented project, linked with all previous stages, is being created.

This article presents an algorithm for the development of the investment strategy of the development company, which allows to clearly and effectively display the process of strategic planning in the development company: the sequence of stages, the flow of incoming and outgoing information, the performers and the methods used by these performers at a particular stage. The method of evaluating the effectiveness of the investment strategy of the development company on the basis of indicators of the effectiveness of the investment project, which allows to assess the planned efficiency before the strategy, and after the implementation of the strategy, the actual efficiency.

The purpose of the study, reflected in this article, is to improve the efficiency of development companies by developing the basic strategy of their behavior in the real estate market.

1. Introduction

The effective activity of development companies in the long-term perspective, ensuring high rates of their development and increasing competitiveness are largely determined by the professionalism of their investment activities [1,2]. The complex of issues related to the implementation of investment activities of companies requires deep knowledge of the theory and practice of investment decision-making [3].

A significant number of participants in investment activities in the development of the city's housing sector (investors, customers, contractors and subcontractors, suppliers, buyers, realtors and others) significantly complicates the management of the development company [4,5].

Currently, it is impossible to obtain high returns and at the same time fully eliminate the risk, so a modern development company needs to actively improve its investment activities: knowing what level of risk is acceptable for it, find projects that will provide it with the highest income at this level of risk

[6,7]. At the same time, the formation of the investment strategy of the development company, as a result of the application of a system approach to the management of its investment activities, is carried out taking into account the current socio-economic factors, internal and external (infrastructure) constraints affecting its activities for investing in the development of the housing sector of the city [8].

In general, it can be noted that the investment strategy is one of the functional strategies of the enterprise. This strategy is aimed at increasing financial stability and creating conditions for future development [9-11].

When developing an investment strategy, the total volume of investments, ways of rational use of own funds and the possibility of attracting additional financial resources necessary for the implementation of the entire set of investment projects of the development company are determined [12,13].

The investment strategy is focused on the achievement of medium-term and long-term goals of investment activities and determines the main ways to achieve them. This is especially important in the context of the duration of the investment cycle, multifactorial and volatile market conditions.

2. Materials and methods

The strategy of investment activity determines the strategy of investment management of the organization, the sequence of certain actions to attract and use investment resources, the implementation of investment projects in accordance with the mission of the organization, strategic development goals, the system of functional segmental strategies for activities, investment projects [14,15].

The investment strategy provides for the preparation of a package of documents for a particular project, the security of the project, the formation of supporting documents, the choice of a strategy that best coincides with the strategic long-term goals in terms of priority and the assessment of its effectiveness.

The investment strategy uses standard approaches for decision-making in the selection and implementation of investment projects, in connection with which the following algorithm for the development of the investment strategy of the development company is proposed (Figure 1).

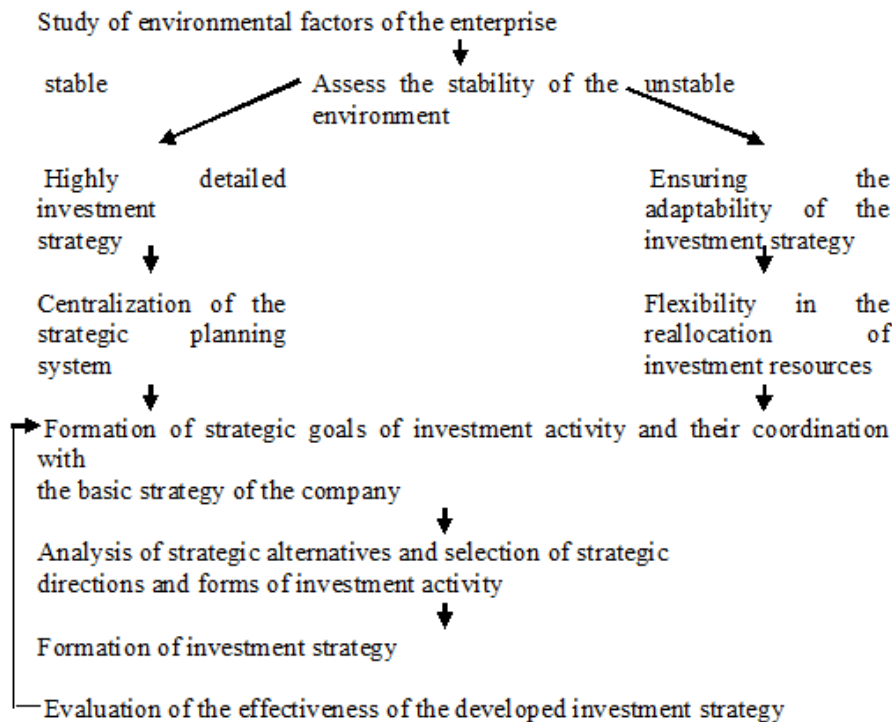


Figure 1. Algorithm of development of investment strategy of the development company.

The management of the company's investment resources takes place within all target projects and programs and simultaneously within individual investment projects. therefore, the investment strategy of the development company can be characterized as a process of modeling the effective investment activity of the company for a certain period of operation, with the establishment of goals in accordance with its capabilities and the degree of uncertainty of the external environment [16,17].

The investment strategy should, on the one hand, be designed for a sufficiently long period of time (taking into account the timing of development, implementation and payback of projects), and on the other hand — variant, flexible, allowing timely adjustments taking into account the situation [18]. Consequently, the investment strategy should take into account the changes in the course of the various phases of the economic cycle in the real estate market in a timely manner.

It is necessary to develop an action plan for the creation of investment facilities, transport, energy, social, engineering and municipal infrastructure and regulations to support investment projects, which provides a set of tools to ensure the effective investment activities of development companies in the long term [19-21]. For each facility it will be advisable to specify information about the sources of financing, terms and stages of execution, power consumption of energy resources and additional information at the discretion of the company.

As mentioned earlier, the management of the investment strategy is the establishment and regulation of links between its elements, which should be established and regulated also between the participants of investment projects implemented within the framework of the chosen strategy. This includes the organization of investment projects, which includes the cooperation of such elements as strategy, programmes and projects.

A systematic approach to strategic planning allows us to build a graphical model of the essence of the investment strategy, which is shown in Figure 2.

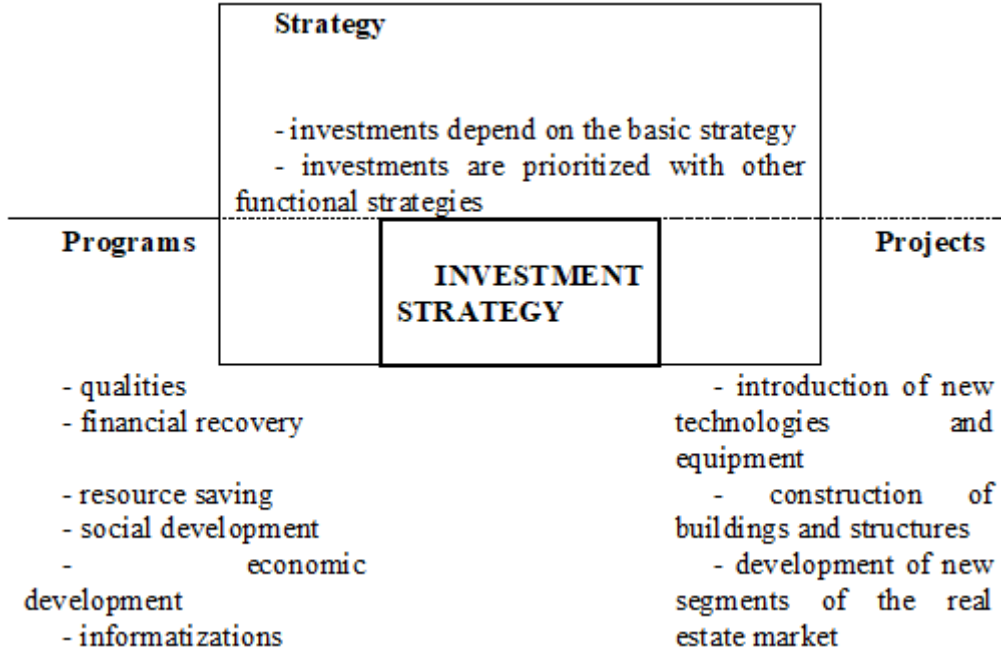


Figure 2. The essence of the developer's investment strategy.

The directions of the investment strategy are interlinked with other strategies, as well as projects and programs. The investment strategy is based on the basic strategy, competitive strategies and is a connecting element of other functional strategies.

3. Results

Investment strategy is formed from individual investment projects, therefore, to assess its effectiveness should be used indicators of the effectiveness of the investment project.

The main performance indicators of the investment project are net present value (NPV), profitability index (PI) and payback period (PP). On their basis, it is proposed to determine the weighted average integral indicator of the investment strategy (E) of the developer by stages in the implementation of 3 projects — traditional housing, urban blocks and urban blocks with social infrastructure.

Stage 1. Determination of the weight of each indicator.

Depending on the strategic goals of the company, the weight of each indicator can be from 0 to 1, but in total these weights should not exceed 1.

Conditionally denote the weight for NPV, PI, PP letters A, B, C, respectively.

Stage 2. Retrospective analysis of the situation.

For a certain, relatively long-term period before the implementation of the new strategy, it is necessary to calculate the average NPV0, PI0, PP0 of traditional housing.

Stage 3. The calculation of the planned weighted average integral indicator of the efficiency of the investment strategy is carried out according to the formula 1:

$$E = (NPV1 \times A) / NPV0 + (PI1 \times B) / PI0 + (PP0 \times C) / PP1 \quad (1)$$

where NPV1 is the average target of net discounted income of urban blocks with social infrastructure,

PI1 – average planned level of profitability of urban blocks with social infrastructure,

NPV0 is the average net discounted income traditional housing,

PI0 is the average level of profitability of traditional housing,

PP0 – average payback period of traditional housing,

PP1 – average planned payback period of urban block with social infrastructure,

A, B, C – weight of the relevant indicators.

Stage 4. Calculation of the actual weighted average integral indicator of the investment strategy efficiency. It is carried out by a similar formula 2, but using the actual values of NPV, PI, PP:

$$E = (NPV2 \times A) / NPV0 + (PI2 \times B) / PI0 + (PP0 \times C) / PP2 \quad (2)$$

where NPV2 – actual average net discounted income.-unit,

PI2 – the actual average level of profitability of the removed unit,

PP2 – actual average payback period of the removed unit,

NPV0 is the average net discounted income traditional housing,

PI0 is the average level of profitability of traditional housing,

PP0 – average payback period of traditional housing,

A, B, C – weight of the relevant indicators.

We will formulate the goal – "to get the maximum profit in the shortest possible time" and calculate the weighted average integral indicator of the effectiveness of the investment strategy in the implementation of the investment and construction project of the urban block with social infrastructure.

The urban block consists of residential houses with service objects on the first floor, the courtyard, and from the required standards of fire objects. The radius of availability of elements in the urban block is 100 meters.

Depending on the conditions, the weight of the indicators are as follows: A = 0.5; B = 0; C = 0.5. Given the given and simulated values presented in Figure 3, we obtain the results of the planned weighted average integral efficiency indicator in the amount of 1.2, and the actual weighted average integral efficiency indicator of the investment strategy – 0.5.

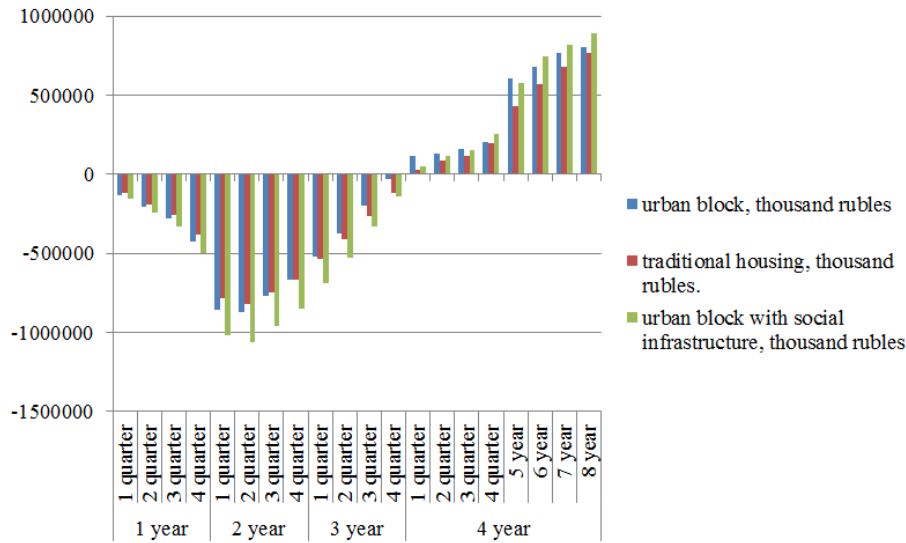


Figure 3. Net present value of investment and construction projects.

The calculated weighted average integrated indicators of the investment strategy efficiency allow us to conclude that the investment strategy planned by the development company will have the greatest efficiency, the existing strategy may be improved.

4. Conclusions

The work was aimed at improving the efficiency of development companies by developing a basic strategy of their behavior in the real estate market.

The strategy of the developer should be formed in accordance with the methodological principle of modern strategic management, which is concluded in the construction of a strategy from the future through the past to the present (forecasting – analysis – monitoring).

According to the results of the study, it should be noted that in order to ensure the sustainable development of a development company engaged in investment activities, it is necessary to improve the methodological tools of its management system.

The analysis presented aims to address the question of what the organization can strive for in its environment and at what level it should reach in order to develop. The strategy planning phase provides an answer to the question of how best to achieve the goal and what needs to be done to achieve it.

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