Analysis of the current stage of reforming mechanisms for financing shared housing construction in Russia

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Abstract. In article the authors present the results of the analysis of the most significant changes in the system of financing investment and construction projects of housing, introduced as part of the transition to the mechanism of project financing, as well as the conclusions of the most important implications of the reporting changes during the implementation of the current stage of reform of financing mechanisms for shared construction in Russia. The authors present an integrated model of interaction between the subjects of shared housing construction, taking into account the allocation of functional subsystems that correspond to the main stages of implementation of investment and construction projects. On the other hand, according to the authors, the most significant changes concerning the radical transformation of the mechanisms for financing shared construction should be described as debatable. Moreover, discussion and ambiguity should be considered in two different aspects: the goal setting aspect and the implementation aspect. The degree of compliance of the actual results of the reform under consideration with the declared goals and its socio-economic effectiveness in General will be determined primarily by the realities of its practical implementation.

1. Introduction
At the present stage of development of the construction industry in Russia, one of the key tasks of housing developers is to organize financing in the framework of investment and construction projects. One of the most common mechanisms for a long time was the conclusion of equity participation agreements (EPA). [1-3]

According to experts, at the end of 2019 more than 95 thousand such contracts were registered in Moscow alone and in Russia as a whole this figure was about 783 thousand. The wide spread of EPA is due to a number of factors:
- buying an apartment at the initial stages of construction is on average 25-35% lower than the cost of the finished object;
- use of risk reduction tools, including state registration of EPA, insurance mechanisms;
- in some cases, contracts provide for installment payments (from 20 to 50 percent at the stage of conclusion of the contract, the remaining payments are quarterly and are made throughout the construction period, or 80% at the initial stage, the remaining 20% before the transfer of the object to the property). [4-7]

However, despite the demand for this mechanism, the problem of defrauded shareholders remained acute for a long time. At the end of 2018, according to various estimates, there were about 170-200 thousand deceived citizens in Russia, the total number of problem or potentially problematic homes was close to 2 thousand, and only 17 regions did not record this problem. In order to change this...
situation and improve the stability of the system as a whole, changes were gradually introduced to the Federal law of 30.12.2004 N 214-FZ "On participation in shared construction of apartment buildings and other real estate objects and on amendments to certain legislative acts of the Russian Federation" (FL), which resulted in the introduction of obligations for developers to form escrow accounts from July 1, 2019, and, thus, the transition from problematic EPA schemes to a new project financing mechanism (PF). As a result, in 2019, the number of equity agreements providing for PF increased by more than 140% and amounted to about 44 thousand. [2, 8-10]

In this article the authors present the results of the analysis of the most significant changes in the system of financing investment and construction projects of housing, introduced as part of the transition to the mechanism of project financing , as well as the conclusions of the most important implications of the reporting changes during the implementation of the current stage of reform of financing mechanisms for shared construction in Russia.

2. Research materials

Under the object of shared construction (OSC) in the Russian legislation refers to residential or non-residential premises, parking space, subject to transfer to the participant of share building after obtaining permission for commissioning of apartment houses and (or) other object of real estate and a member of the specified apartment house and (or) other property, constructed (created) with the participation of funds of participatory construction.

Based on the provisions of the FL, taking into account the changes made in 2019, the following requirements are set for a developer implementing investment projects for the creation of a OSC:

- previous experience of at least 3 years;
- participation as a developer, technical customer or General contractor in the construction of apartment buildings with a total area of at least 5 thousand square meters and a confirmed fact of their commissioning;
- ownership, lease, sublease or gratuitous use of the land plot intended for placement of the construction object.

Also, the updated version of FL contains a clause according to which the developer can attract money from shareholders only if the following key conditions are met:

- contributions to the compensation fund before the state registration of the EPA, which provides for the transfer of residential or non-residential premises, as well as parking space in the order established by the FL;
- creating an escrow account with an authorized bank (AB).

The formation and operation of escrow accounts in the text of FL is given a significant place. Escrow accounts are specially created bank accounts that do not allow the developer to receive money before the real estate object is created and ownership rights are registered. The developer opens a bank account, and the investor deposits money that is stored in the credit institution until the house is put into operation and the right is registered. The developer must pay for the construction using their own funds or loans. He will get the money only when he rents the house and registers at least one apartment. This is called project financing.

AB in the field of housing construction is a bank established in accordance with the legislation of the Russian Federation and defined by the Federal law of July 13, 2015 N 225-FZ "On promoting the development and improvement of management efficiency in the housing sector and on amendments to certain legislative acts of the Russian Federation", which has a license from the Central Bank of Russia to operate and meets a number of criteria, including:

- membership in the mandatory deposit insurance system in banks of the Russian Federation;
- no restrictions on banking operations due to the application of sanctions measures to the Russian Federation (otherwise, you must obtain the consent of the Government of the Russian Federation);
- having a high credit rating according to the national credit scale;
• for credit institutions with a high sensitivity to the impact of negative changes in the economic environment, the limit on the amount of debt under all agreements on the provision of targeted loans to developers is set at no more than 20 percent of the bank's own funds (capital).

Each AB independently determines the internal policy of financing construction projects, any template terms of relations between developers and AB are not defined, so in each case, the parties individually determine the tools for financing a specific construction project, including ways to control the AB for the implementation of the financing conditions by the developer. The FL stipulates that starting from 17.06.2019, the restrictions of article 18-18.2 of this law do not apply to a developer who attracts funds from shareholders through escrow accounts.

Based on the analysis carried out by the authors, key differences were identified between the interaction schemes of the main participants in shared construction before the reform under consideration and after its adoption (Fig. 1).

![Figure 1. Schematic diagrams of interaction between the main participants of shared construction before and after the reform under consideration](image)

The updated version of the FL also contains the following requirements for a developer who plans to attract funds from shareholders for construction:
• availability of project documentation and a positive expert opinion;
• the amount of the borrower's own funds must be at least 10% of the project cost;
• availability of funds in the amount of at least 10% of the construction cost on the developer's account opened with AB or a credit agreement signed with AB;
• restrictions on loans;
• no securities issued or issued except for shares;
• the developer's obligations, which are not related to raising funds from shareholders, do not exceed 1% as of the date of sending the project declaration;
• property owned by the developer is not used to ensure the fulfillment of third party obligations, as well as to ensure the fulfillment of the developer's own obligations that are not related to raising funds;
• if a technical customer or general contractor is involved, their current accounts must be opened in the same AB with the developer;
- annual accounting (financial) statements of the developer are subject to mandatory audit;
- the developer prepares interim accounting (financial) statements on a quarterly basis for the following interim reporting periods - the first quarter, half-year and nine months.

Also in FL has been the development of provisions relating to the disclosure of information by the developer, the requirements for the controls of the developer and its members made some amendments to the requirements concerning the content of contracts of individual share, where in addition to the definition of the object to be transmitted after commissioning in the contract must be provided with the following information:
- technical and economic parameters of the object;
- object plans (including drawings and diagrams);
- information about the material of external walls and floor coverings;
- information about the energy efficiency class of the object;
- conditions for raising funds.

In the article of the FL regulating procedure of attraction of funds of participatory construction added paragraph according to which the developer has the right to involve money of shareholders for the construction of one or more apartment houses or other real estate in the event of one or more building permits, but at observance of the established algorithm depending on the availability feature of the planning documentation.

The algorithm assumes in the case of registration of one or more permits for the construction of one of the approved urban plan of the land / production project site / contract on development of built-up areas / treaty on the integrated development of the territory / treaty on the integrated development of the territory. This is a significant innovation.

3. Results
The key changes identified as a result of the analysis and presented in this article in the mechanism of financing the implementation of shared housing construction in their entirety form a fundamentally new system for Russian practice of relationships between participants in investment and construction activities in the framework of the implementation of shared housing projects.

Figure 2 shows the authors integrated model of interaction between shared-equity housing construction entities, taking into account the allocation of functional subsystems that correspond to the main stages of implementation of investment and construction projects.

On the one hand, there is a clarification and development of legal provisions in terms of formalization and specification of requirements for the main participants of shared construction, aimed primarily at eliminating the shortcomings of the previously existing mechanism and improving its efficiency. This category of changes can be described as technical and inertial. The logic of these changes and clarifications in generally consistent evolutionary development of the system of regulation of investment and construction activities, without affecting the basic settings that determine the current at the time of adoption of such changes, the balance in relations between all stakeholders with equity housing.

On the other hand, according to the authors, the most significant changes concerning the radical transformation of the mechanisms for financing shared construction should be described as debatable. Moreover, discussion and ambiguity should be considered in two different aspects:
- goal setting aspect;
- implementation aspect.

The target orientation of the reform under consideration has been repeatedly declared by the initiators of the relevant legislative initiatives. As a key justification for their adoption, the need to solve the problem of defrauded shareholders is presented.

This problem is certainly important for tens of thousands of citizens, and the public response that arises as a result of its occurrence has a negative impact on the overall climate of investment and construction climate, especially in a number of regions of Russia. However, it should be noted that the General trend in the number of problem objects of share construction shows a steady positive trend,
due to the adoption of a series of effective measures, particularly in the areas of state regulation and development of insurance risks. [11-14]
Thus, it should be concluded that there is no critical need for radical changes in the mechanisms for financing shared housing construction in connection with the problem of defrauded shareholders.
Figure 2. Integrated model of interaction of subjects of shared housing construction taking into account the allocation of functional subsystems.
However, it should be noted that the reform can provide a fundamental solution to these problems, however, the effectiveness of this solution, that is, the ratio of positive and negative effects to all interested participants of investment and construction activities resulting from the reform should be the subject of thorough evaluation.

The expert community agrees that the main beneficiaries as a result of the reform will be large banks that will be able to obtain the status of AB and, on the one hand, accumulate in their accounts the funds of shareholders received as payment for transactions under the EPA, and, on the other hand, receive additional income from lending to developers [15-18]. In this context, the key question that determines the effectiveness of the entire reform under consideration is the following: which of the participants in shared housing construction will bear the burden associated with the emergence of additional costs during the implementation of projects?

In this regard, there is a need to study the second aspect – the aspect of practical implementation of the provisions of the reform under consideration.

It is obvious that the additional costs of developers associated with servicing loans due to the inability to spend funds received directly from shareholders to finance the implementation of construction projects, can either lead to a decrease in the profit of developers, or be shifted to the shoulders of shareholders by including real estate objects in the price.

The probability of implementing the presented alternative scenarios depends on two key groups of factors:

- market factors;
- regulatory factors.

Market conditions, that is, the level of competition, the competitiveness of construction products, the solvency of the population, the degree of development of mortgage lending tools, etc., determine the elasticity of demand for residential real estate objects depending on changes in their prices, thereby determining the ability of developers to raise prices, while ensuring an acceptable level of product liquidity.

The use of regulatory methods, primarily on the part of the state and self-regulatory organizations, can also affect the mechanisms for redistributing costs between participants in investment and construction activities.

Despite the ambiguity of the changes under consideration, some significant consequences of the decisions taken can already be identified:

- after the reform, the shareholder is actually transformed from a full participant in the relationship into a tool for reducing the rate on the target loan for construction;
- comparison of price indicators for objects sold under the previously existing mechanism and taking into account the changes made, shows that to a significant extent, additional costs associated with the cost of financing projects fall on the shareholders;
- the result of the reform was a decrease in the motivation of developers to stimulate active sales at the early stages of construction, which, in turn, leads to an increase in the weighted average prices for shared construction objects.

4. Conclusions

In summary, it should be noted that the degree of compliance of the actual results of the reform of the shared housing financing mechanism with its declared goals and its socio-economic effectiveness in General will be determined primarily by the realities of its practical implementation. In this case, the state should first of all perform the function of control and regulation in order to ensure socially significant results. The effectiveness of the reform can also be enhanced by more proactive and targeted activities of self-regulatory organizations and other associations, including within the framework of the development of standards and regulations for the activities of participants in investment and construction activities.
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