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# FORMATION OF MARKET RELATIONS IN SPHERE OF WORK IN PROGRESS OF HOUSING CONSTRUCTION

**Problem statement.** In current conditions, the housing market was selected as one of the potential priorities of growth, since the construction itself is able to promote the production in related industries and solve an important social task of providing citizens with affordable housing. In 2011-2012, the most populated regions of Ukraine they developed and started implementing the strategies for improving the competitiveness of the construction by forming clusters. In developing such strategies the problem of completing unfinished residential units was first affected. The author thinks that this very period can be considered as the beginning of the formation of market relations in the sphere of unfinished housing construction.

In drawing up strategies at the level of regions, cities and districts it should be necessary to make an expert valuation of the unfinished housing, to determine the amount of funds needed for its completion, to find the ways to further use of these facilities, to focus on attracting potential investors to finish the construction. However, in practice, this work was carried out without a sufficiently developed methodological support and that led to an unsystematic process and to not getting the desired results. Besides, the financial constraints of completing unfinished residential buildings are linked to the fact that the funds of the regional and local budgets are mostly accumulated to finance the completion and rehabilitation of social facilities and communal property. Most uncompleted residential objects are owned by private developers, so they cannot be completed due to the centralized budget resources. Taking the above into account, the issues of the market relations in the sphere of unfinished housing construction that will be accompanied by more active participation of local governments, regional and state authorities become more relevant.

**Analysis of the recent research and publications.** The issues of management, finance and software support of completing the unfinished housing construction were considered in the works of J. Shevchuk, V. Shevchuk, Samokhina E. [1] A. Hemdy [2], P. Barton, Brian S., S. Robinson [3], Brigh A. Klekston K., M. Shulfer [4], Horodnova N., A. Baykovska [5], A. Dudnik [6], E. Kudashov [7] N. Oleinik [8].

The authors defined the approaches to modeling situations at the market of completing unfinished housing and to identifying the impact of regional housing policy on the quality of life in the region. But the guidelines and suggestions as to the formation of market relations in the sphere of completing unfinished housing were not developed and that very fact determined the choice of research.

**The task statement.** In the construction terminology an unfinished object is the object which has no act of the State acceptance provided that there is a permission for the construction of this object and a plot of land for carrying out (or temporarily stopping) the construction is determined. In the construction practice there are objects on which the work is performed (and the construction in progress is considered as a technological element of production) and objects on which for one reason or another the work is stopped. These objects are the preserved objects, the objects with stopped and interrupted construction.

However, as part of the construction market, unfinished objects in one or another way are effective objects for investment and tools to generate revenue. The specificity of unfinished objects is the fact that their future profitability depends on the feasibility of their completion [9]. Unfinished construction is investments abandoned under the influence of various factors, including an incorrect assessment of potential construction projects, lack of funds to complete the construction, change of ownership, change of market situation and others.

An important factor that affects the cost of construction in progress is a possibility of completing an unfinished object at the price that exceeds the cost of the construction. One should also take into account the peculiarities of the procedures of assessment and sale of unfinished objects. In carrying out these procedures an essential part belongs to the government regulation, changes of the target destination of the unfinished construction and the chief development plan being possible. The laid project functionality of the unfinished object plays an important role. An object can be redeveloped or used only for its intended purpose in accordance with the established permission to use the land under the object. Thus, the formation of market relations in unfinished housing is an important prerequisite for increasing the availability of housing, stimulating housing development and implementation of the public housing policy at the regional level.

**Statement about the principal research material.** In modern practice of accounting the unfinished housing is defined as "uncompleted capital investments in non-current assets", which refers to capital investments into construction, manufacturing, renovation, modernization, purchase of non-current assets and which were not put into operation on the date of the balance sheet, as well as advance payments for financing construction. [10] Review of the theoretical aspects of accounting and maintenance of unfinished housing [5, 6, 7] shows the lack of integrated approaches to its determination, including the normative and

legislative acts. Basing on the characteristics of unfinished housing, the author offered to divide its facilities into groups, the following approaches to classification being proposed (Table 1).

*Table 1*

**Classification of unfinished housing objects**

| Classification features | Characteristic (a separate group of unfinished housing objects) |
|---|---|
| Ownership | State |
| | Private |
| | Communal |
| | Other (mixed, of public organization etc.) |
| Construction stage | Pre-project (plotting an area) |
| | Project |
| | Construction |
| Condition | Construction that exceeds the normative term |
| | Temporary stopped construction |
| | Conserved construction |
| | Stopped construction |
| Construction stage | Preparatory period |
| | Zero cycle |
| | Above-ground cycle |
| | Finishing |
| Degree of completeness | Low (up to 50%) |
| | Middle (50-70%) |
| | High (more than 70%) |
| Term of construction (term of conservation veing taken into account) | About a year |
| | 1-3 years |
| | More than 3 years |
| Need in investments | High (more than 70% of the initial estimated cost) |
| | Middle (from 30 up to 70% of the initial estimated cost) |
| | Little (less than 30% of the initial estimated cost) |

* suggested by the author

The above classification can be used by the regional authorities in making decisions on managing unfinished housing located on their territory, and in the formation of regional housing policy.

Nowadays most cities almost have no land for building neighborhoods and districts within the city boundaries. Expansion of cities by removing land from their owners, engineering development of remote areas for building, rearrangement of the urban infrastructure lead to a low competitive cost of new housing and higher costs for its maintenance. At the same time, unfinished housing objects have competitive cost advantages.

The importance of solving the problem of unfinished housing at the regional level is also confirmed by the fact that the involvement of deferred investment potential into the system of economic relations, where market regulators can not only "spice up" the capital, but also use it is an instrument of warming the investments market in the part relating to housing.

To encourage the involvement of unfinished housing in the region economy different ideas are developed. For example, in Russia, according to Professor E. Kudashov [ 7], this can be achieved by introducing a tax on unfinished construction at the rate of accelerated depreciation , i.e. approximately at the level of yearly 15 - 20% of investment in current prices by outside the normative construction period , with the tax being differentiated according to the term of investing into unfinished construction and the degree of technical perfection of housing . That is, the higher the construction period (including the term of preservation) and complete construction completeness, the higher the amount of tax. This tax is of a confiscatory character . The introduction of such a tax should make owners of unfinished construction either find opportunities to complete housing or put it up for sale which will lead to a significant fall in house prices and will bring unfinished housing to the market. Since the law should forbid its resale, a new owner will not be able to buy houses in advance and will be interested in completing the construction.

The author believes that in Ukraine, depending on the housing market conditions, the amount of investment into housing, introduction of this tax is also possible, but at present, these measures will not improve the investment climate in the housing.

In Ukraine, experts tend to continue government support of completion of housing. [8] At the same time, it's clear that there is a threat of dissipation of public funds allocated to support the construction industry due to the involvement of "black" mechanisms and corruption in the real estate market. To minimize such threats, it is important to develop a necessary mechanism to implement the procedures for determining the required amount for the completion of residential properties, regulations for the list of objects with a certain degree of perfection, the criteria for determining the degree of completion.

To develop regional housing programs it is necessary to reliably determine the amount of unfinished construction, the number of operating companies in the market, the amount of funding for the completion of such facilities. This problem is that the criteria for determining the degree of perfection of residential construction are rather conventional. It should also be understood that the main factor of the program is not the final price for a buyer but the presence of investors. In construction there is still a scheme where the tender to the lowest construction cost is held, but there is no normative document which would describe the procedure of allocating credit cost on the tender base.

Today, the group of unfinished housing consumers includes local authorities. This is due to the intention of the state to finish building houses for the social programs in the region. The most important characteristic of unfinished housing is a possibility of their completion and sale of finished housing to the population of the region in the free market or by the government social programs. In this regard, after the completion, this segment goes to the segment of new housing that is currently classified under the following features in consumer preferences: materials used; use of technology; floor space and number of rooms; provision of utilities; landscaping; quantity and quality of cars equipped garages or parking lots; homogeneous social environment; location of the facility; the presence and degree of social and commercial infrastructure; other factors (other consumer preferences).

However, the terms of financial support to complete housing were very different: the completeness of object more than 70% , legally correct and transparent arrangement of financing the construction, absence of investors' cost in the development of other projects , low cost of 1 sq. m. Regarding the return of the investment, the practice has shown that the traditional approach to the assessment of unfinished housing costs in value does not reflect the interests of today's market, so the market assets under construction for a long time is in stagnation. It should be noted that today there is an urgent need for assessing the market value of assets under construction for their sale at the open market.

In a market situation, which is rapidly changing, this task is very complex and needs improved methodological approaches to the evaluation of assets under construction in the face of uncertainty. The methods available do not currently face the challenge of such an assessment especially taking into account the specificity of assets under construction. Today, unfinished construction is massively present at the market of building equity which depends on the loan programs for such building. The author believes that the determination of the value of unfinished housing should be based on the consideration of principles of the market conditions, expectations, substitution, competition and the most effective use.

In practice, a cost approach to valuation is usually applied. The income approach must be rejected because of its inability to generate revenue from non- operated facility until the completion of its construction. The approach based on a comparative analysis of sales in the evaluation of unfinished housing has also a very limited application due to the complexity of calculations of the correction factors. Thus, the existing methods of evaluating unfinished housing do not address the specific characteristics of unfinished objects and do not reflect their real value.

In foreign and domestic literature on marketology much attention is paid to the analysis of environment property market [2, 3, 4]. There is a number of models of factor analysis of the external environment, but it often comes down to the list of grouping factors in the absence of general indicators that characterize the state of the environment of the overall market. Active research in evaluation of investment attractiveness of regions and cities can be applied by looking at the local market. And scientists and practitioners offer various options of the analysis of socio-economic systems, evaluation of their investment attractiveness and risk. In addition, analysts of estate market analyze different market segments at the local level. However, the lack of common methodological approaches to the comparative analysis and forecasting market conditions at different territorial levels make the problem of modifying existing approaches to the evaluation as well as search of categories that would fully characterize the state of the needs of modern real estate market makes even more urgent.

To coordinate the scientific and economic content of the concept of "unfinished construction", in my opinion, one should not only be aware of the notion, of its possible classification, legal status of the object of study, methods of evaluation, but should also be able to identify the relationship of current conditions of the market segment to which it belongs, which will emphasize the practical importance of research in developing regional housing programs.

To characterize the correspondence of the conceptual and theoretical approaches to the evaluation of unfinished construction market conditions in [5, S.244] there was introduced the category of "kormaralnost" which reflects the adequacy of the methods of evaluation of the real market value of the property. This very correspondence to the market realities is important for a sustainable development of the construction market in an unstable economic situation.

The “kormaralnost” index is defined as the ratio between the result of real estate appraisal at various stages of construction, obtained in accordance with the existing approaches and the results that can be obtained by considering the factors of the external environment on the value of the object under construction.

To resolve a discrepancy between the existing approaches of determining the value of unfinished objects and practical realities not regarded by these approaches due to lack of methods which allow to display specific features of facilities for them to use, it is useful to consider the particular definition of unfinished objects value. The measures to establish the criteria for the development of methodologies for evaluating unfinished assets depending on the influence of market conditions are given in Table 2.

Thus, the shortcomings of the methods for determining the value of unfinished assets reflect the level of “kormaralnost”, that is the more accurately the market value of an object is estimated, the more popular the methods are in practice.

The reason of a rather low level of “kormaralnost” at present is a complex structure of methodological approaches to the evaluation of assets. On the one hand, there is a clear, transparent and semantic algorithm of evaluation, on the other hand, at the working level, the sharpness of the algorithm is blurred because experts have to constantly adapt the instrument to the specific object of evaluation. We consider it necessary to improve the assessment tools by clarifying the following indicators:

- indicators that allow the calculation of reasonable physical, functional and external depreciation of assets under construction;
- indicators that provide the determination of the market value of assets under construction, depending on the degree of completion of the object;
- indicators that allow the comparison of the test facility under construction with real-analogues and justify their costs;
- indicators that determine an ability to predict future revenues from assets under construction after their commissioning.

*Table 2*

**Measures of improving the existing methods of evaluating assets under construction taking into account the market conditions**

| Method | Market conditions that limit the application of the method | Areas of improving the techniques for a possible practical implementation |
|---|---|---|
| Cost | Susceptibility of assets under construction to a higher degree of physical deterioration due to the lack of conservation measures | Development of the criteria for calculating reasonable physical, functional and external depreciation of assets under construction |
| | The need for an accurate determination of the degree of the object completion | Development of the adequate methods for determining the value of assets under construction depending on the degree of the object completion |
| Comparative | Lack of analogous facilities at the market | Development of the methodology for calculating the cost of construction in progress which allows comparing them with real-analogues, completed construction and obtaining the correct value on the base of the introduction of amendments reflecting the specificity of the assessment |
| | Complexity of calculating the correction factors by comparing with real-analogues | Introduction of the performance criteria for comparing the object assessment with real-analogues and their substantiation |
| Revenue | The need for information about the deadline for the construction of ab unfinished object | Development of the methodology for calculating real time of completing construction taking into account the degree of completion |
| | Inability to generate income from the operation of the facility under construction until the completion of the construction | Making provision for estimating a conditional completeness of the object and a subsequent updating of the existing methodologies to assess the unfinished construction with regard to this condition |

* made up on the base of [5, 8].

Identifying a set of the above criteria will allow identifying the specific features of the object, and secondly, choosing the most correct method of calculation within each approach to evaluation. From a system perspective it is necessary to consider the relationship of external factors and the cost of a specific

facility under construction. The very definition of the impact of these factors on the value of the object under construction will determine the level “kormaralnost”.

The need for a comprehensive analysis of the market factors that affect the creation, functioning dynamics and sale will make possible a more thorough and balanced approach to the selection of methods for determining the value of assets under construction and avoid possible errors in their assessment.

An indicator of “kormaralnost” allows setting an appropriate risk level of investments into a particular facility under construction (feasibility of its future financing or acquisition) within the income approach. This indicator can be used as a component in calculating the rate of return on investment, with the risk of investment (the discount rate) being taken into account.

As part of the comparative approach one should use an additional amendment when comparing with object-analogues. If the degree of influence of external factors is negligible, it means that the characteristics and quality of a consumer product are very low. In this case, you should reject the use of the comparative approach as the one that provides the least correct market value of the property as the value of the evaluation of the comparison will put a significant amount of adjustment factors, the total value of which can reach a high value, which will indicate a significant difference between the assessment and real-analogues. If the degree of influence of external factors is moderate, the recommendations will be to use the comparative approach, but it should be compared with the object of the construction in progress, for which there are also factors of the external environment that will enable to get the correct result market value. If the degree of influence of external factors is high, it provides an opportunity to include the objects-analogs selected for comparison both as unfinished and finished objects, with the adjustment coefficients being used in the analysis.

Within the cost approach one can set a difference (error) in the total depreciation (physical, functional and external) of the object under construction over the same object in the same group but of the completed construction. This will display a more intense impact of the environment on incomplete objects, and also a higher degree of wear. In calculating the adjustment coefficients, each analyzed external factor is quantitatively estimated and rated in accordance with the level of influence on the base of the five-point evaluation system, where 1 is the lowest level of influence, 5 is the highest level of influence of a factor.

The main factors of the external environment effect on the cost of construction in progress make up a group of indicators which are crucial in calculating the cost of objects. For example, the analysis of the influence of wear factors makes the points distributed as follows: 1 – for a finished object of construction; 2 – when conserving an unfinished object; 3 – if there are no measures for conserving when stopping construction. The degree of finishing building of objects (a risk of inability to complete building because of external factors influence) is estimated by the following points: 1 – more than 70 %; 2 – 30 to 70%; 3 – less than 30 % of the volume of construction works. The availability or absence of direct analogues for comparison at the market are estimated by the following points: 1 –direct analogues of unfinished construction at the market are available; 2 – the availability of unique objects under construction of different degree of completeness and purpose at the market; 3 – the lack of unique objects under construction of the same purpose at the market, availability of completed construction projects of the similar purpose. The deadlines of the construction completion are: 1 – the scheduled deadlines of the construction completion; 2 – the construction is carried out, but the scheduled deadline of the construction completion will not be met, it will be exceeded; 3 – the construction is stopped, the deadlines for the construction completion are unknown.

The methods of calculating the impact of factors allow determining the significance of each factor by their ranking. The weight factors are determined according to the number of points given by experts for each factor. Experts choose one of five options depending on the degree of exposure. Thus, the greatest weight is the factor that has the greatest impact on the unfinished building object. The impact of the factors is determined in their totality and the ranges of “kormaralnost” characterizing the risk degree and the impact of external factors on the unfinished object, thus, the difference between the highest impact and a low impact which is divided into three segments (the upper level of the zone characterizes a minor -risk, the lower level characterizes a high risk). The obtained result of the “kormaralnost” level allows obtaining an adequate market value of the unfinished construction, with the risk of investment being taken into account and one of the management decisions being made: stopping of a construction object; completion of the construction object; a possibility of implementing an unfinished construction object at the open market; additional investments.

In developing the regional housing programs, in that part of it that deals with the completion of unfinished construction it is necessary to check the builder’s reputation; to select the objects at the final stage of building; to carefully inspect the property rights on a real property project and a possibility of their transfer them to any third party by agreement, the owner's guarantees as to transferring the property rights and so on.

The construction expertise of unfinished construction involves a consideration of construction documents, an assessment of actually completed construction and building and assembly jobs to be sure in their compliance with the volumes and the materials used; establish whether the estimated construction cost

of eligible costs; determination of correspondence of the quality of work performed to the actual standards, building codes and regulations.

It is clear that the market of unfinished construction is not provided with financial, material and human resources. The solution of the problem of reducing the unfinished construction requires a separate section in the targeted regional programs (or even a stand-alone program) that would provide a thorough inventory of unfinished construction objects and evaluation of their state as well as the conditions of each object implementation.

At present, the investment potential of the unfinished construction market is very high. The unfinished construction can be considered as failed investment projects, when particular investors who are prone to greater risks in terms of poor investment climate have not reached their goals. In order to return at least part of the investment, many of them are to give up ongoing projects and implement unfinished construction at the open market. The factors that affect the value of assets under construction are systematized in Table. 3.

*Table 3*

**Factors that Affect the Value of Assets under Construction**

| Factors | Impact on the cost of an unfinished construction object |
|---|---|
| Demand | The number of a given product at the market of responsible customers |
| Usefulness | A housing ability to meet the owner needs and accommodation comfort |
| Deficit | Restrictions of housing offers which leads to an increase in house prices |
| A possibility of alienation of objects | An ability to transfer property rights, allowing the transfer of housing from one owner to another one |

* made up on the base of [7].

It is a good idea to set these properties of an object under construction when including it into the regional housing programs: location, degree of infrastructure development, transport, architectural and design solutions, the state of the object under construction, availability of utilities (electricity, water, heating and gas), environmental factors (including the sanitary inspection data, the presence of parks, ponds, etc.). When forecasting expectations, there should be programs which would take into account the factors that affect the rate of implementation of housing, namely the number of similar offerings at the market, the objective shortcomings of buildings, and the legal "purity" of the object.

Thus, the current problems of construction companies being taken into account, unfinished housing objects are the most attractive ones for investment. Here, unobligated apartments (first of all those which are not bound by the treaties of shared investment) among the unfinished housing amounted to 3.12 million square meters in 2012, or 49.929 apartments of the economic class. In 2012-2013, these numbers were 2.8 million square meters of the unobligated apartments of real estate (mainly business class) and about 50 thousand luxury apartments of various degrees of completeness.

**Conclusions and further research.** So, to create the market economy in the sphere of unfinished housing the strategic priorities of the regional housing policy are to be the following:

1. Unfinished housing objects are a deferred investment potential, which is to be involved in the system of economic relations and be used as a tool for warming the investments market in that part which relates to housing . As in most cities there is practically no available land for building blocks and neighborhoods, the expansion of suburban cities by removing the land from their owners, the engineering development of remote areas for building, the rebuilding of the urban infrastructure lead to a low competitive cost of new housing and to higher operating costs for its maintenance. At the same time, unfinished housing objects have competitive cost advantages.

2. Keeping the features of unfinished housing construction, it is expedient to divide its objects into separate groups according to the classification criteria: ownership, the stage of construction, a good state, the construction phase, the degree of completion of the construction objects, the term of construction, with the term of conservation being taken into account, the degree of investment needs. This classification can be used in making decisions by the regional administration concerning the territory on which an unfinished housing object is located and when mechanisms of implementation of the regional housing policy are being formed.

3. An important factor that affects the cost of unfinished construction is a possibility to implement the object at the cost that exceeds the cost of construction. One should also take into account the peculiarities of the assessment procedures and of the sale of unfinished construction. The determination of the value of unfinished housing should be based on the principles of conjuncture, expectations, substitution, competition, the most effective use. By applying the adjustment coefficients the above technique takes into account the market value of unfinished residential construction. To develop regional housing programs edge it is necessary to reliably determine the amount of unfinished construction objects, the number of operating companies at the market, the amount of funding for the completion of such facilities.

4. The unfinished housing market is not fully provided with financial, material and human resources. The solution of the problem of reducing unfinished construction requires a separate section in the target regional programs or the introduction of a separate program that would provide a thorough inventory of unfinished construction and the evaluation of their state and conditions of each object implementation. Therefore, the development of regional housing programs, with unfinished construction objects being included, it is necessary to check the builder's reputation; to select the objects that are in the final stages of construction, to carefully inspect the property rights on the property and a possibility of transferring them to third parties by agreement, the owner's guarantees as to the burdens of transferring the property rights and so on.

5. The investment potential of the unfinished construction market in the region is significant. At the level of regions and cities it's reasonable to make the expert evaluation of unfinished construction, to determine the amount of funds needed for completion, to find ways to further use of these facilities to focus on attracting potential investors to complete the construction.

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**Sevka V.H. CREATING A MARKET ECONOMY IN UNFINISHED HOUSING**

**Purpose**: to develop theoretical and methodological approaches to the formation of market relations in the sphere of unfinished housing construction as a prerequisite for improving the housing of the population, stimulation of development of housing construction and implementation of the state housing policy at the regional level.

**Methodology of research**. In the process of research used the following methods: the monographic method - for a detailed and comprehensive study of the research object, the system-structural analysis – for to study the category "construction in progress" of its classification, revenue, cost, comparative methods - for the evaluation of assets under construction.

**Findings**. In the given article it is proved that the potential of unfinished housing for the regions of Ukraine are important sources of increased availability of housing . Proposals on how to use a programmatic approach to address the problem of housing completion .

**Originality**. Methodical approaches to the formation of the strategic priorities of the regional housing policy in the completion of unfinished housing through the systematization of theoretical and practical aspects of its accounting, management and completion at the regional level.

**Practical value**. The implementation of the proposals contained in the article will improve housing security of the region, facilitate migration to the region, enhance its image as an area suitable for different life and improved living conditions.



**Key words**: unfinished construction, housing market, building inspection, valuation of real estate, the housing program.