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PROBLEMS AND PROSPECTS OF HOUSING

LEASING DEVELOPMENT IN UKRAINE

The article explores the issue of financial leasing as an alternative source of residential property purchase. The research of main advantages and drawbacks of a new kind of financing is conducted and the key directions of financial leasing development at the residential property market are suggested.

Keywords: financial leasing; real estate mortgage; credit; housing real estate; residential property; rent; leasing payments; interest rates.

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ПРОБЛЕМИ ТА ПЕРСПЕКТИВИ РОЗВИТКУ

ЛІЗИНГУ ЖИТЛА В УКРАЇНІ

У статті розглянуто альтернативне джерело придбання житлової нерухомості – фінансовий лізинг. Досліджено основні переваги та недоліки нового виду фінансування та запропоновано основні шляхи розвитку фінансового лізингу на ринку житла.

Ключові слова: фінансовий лізинг, іпотека, кредит, житлова нерухомість, оренда, лізингові платежі, відсоткові ставки.

Табл. 3. Рис. 2. Літ. 10.

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ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ РАЗВИТИЯ

ЛИЗИНГА ЖИЛЬЯ В УКРАИНЕ

В статье рассмотрен альтернативный источник приобретения жилой недвижимости – финансовый лизинг. Проведено исследование главных преимуществ и недостатков нового вида финансирования и предложены ключевые пути развития финансового лизинга на рынке жилья.

Ключевые слова: финансовый лизинг, ипотека, кредит, жилищная недвижимость, аренда, лизинговые платежи, процентные ставки.

Problem statement. Both in terms of economic stability and in the light of financial crisis, the issue of real estate purchase remains to be quite relevant. Unbalanced high prices of residential space make future apartment owners look for alternative ways of real property purchase. One of the options is to lease the real estate.

Analysis of recent research and publications. Modern scientific approaches to financial leasing in housing property have been investigated by domestic scholars, in particular by V.V. Kovalev (2011), V.A. Ryabko (2008) and others. There is an increase in the state interest, which is reflected in the creation of special programs for affordable housing.

The goal of research is a kind of long-term finance – financial leasing as an alternative to mortgaging and lease relations.

The main results of the study. Unfortunately for many Ukrainians, purchase of own housing property yet remains a hope. Unstable economic situation, the impact of the financial crisis, currency risk, high interest rates, high housing prices and rather low personal income lead to negative trends in the housing market and reduces the purchasing capacity of the population.

Traditional sources of funding remain to be mortgage and lease. In our opinion, the lease allows to solve the housing problem for some time, but living in a rental place can not give an opportunity for a the long term planning, since a lessor keeps a freehold for the property. Of course, you can become a landlord owner by contacting the bank. In turn, there is a very high probability of failure on the part of financial authorities. However, if one even manages to get an approval for a loan from the bank, there are many "surprises" and "pitfalls" in the mortgage agreement. For example, the right of a bank to change lending rates during the contract period, leading to substantial overpayment by a borrower. Note that ideally it is better to purchase property, but not every Ukrainian can afford this.

A widespread practice is "to freeze" a construction and postpone indefinitely an object commissioning. A striking example of wildcat real estate development is an "Elite Center" company. Investment in such institutions in any way is too risky.

In our opinion, an alternative source of housing finance is leasing. Compared with traditional financing – mortgages and leases, financial leasing is a new kind of financing. Actually leasing includes elements of credit and lease. Comparison of funding sources is presented in Table 1.

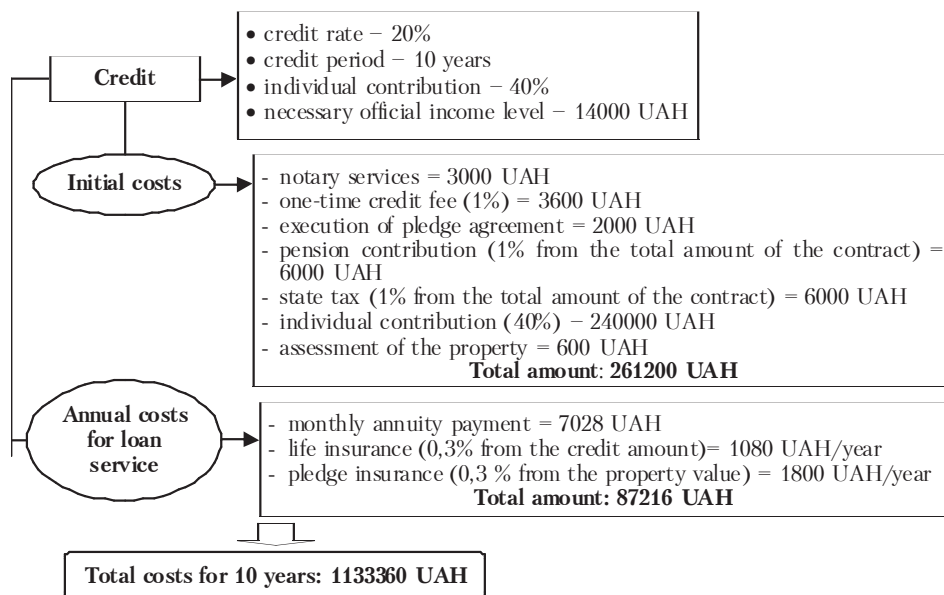
Let's consider buying an apartment with traditional sources of funding through the tentative example. Let the property of our interests costs 600 ths UAH – it is a two-room apartment in the residential district in Kyiv. We are planning to buy an apartment in the course of 10 years. So every month we should save the certain amount of money. Simple calculations show ($12 \text{ months} \times 10 \text{ years} \times 5000 \text{ UAH} = 600 \text{ ths UAH}$), that 5000 UAH settled apart every month in a course of 10 years bring us closer to our dreams. However, it should be noted that money saved at home are not profitable and devalue.

Supposing that our own equity is not enough and we want to purchase an apartment in less than 10 years. Consider a bank has agreed to loan and we meet all the criteria required by the bank and have the official family income of 14 000 UAH. Terms of housing purchase through mortgage are presenting in Figure 1. Loan term is 10 years, the credit rate is 20%. We are paying credit by an annuity scheme an amount of 7028 UAH per month. The calculations show that in 10 years we will pay 1,133,360 UAH. In fact, let's double the cost of our apartment, in this case the overpayment is 88.9%.

Table 1. Advantages and disadvantages of funding sources

Advantages +	Disadvantages –
Real estate mortgage	
1) there is no need to save and to pay total amount at once	1) high interest rates
2) monthly bank payments and access to use living space	2) probability of interest rates increasing during contract period
	3) currency risks and financial sector instability in the country
	4) probability of apartment cheating
	5) a significant level of overpayment for credit
	6) denial of a loan
Personal finances	
1) absence of debts to financial institutions	1) long time to collect the required amount
2) obtaining real estate title	2) currency devaluation
3) absence of overpayment for property	3) risks of frauds and thefts
Rent	
1) no need to collect money	1) lessor owns a real estate title
2) payment of monthly lease rents and access to use living space	2) high probability of getting into rent scam
	3) lack of long-term prospects for own residential property
Financial leasing	
1) value of leasing payments = rent payments	1) quite a few leasing companies that provide services to residential properties
2) access to use living space at once	
3) lessee owns a real estate title	
4) no rejections from the bank	
5) minimization of risks and frauds as a leasing company itself engaged in all	

Based on the data from scientific paper V. Kovalev (2011).



Based on the data from the article "Lessons for the investor" in Gazeta Dengi (2012: 20–33)

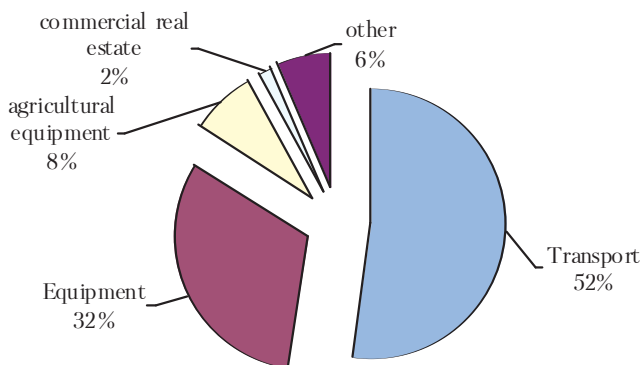
Figure 1. Features of housing purchase on credit

As you can see, investing in real estate is quite a serious step, and if the investor uses borrowed funds then before investing he should observe the following rules:

- first, you should get acquainted with the reputation of the housing developer, visit necessary forums and watch observe the real estate market;
- second, check for lawsuits regarding the developer;
- third, carefully look through the wording of the contract before signing. See to it that the developer does not reserve the right to change the value of the property;
- fourth, check the address specified in the agreement with the actual, not to invest in non-existent project. Also it is worth considering a change in the order of real estate registration, which took effect on January 1, 2013. Now the state registration of title in real estate is issued by the State Registration Chamber of Ukraine in the new Unified register of property rights.

State registrars will draw up and issue a certificate of title in real estate. And notaries will update the registry with the new owners of real estate on the secondary housing market. They will confirm a sale agreement and will stand a property in a name of a new owner in the State register. However, to get a technical passport for an apartment the owner should contact the Technical Information Bureau.

Conducted researches in the leasing market show that the lion's share of leasing services accrue to transport and equipment (Figure 2).



Based on the data from the article "List leasing companies as a result of 2012" (www.leasing.org.ua).

Figure 2. Leasing business market in sections for 01.01.2013

Almost all the participants of the Ukrainian Union of Lessors offer to purchase vehicles both passenger and freight, agricultural machinery and equipment. We consider that this trend is caused by relatively high liquidity of these assets and minimal risk for leasing companies. For example, if the lessee for any reason refuses to buy a car, the lessor can easily sell it to another buyer.

In the real estate industries to find another buyer for the property in replace is not so easy. In Figure 2 we show that the share of real estate leasing is minimal. As you can see, there are about 10 leasing companies in real estate market: Raiffeisen Leasing Aval, ING Leasing, Ukio bank leasing and others. But we are talking about commercial real estate: offices, shops, retail spaces. Nowadays to lease an apartment is possible only theoretically.

We consider that an important step in the development of residential leasing in Ukraine is the national program "Affordable Housing". The program aims to increase the level of a financial capacity of citizens who need better housing in accordance with the law by improving existing and introducing a new efficient financial and investment mechanism of state support in construction (purchase) of affordable housing.

Terms of the target program stipulate state and local budget funding and also other sources including financing from own resources of citizens. In particular, state aid for citizens in purchase housing. Features of property purchase under the program "Affordable Housing" are presented in Table 2.

Table 2. General credit conditions under the program "Affordable Housing"

Form of lending	
- credit in the national currency – UAH - funds provided by single amount to the persons needing in improving housing conditions according to the applicable law	
Loan term	
Equal to 15 years	
Rate in UAH	
3% (for the whole credit contract period)	
Origination Fee	
No	
Credit amount	
is in the range of 10000,00 to 532000,00 UAH	
Target direction and the maximum amount of credit	
Primary market	Resales
Buying real estate in new housing development	Buying real estate is not implemented by developers in the objects taken into operation after 2009
The maximum loan amount is: no more than 75% of the market value of property as determined by practitioner of valuation activities accredited by Bank not more than 85% of the market value of property as determined by practitioner of valuation activities accredited by Bank (provides for provision of ancillary cover, such as real estate of residential purpose or transport vehicle)	The maximum loan amount is: no more than 80% of the market value of property as determined by practitioner of valuation activities accredited by Bank not more than 85% of the market value of property as determined by practitioner of valuation activities accredited by Bank (provides for provision of ancillary cover, such as real estate of residential purpose or transport vehicle)
Credit repayment	
- payments are made monthly, with a gradual decrease in. According to the terms of a contract principal amount of debt payable in equal installments, and interest accrued on the balance under actual debt; - also long-term repayment without penalties and sanctions is provided.	
Additional services	
There are a number of services that the borrower should pay: - evaluation of collateral, in this case the apartment; - insurance services (insurance of the property and the borrower); - notary services on registration of the contract of security.	

Based on the data from the state program "Affordable Housing" (2010–2017).

This program provides an access to lease an apartment at 3% per annum for a period of 12–15 years and with downpayment of 15%. Under the program, the monthly payment amounts of 2000 UAH subject to purchasing an apartment of 50 square meters.

Under the program, the government plans to interest construction companies to build housing at affordable prices and to offset part of the costs from the state budget.

In our opinion the development of real estate leasing would solve two main issues:

- first, it would make housing more affordable for families with middle-income and young families;
- second, it would reduce the level of corruption in the real estate market, reduce price corridor of living space and create a transparent scheme for housing.

Note that in the neighboring country Moldova there is a rather successful example of development of the real estate leasing. So under a leasing agreement a downpayment amounts 40% of a property value, 12% per annum in foreign currency, a term of leasing agreement is 5–7 years with payment by month. Table 3 shows the scheme of housing purchase in terms of the financial leasing in the the new building in Cupcini (Moldova).

Table 3. Features of real estate leasing, Moldova

Type of apartment, m ²	Value for 1 m ² , EUR	Total amount of the apartment, EUR	Downpayment (40% from the object value), EUR	Monthly installment of leasing payment, EUR/month
1-room, 35 m ²	330	11550	4620	185
2-room, 60 m ²	330	19800	7920	317
3-room, 75 m ²	330	24750	9900	396

Based on the data from the article "Sale of apartments to lease" (www.premiuminvest.md).

Exchange rates of the Moldovan national bank account the following as of 27.01.2013: USD 1 – 12.1400; EUR 1 – 16.3058; RON 1 – 3,7357; RUB 1 – 0,4039; UAH 1 – 1.4942.

In our opinion another alternative to solve the housing problem can be countryside real estate.

If some time ago future property owners preferred to live in the city than a countryside recently priorities began to change. Conducted researches in the real estate market have shown an interesting trend with growth in demand for countryside houses, both cottages and townhouses. Economy class housing is in special demand with the population. According to the results of 2012 sales of private houses have reached the level of the pre-crisis period.

The main advantages of a country house are:

1) price. To buy a private house in the Kyiv region could cost amount 40–50 ths USD. In comparison, to buy an apartment in a residential district in Kyiv would cost 70–80 ths USD.

2) clean air and lack of urban smog and noise.

3) self-heating and no dependence on local communications. Recently there is a demand for alternative eco-source heating and light.

4) availability of private land and an opportunity to grow own organic vegetables and fruit.

5) solution of parking problems.

Disadvantages:

- We consider this project to have more benefits than drawbacks. The only significant drawback is the remoteness of properties from places of employment.

- According to experts' estimates in the future urban residents tired of the city bustle would choose living closer to the nature and pure air. And the opportunity to lease a house make it affordable for the majority of people in the country.

Conclusions and suggestions. The given research allows us to identify the main factors hinder the development of real estate leasing in Ukraine:

1) Imperfect current legislation and the actual identification of the leasing with the lease with an option to buy.

2) High level of bureaucracy and shadow schemes in the real estate market. Probability of "freezing" of constructions for indefinite period and unreasonably high prices for living residence. In anticipation of the experience of foreign countries leasing provides transparent scheme of construction and housing.

3) Lack of reliable information on financial leasing services. There are about dozen of companies providing commercial real estate leasing in the market (Raiffeisen Leasing Aval, Uni Credit Leasing, Ukrainian leasing company Ukio Bank Leasing, ING Lease Ukraine, VAB Leasing etc.), but to find a leasing company in the housing market is problematic.

It should be noted that a leasing company simplifies the purchase of the property. Investor only pays the required amounts, and all legal and organizational issues are settled by qualified specialists of a leasing company.

4) Problems of land sector. Note that in this case the concept of a real estate and a land are inseparable. However, according to the current law land leasing is impossible. But to buy real estate without ownership for the land on which it stands is simply ridiculous.

Issues to be settled:

1) adoption of efficient and effective laws on residential property leasing. We propose to adopt a law to regulate the activity of real estate leasing market participants;

2) implement the successful experience of foreign countries and enforce best ideas;

3) resolving of land issues. Since according to the Ukrainian law, land can not be an asset;

4) promoting leasing companies. For example providing soft loans with very favorable terms for relatively low lending rates, providing tax incentives for leasing companies and establishing of tax holidays for a specified period.

We believe that successful development of financial leasing in the residential property market can be a significant mechanism to solve problems of mobilization of resources to the construction of residential real estate or sale of finished housing by construction companies that have emerged in consequence of the reduction in demand during the economic crisis and financial instability. We believe that in these circumstances it is necessary to adopt the best ideas of housing leasing from foreign countries.

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КНИЖКОВИЙ СВІТ



СУЧАСНА ЕКОНОМІЧНА ТА ЮРИДИЧНА ОСВІТА
ПРЕСТИЖНИЙ ВИЩИЙ НАВЧАЛЬНИЙ ЗАКЛАД

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Має гриф підручника від МОН України.

У підручнику в концентрованому вигляді викладено зміст усіх нормативних дисциплін по спеціальності «Маркетинг». По кожній з дисциплін базового курсу пропонуються контрольні питання, тести, глосарій і література.

Для викладачів, майбутніх бакалаврів і магістрів, аспірантів, маркетологів-практиків, наукових працівників, а також для всіх, хто цікавиться сучасними технологіями маркетингу.

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