

THE DEVELOPMENT OF THE MODEL OF THE MARKET
OF AFFORDABLE HOUSING

Annotation

The article outlines the state of the housing market in Ukraine and the main features of affordable housing. The peculiarities for the formation of the model of the market of affordable housing in Ukraine are defined.

Keywords: affordable housing, housing market, model, housing policy.

Анотація

У статті визначено стан ринку житла в Україні, окреслено основні риси доступного житла. Обґрунтовано особливості формування моделі розвитку ринку доступного житла в Україні.

Ключові слова: доступне житло, ринок житла, модель, житлова політика.

Аннотация

В статье определено состояние рынка жилья в Украине, очерчены основные черты доступного жилья. Обоснованы особенности формирования модели развития рынка доступного жилья в Украине.

Ключевые слова: доступное жилье, рынок жилья, модель, жилищная политика.

Introduction

For Ukraine there has always been a pressing problem of housing which is not being solved till now. Today, according to the State Statistics Committee of Ukraine, the average housing availability is 20.1 square meters of the total area per 1 person [1], which is 1.5-2 times lower than in the developed countries.

Some improvement of housing issues was associated with the active development of the mortgage market in the period of 2002-2008 in Ukraine, which should be divided into three stages [2, p. 69]: the period of gradual development of the mortgage market - the beginning of 2002 till July 2005, the period of credit expansion - from July 2005 till October 2008, the period of stagnation - from October 2008 till now. It is exactly at the first stage of the active development of the mortgage market when residential mortgages dominated, which accounted for almost 90% of the transactions, but almost all of them were carried out on the secondary market. This fact shows that the situation with housing is almost solved. However, the development of the mortgage instruments provided improvements over 2004-2007, as the volume of the commissioning housing were increasing on the average 12.5% annually [2, p. 90].

In the countries such as Chile, Sweden, Russia, USA, China, Netherlands, France, Austria, Germany the government programs of providing public

housing to its citizens are established in order to stimulate the effective demand for housing. In these countries the system of public housing subsidies for the construction and rehabilitation of housing is developed, there are systems of public guarantees for the housing loans, and most loans are low in-interest rate [3]. It also indicates the need for further progress in the direction of providing the citizens of Ukraine with affordable housing.

Analysis of recent research

The investigation of the housing policy and the problems of affordable housing in Ukraine attract the attention of many domestic and foreign scientists, including: A. Berto, T. Zavora, V. Kravchenko, T. N. Kubasova, Y. Mantsevych, V. Magnussen, G. Malhinova, K. Palyvoda, M. Pachione, B. Reno and others. Despite to significant achievements in this direction, there is no model for the development of affordable housing in Ukraine.

Statement of research objectives

The purpose of the article is to determine the state of the housing market and the characteristics of affordable housing and the models of its development in Ukraine.

Results

In general, every country, including Ukraine is developing programs of helping people with housing, especially families with low and moderate income, within which the direct housing construction or assistance in paying for is foreseen.

Housing policy as part of the social policy shapes the ideas and views on what should housing relations in the society be comprised of. It creates the conditions for the development of the basic elements of housing system in order to implement each citizens' right for housing, the level of social security, the quantity and quality of housing services, the mechanism for determining the rent price, the development of the financial institutions regarding the creation of the housing market [4, p.141].

The main purpose of socio-economic policy of Ukraine at the present stage is to provide citizens with the adequate housing and to create an optimal infrastructure of residential in accordance with physical, aesthetic, ecological and environmental parameters and taking into account local conditions.

The housing reform, as part of the package of measures of stabilizing the economy of Ukraine and its exit from the crisis, has the phased transition of the residential sphere as the industry of economics into the expanded reproduction mode as the most important task. In the system of economic restructuring housing construction is being defined as one of the main priorities, with which the development of many combined between each other construction industries are interconnected as well as the production of the durable consumer goods. In the secondary market as the subjects of sale appear those buildings, which have been built in previous years, meaning almost the redistribution of housing. However, under the conditions of the huge deficit and high cost of residential housing, the market even increases the stratification processes in terms of security and removes the social tension in this matter.

In the pre-crisis period the significant hopes of the population of Ukraine were associated with the Foundation for Youth Housing, the aim of the creation of which was increasing the volume of housing construction by the means of financial, organizational, economic and technical activities, raising funds from various sources of investment, financing the youth housing construction with the help of state's social youth initiative, participation in the privatization programs, etc. [2, c. 91].

As the result of the applied transformation the structure of the ownership of housing Ukraine had cardinally changed. This realization of the right for housing for people with sufficient effective demand should be done through the promotion of the market of housing services, for the low-income citizens – through the system of social protection and

the provision of housing conditions in accordance with the established social standards at the expense of local budgets for citizens who are entitled to accommodation under the law by providing housing for the costs taken from the state budget.

In Ukraine there are three types of housing: commercial (available for 10-15 % of the country's population), social (10-15 %) and affordable (70 %). Each type of housing is suitable for the relevant layer of population: commercial for the richest, social for the most poor and affordable housing for people in need of a state aid [3].

The main strategic (long term) goals of the state economic and social policy in the sphere of the provision of affordable housing are:

- the creation of the stable market mechanisms and infrastructure in the market of affordable housing which are aimed at ensuring the affordability of housing and residential services to citizens according to their effective demand;
- ensuring the social protection of poor people in the housing sphere that guarantees them the housing conditions which are set according to the established social standards;
- the formation of the system of guaranteed providing with housing of the citizens who are eligible to that under the law;
- providing the safety of citizens in housing and the quality of products and services in the residential area;
- the creation of the effective housing markets, land territories for the establishment of new housing facilities, building materials, utilities, production and services which come in line with the consumer demand.

The housing fund of Ukraine as of early 2010 consisted of about 10.2 million buildings with the total area of 1066.6 million square meters, including 221 thousand multi-flat buildings. With that, the share of the used and emergency houses in Ukraine currently constitutes to 0.6% of the housing stock, or 60.7 thousand buildings with the total area of 5.1 million square meters. [5, p. 119].

The main role in the implementation of tasks within the social and economic policies is given to the market entities that produce goods and services in the housing sector and provide the infrastructure of the market of affordable housing. The adoption of laws and regulations as well as the implementation of measures of the credit, finance, taxation nature along with the competition policy should be aimed at removing the barriers for competition, the support of the development of the new small and

middle-size businesses, reducing the risks of doing business in the residential area.

The availability of the social and economic policies that regulate the market of affordable housing and housing investment processes are objectively necessary in the market economy.

The main purpose of safeguarding the national interests regarding the formation of the market of affordable housing is ought to be build according to the well-functioning market, which would be able to ensure the acquisition of the residential real estate by the people with average income, based on the market principles of purchasing housing free from the monopoly at the housing market from its own funds and public long-term mortgage loans.

The formation and development of the model of the market of affordable housing is able to provide: the creation of conditions for facilitating the investment of the main actors of the market into the region and economic growth through the investment component; the inflow of domestic and foreign investment into the region; bringing the banking into the investment activities of the region by transforming mortgage credit to the source of housing finance; the transformation of the savings of the population into investment, the reallocation of the temporary available funds of industrial-financial complex and funds received from other sources into the investment resources, which would take the form of mortgages.

However, except for some economic benefit it provides also the social impact on the development of the state. As the factor for reducing social tensions in the country serves the fact of providing affordable housing for all segments of the population that can be fulfilled through the formation and development of the mortgage housing.

The problem of housing supply to the populations is the most important component of the social policy, which is the result of slow reorientation of public housing policy towards the creation of new market mechanisms aimed at their salvation, including the development of the mortgage housing and the affordable housing market.

The current state socio-economic policy together with the former focus on the needs of disadvantaged groups of citizens should make a new emphasis on solving the housing problems of the majority of the working people, which has the average incomes. This can be explained by the fact that productive social policy is possible only if the effective functioning of the economic system that ensures the steady GDP growth flows in the budgets

of different levels with the optimal tax payments. Performing this task is possible as the result of the socially and economically active layer of the society, meaning the middle class.

For the effective functioning of the regional housing market, which would be able to improve the social conditions of life, a number of contradictions and challenges on the way of implementing this component of social policy need to be resolved. They can be divided into three major categories: 1) problems of the underdeveloped infrastructure of the regional housing market, 2) problems with the potential of the development of system elements, and 3) lacks in the legal field.

To the problems of the first block can be counted in the following: the high market cost of housing and low income of the population with the high percentage of current consumption; high interest rates, the lack of sufficient funds of the population that would enable them to pay the first installment for obtaining the mortgage, which is due to the low level of savings; the lack of long-term credit resources from the side of banks in providing predominantly short and medium term liabilities and the limited access of so called «long money» into the markets, which are the source of insurance funds, retirement savings, etc; weak development of the bank lending activities; the existence of the distorted pricing mechanism in the market which causes imbalance in the main parameters of the mortgage and housing markets; the lack of investment structures which carry out their professional activity in the sphere of providing housing mortgage and providing the adequate level of fund-raising for the development of mortgage market; the weak development of the mortgage securities and the lack of legislation on the regulation of these securities; the high cost of the mortgage lending to the public; the incomplete taxation of the mortgage from the side of market participants of the housing sector; the significant difference between regional and local economic development; the psychological factors; the potential increase of housing prices as the result of increasing the effective demand for it.

Problems of the second block, which lie in the potential of the development of the system components include: the lack of offers for land, which would be secured by the necessary utilities infrastructure; complicated and opaque administrative procedures for obtaining land and building permits; the complicated procedure of connecting the land to the network of communal infrastructure and the existence of onerous technical conditions; the absence

of the transparent construction market in the country. Monopolization of the construction markets, which is reflected in the absence of the response of the offer towards the demand, keeps the monopoly price steady, which creates the situation known as the «dealer market».

Today in Ukraine the population acquires mostly flats on the secondary market with the help of the credit, while the mortgage with the system of financing virtually has no effect on the development of the regional housing market. In addition, the reduction of the proposals on the secondary market leads to the situation when prices on the primary market increase and it reduces the purchase ability of citizens. Therefore, reducing the cost of the residential properties while ensuring the smooth loading of the enterprises of the building complex and involving the banking sphere into the investment activity, will contribute to solving these problems.

The organizational model for the development of the market of affordable housing is taking into account the interaction between regional economic institutions which include: the regional state administration, regional mortgage agencies, investors, lenders, buyers, mortgage consulting companies, investment construction companies, real estate companies, retailers. We would like to consider each of these participants of the regional market of mortgage housing with identifying their objectives or economic interests, and also functions which they perform as the result of the business activity in the market.

The regional state administration should provide favorable conditions for the formation and development of the regional housing market by the means of developing mechanisms for implementing this objective, ensuring its viability, tools and their practical implementation in addressing the housing problems of the region. The functions include the following ones: the formation of the legislation and regulation of processes occurring at the regional housing market which are aimed to reduce the risks of the market participants; the allocation of funds from the regional budget for the market development in accordance with the law; providing guarantee upon the issued mortgage securities; the management of the market participants; providing subsidies for the improvement of the living conditions and other measures.

Regional mortgage agencies as part of the regulatory infrastructure should be established in order to develop the effective system of regional

housing market taking into account its specificity. This market participant combines the functions of the borrower, seller, investor and also lender in one: the work with the investment resources of the off-budget organizations, foreign investments involved against the guarantees of the administration area, the compensation of the part of the initial payment, the interest rate, the annuity payments, the monitoring, analysis and forecast of the market of housing and so on.

Investors may be represented as the legal and natural persons aimed at maximization of the return from the investment of their resources into the mortgage securities and minimizing all possible risks. The functions of the above stated participant of the technological infrastructure are the following ones: the purchase of the securities in concern and thus ensuring the indirect investment into the housing sector through the elements of mortgage.

The role of borrowers- buyers plays the population of the region (technological infrastructure), which aims at improving the living conditions through the involvement of so called «long» money and the purchase of housing with the ability to provide the down payment and make all payments according to the loan. The population also performs the very important function on the market of mortgages housing construction as it creates the credit needs and therefore contributes to the revitalization of the financial and credit organizations. Through channeling the borrowed funds for the needs of housing supply, the households finance the enterprises of the building complex.

The mortgage consulting company as part of the information infrastructure should be the first instance where the people who had decided to purchase housing by using the mortgage could go to. Here the informational support in regards to the existing financial and credit schemes for acquiring housing must be provided, the degree of the accessibility of various schemes for the needs of the particular borrower must be determined and the potential object of the residential property should be assessed if it is being acquired in the secondary market as well as the credit history of the borrowers should be accumulated. Therefore, the purpose of the functioning of such companies is providing informational and consulting support to people, carrying out consultations, determining the optimal variant for the purchase out from the possible schemes based on the methodology of calculation of indices available, the formation of the credit case of each individual borrower, the evaluation of the

objects of the residential properties in the secondary market.

Investment construction companies (technology infrastructure) form the effective investment-organization mechanism of the system of mortgage lending in the process of construction and the further purchase of the housing space. Its functions are to: enhance the housing market, to support the development and implication of the new materials and technologies of the building and construction industry and to help in improving the quality of affordable housing. Enterprises of the building complex, due to the market of mortgage housing, are able to keep up with the rhythmic production. By the means of channeling funds received into the housing sphere, they build houses while reducing the social tensions and providing the market with the durable product.

Real estate companies (technology infrastructure) are the professional participants of the market which are oriented on receiving the profit by providing the brokering services. Their main features are: the selection the appropriate options of objects for the implication of the sale-purchase agreements on behalf of their clients, providing organizational and judicial help during the conclusion of the sale-purchase agreement between the seller and the buyer, facilitating the sale of the intangible property on behalf of other participants of the housing market.

Sellers of housing property (supporting infrastructure) are both legal and natural persons which act with the aim of maximizing the income derived from the sale of residential properties. The main feature of sellers is providing additional volume of offers in the housing market.

Commercial banks as the elements of technological infrastructure organize the effective

work, which ensures: the optimal profitability while conducting active operations, the repayment of the loan capital, the minimization of the risks while maximizing the profit, the performance of various operations on the regional housing market. Commercial banks perform certain functions: satisfying the demand of households; providing them with the «long money» in the form of mortgages after assessing their solvency and creditworthiness by entering into the loan and mortgage agreements; implementing the service of the issued loans; being actively involved into the process of formation of the mortgages pool from which the mortgage securities are derived; contributing to the further movement of investment funds in the real economy.

Insurance companies (auxiliary infrastructure) are the professional participants of the regional housing market which main goal is receiving the profit by the means of expanding the spectrum of operations. These functions include the protection from the insurance risks in the sphere of mortgage lending and joint projects with mortgage lenders.

Conclusions

The organizational model that includes the regional state administration, regional mortgage agencies, investors, lenders, buyers, mortgage consulting companies, investment construction companies, real estate companies, sellers can become the strategic guideline and has the potential to come into force «on the long run» by the initiative and support of the regional state authorities.

Thus, the presented model demonstrates that in order to develop the regional housing market it is ought to attract the increasing number of new participants, which would provide the competitive environment in this market and increase the chances for acquiring affordable housing for the population.

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