Construction industry of the Irkutsk region: features of development in the crisis

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Abstract. This article discusses the problems of development of the construction industry in modern conditions. The construction industry has always played an important role in the development of the Russian economy. The dynamic development of the construction industry depends on the dynamics of other related industries: for example, many types of industrial production, transport structures, trade, agriculture and other sectors of the economy. According to the indicators of the dynamics of the construction industry, we can judge the effective development of other sectors of the economy. Effective development of the construction market is an indicator of the development of national economies. Construction is one of the main types of economic activity, as it provides for the creation of new, expansion and reconstruction of existing fixed assets. Due to the developed construction industry, the most important tasks of structural adjustment of the material base of the entire production complex in the country are being solved, as well as conditions for the development of non-production sectors are being created.

1. Introduction

Currently, the construction industry is significantly affected by negative factors that hinder its dynamic development. This industry cannot develop effectively if there is a constant increase in prices for many goods and services on the domestic market.

The construction industry is one of the first to feel the impact of:

– rising inflation,
– lower income levels (businesses and the population in each region),
– sometimes a break in relations between contractors (who are forced to leave a particular market).

The activities of Russian construction organizations, slow down and other negative factors, for example:

1) The seasonal nature of all executed volume of works and services (that is, the long winter in many regions of the RF is a clear obstacle to rapid implementation of the planned production projects),

2) Very often the counterparties are unable to fulfill their obligations to builders due to the lack of available financial resources;

3) The development of the construction market is also hindered by many existing taxes, which, according to some experts, are high for example, income tax (20% of profit), VAT (20%), corporate property tax.
All negative factors are closely interrelated and generally create a certain set of problems that not every construction company can solve (many of them stop their activities after three or four years (mainly small and medium sized enterprises), however, the importance of these enterprises in the development of socio economic processes in the domestic market is quite high.

Today, the construction industry is experiencing a powerful impact of the economic crisis, many projects are suspended or undergo significant changes. [1, 2]

2. Materials and methods
The construction industry has been and remains one of the most problematic industries, the main negative factors the seasonality of work performed, and the long period from the beginning of construction to commissioning (most often this is a period of 2-3 years) are objective factors that are almost impossible to eliminate. Under such conditions, significant changes occur in the industry every year, the purpose of which is to dynamically develop the industry despite the influence of negative factors.

On the basis of many analytical agencies in 2015-2018 many small construction companies have disappeared from the construction market and their place was taken by large developers, with a focus on the development and implementation of mainly large projects, but even they will not be able to eliminate the above-mentioned objective factors hindering the development of the industry, hence you must look for such methods which will allow you to save the dynamic development of the industry under any conditions.

Despite the general crisis, in 2019, there was an increase in the volume of housing commissioned, but this was not due to the construction of multi apartment buildings, but due to the commissioning of the private sector. In the segment of commissioning non-residential facilities, there is a clear crisis.

The government's national projects aim to ensure that by 2024, more than 2/3 of new housing will be multi apartment buildings, but in the first 9 months of 2019 in this segment of the market the growth was only - 3.2%.

Since July 1, 2018 Federal laws on shared-equity construction (№ 175-FL, 214-FL) have been adopted, which give more guarantees to shareholders (buyers), but at the same time in subsequent years housing prices may increase, at the same time mortgages may become cheaper (due to reduced banking risks).

All changes are aimed at reducing the risks of shareholders and eliminating unreliable developers. Innovations include the following items. how:

1. Payment for the apartment it is possible to make only non-cash payment.
2. Developer cannot use the funds of shareholders to finance other projects, also you cannot transfer money from one bank to another.
3. Widely use escrow accounts, which significantly reduces the risks of shareholders, and obliges the developer to deliver the objects on time.
4. Strict control over the activities of construction companies from the central bank, banks and other regulatory agencies.
5. Information about projects and developers is in the general register and is controlled by the state.

However, these requirements do not apply to those developers who signed a construction permit before July 1, 2018, that is, taking into account the long construction period, many risks for shareholders still remain.

Thus, to reduce their own risks, each buyer of apartments should check the date of the construction permit, and not the date of delivery of the house, this is also one of the problems in the construction market, especially since many buyers do not even know about these subtleties, as a result, the number of deceived shareholder’s increases. [3, 4, 5]

Also, to reduce the risks of shareholders, escrow accounts (opened in the names of shareholders) have been introduced, and no developer has access to them until they prepare apartments for their purchase.
In other words, for the dynamic development of the construction industry, significant measures are being taken and implemented to support participants in shared equity construction, but there are still quite a lot of problems with the timely commissioning of facilities, their quality, price stability per square meter, etc.

The express analysis of apartment sales in the Irkutsk region in 2019-2020 showed:

For newly constructed housing:
- in 2019 (for the first half of the year) 5082 equity participation agreements (EPA) were registered,
- in 2020 for the same period a total of 2418 EPA (of which – 744 using escrow accounts), (figure 1):

![Number of equity participation agreements in 2019-2020 (quarterly).](image)

**Figure 1.** Number of equity participation agreements (EPA) in the Irkutsk region in 2019-2020 (quarterly).

The data in figure 1 clearly confirms the crisis situation in the construction market of the Irkutsk region, and this is not surprising, since the consumer market there is a constant increase in prices for essential goods: food, medicine, clothing, housing and utilities, communications, etc.

At the same time, the majority of buyers of apartments (buyers from other regions) often do not enter into a EPA, they are interested in ready-made (commissioned) apartments, the convenience and quality of which can be determined firsthand.

These approach property buyers may explain the fact, that market area have unsold residential property and the right to choose remains with the buyer, perhaps for this reason there was a noticeable decline prisoners of EPA in 2020, but still, the main reason is inflation.

For a more complete analysis of changes in the real estate market, it is necessary to conduct a sociological survey of potential and real buyers, whose answers will help to reveal many of the reasons for this drop in the EPA rate. (in the 1st half of 2020 in relation to the same period in 2019).

Another feature is the fact that residents of the region do not show much interest in opening escrow accounts. according to the author, the reason is the low awareness of the population about this service.

So, in June 2020 transactions with escrow accounts for new buildings were registered 39% less than in May 2020,
Meanwhile, every buyer should know that the features of using escrow accounts include:
- developers cannot use the funds of shareholders, in the contract there is a third party – the bank, which controls the process of construction and payment for work performed. Construction organizations that have solid experience in the construction industry can work with such accounts. Entering objects must be completed according to the approved program of construction of the property, the presence of many controlling structures for the timing of construction programs.
As for the situation on the secondary housing market in June 2020 in the Irkutsk region registered 4371 rights to residential premises under purchase and sale agreements, which is 8% more than in May (4063).
In total, from January to June 2020, 25718 transactions in the secondary housing market were registered in the region (figure 2):

![Graph showing number of purchase and sale agreements in the secondary market for the 1st half of 2020](image)

**Figure 2.** Number of registered rights under contracts for the purchase and sale of residential premises for secondary housing (by month for the 1st half of 2020 according to the federal registration service for the Irkutsk region).

The growth in demand for secondary housing may lead to an increase in prices, for example, in July 2020 in many cities, prices have increased by 10 - 15%.
Analysts say that consumer demand for secondary housing will eventually slow down due to the fall in real incomes of the population in the context of the ongoing crisis.
It is worth noting that demand has a pronounced dynamic either growth or decline, for example, in many cities prices were noticeably reduced in June, but in July they are growing by 17%, the reason may be the so called deferred demand due to restrictions introduced during the pandemic. Thus, the housing construction market and the sale of housing stock develops in various ways under any conditions of development of the domestic market, the period of significant changes can be only one month. [6, 7,8]
The analysis shows that there is no absolute drop in the sale of housing stock, since existing credit lines, in particular, mortgage lending, significantly support the construction industry, and the deferred demand for housing as a result is manifested with greater activity of market participants.
Moreover, in the Irkutsk region a fairly large Fund of old housing, as well as migration processes from remote localities to large cities all this annually activates the construction market. [9, 10, 11]

As a result of the rapid analysis, the main negative factors in the construction industry of the Irkutsk region were identified:

1). The housing construction market is significantly affected by the general crisis there is a diverse dynamic of putting objects into operation, the sale of ready-made housing often occurs chaotically demonstrating an increase or sharp decrease in sales volumes, which negatively affects the implementation of the adopted construction programs.

2). The declining level of real incomes of the population in the context of a pandemic automatically reduces the dynamic development of the construction industry,

3). The long cold period (from October to March) also reduces the dynamic development of the industry in the region, as a result there is an additional problem the high cost of engineering networks which undoubtedly leads to an increase in the cost of 1 square meter of housing and the completion of construction projects on schedule.

4). Approved high rates for many taxes only aggravate the situation in the construction industry, for example, many developers cannot pay VAT in the summer, as from May to October for builders the most active period of work and payment of taxes often leads to a stop in the production cycle.

5). Low awareness of the population about new methods of financing and special control in housing construction reduces the number of potential shareholders. [12, 13]

6). Irkutsk region ranks 55th (among 85 regions of the country) in terms of the introduced volume of housing per inhabitant that is, there are serious problems in the industry that are not visible on the surface.

3. Conclusions

Express analysis of the construction industry in Irkutsk region allows to draw conclusions:

1) In the construction industry in the region has an obvious problem that was aggravated in the period of the pandemic, the real estate market is acting erratically, showing the growth and decline of key economic indicators specific to the construction industry: revenue, volume of introduced housing, the volume of sold space, margin, etc.

2) Due to the remoteness of the region from the central regions, the Irkutsk region is an unattractive region for many potential investors, which further increases the influence of negative factors that slow down the dynamics of construction work.

3) One of the main problems of implementation of the adopted development programs is weak control by many controlling structures

4) For the dynamic development of the industry, reducing the time for putting new housing stock into operation, it is necessary to introduce innovative technologies

5) Increasing awareness of the population of the region – about new methods of protecting their interests in the conclusion of a EPA – will certainly increase the number of potential shareholders (buyers), which will certainly affect the amount of revenue received, as a result – and net profit.

6) The regional government should have short and long-term plans for the development of the construction industry in the northern region (this is especially important against the background of a significant outflow of young people from the region to other major cities of the country). [14, 15, 16, 17]

7) The government of the country could introduce during the crisis of the industry some benefits for example, developers who perform on time approved projects for the commissioning and implementation of housing stock you can provide benefits, for example, for VAT the value of which can be 3 – 10%, (experience of such measures for certain industries has been successfully implemented in China),

8) Another problem in the construction industry is the low level of labor productivity in many parts of the production cycle, to eliminate this negative factor, it is necessary to modernize, first of all, outdated equipment, which requires financial investments.
9) In many cities of Siberia, the average cost per square meter of newly built housing has significantly exceeded the cost of secondary housing. And this is an indicator that new buildings from the category of cheap housing are moving to a higher class (due to greater comfort). Accordingly, constantly increasing its cost, while the number of issued building permits, number of new projects that developers bring to the market decreases, i.e., there is a decrease in supply with constant demand there is a possibility of increasing prices.

It is possible to change this situation only with the introduction of drastic measures, one of them is to reduce the tax burden for construction organizations.

In the context of the escalating crisis in the construction industry, it is time to reduce taxes and provide preferential loans without such support measures in the domestic market of the country, many important processes may slow down.

Taking into account the experience of China, it can be argued that the management of the construction industry both at the federal and regional levels should be more rapid and dynamic. Unfortunately, slow solutions to many problems do not lead to effective development.

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