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FINANCIANG SCHEMES OF DEVELOPMENT PROJECTS IN THE REAL ESTATE MARKET

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Well-established foreign practice in the real estate properties is to attract professional participants providing complete control of the current process. This fact is led to the emergence on real estate market professional participants – development companies – who deal with user value formation of the real estate properties and provide more efficient management of investment activity in real estate field.

Among the stages of the development project implementation one of the most important is organization of its financing which maintains project investment resources which consists not only from monetary terms, but also other investments including fixed and working capital, property rights and intangible assets, credits, loan and mortgage, land use rights and others.

The real estate is considered to one of the lowest risk spheres of long-term investment with enough high level of commercial viability. However the main condition of availability to the above-noted advantages is higher level of capital expenditure. As far as big development projects need vast investments, their realization is back-breaking for company's own finances. So developers have to raise funds from external sources. At the same time considering multiannual West practice specifically investment from external sources correspond the core of Development. Of course for supplying the adequate level for investment project on the part of potential investor, development company takes part in the project financing by their own sources (nearly 20-30%). Generally it refers to the initial project stage with maximum risk.

External financing for developer is the most profitable because the usage of only own sources for development of scale projects is non-effective. Except the scale rise of dealings and market share such practice allows to raise the return on own equity through the “degree of financial leverage” which is the objective factor which derives from the appearance of borrowed funds to the extent of capital which is used by the company. So the usage of debt capital allows the company to bolster the profit margins on the owners' equity.

At the same time organizing the developer's project it should be noted that the dynamic of investments should provide the project realization according

to time and financial constraints and reduction in expenditure of finance sources and project risks have to be provided at the expense of accordant structure and financing sources and established organizational arrangements including: fiscal reliefs, guarantees, different forms of participation [2].

Decision making about the choosing of developer's project forms of financing in real estate sector is usually made according to the next stages:

- view of potential forms of financing and selection of particular type;
- determination of companies which will finance;
- determination the finance sources structure;
- control on plan and financing terms execution.

To be noticed is that depending on developer's project realization level different sources are engaged to financing.

Developers' companies refer to investors when they don't have enough owned assets. Please note that developer's project financing on this stage has risky character that's why investment resources are the most expensive. After buying the land property (project stage) developer's company raise investors capital and continue using employers' inpayments. During the construction developer's company raise investors' capital, bank, obligation loans and Escrow-credits. It stands to mention that this stage is the most capital-intensive as it needs considerable volume of investment assets.

Nowadays the majority of developers use standard ways of financing such as bank crediting, internal funds, investors' funds and CFF for housing property. But with the development of economy there are new methods of fund raising. It should be noted that Construction Financing Funds allow to raise capital and to find buyers for future real estate objects at the same time. The goal of creating CFF is draft of housing accommodation in property by fund grantors. Construction Financing Fund can be of two types – A type and B type.

For CFF of A type the of current price of measurable construction object unit, demander qualities of investment objects, level's and comfort index numbers are determined by builder who takes a risk about insufficiency of attracted funds of building the construction object and is undertaken to put it into service in time apart from scope of finance. For CFF of B type the builder undertakes to follow the steward's recommendations about demander qualities of investment objects, to accomplish construction objects building without schedule delays and according to project documentation and under Total Installed Cost coordinated with the steward and put them into service by the due date in case the accomplishment of construction financing schedule by the steward. Instead of this the steward determines the current cost of the construction unit, level and comfort index numbers and also takes a risk about insufficiency of attracted funds on building of the construction object.

However CFF may be used not only for housing construction finance but for commercial purpose objects as it shown on fig. 1.

So the investor calls on realtor with a goal of the commercial real estate seeking (1). The realtor finds a real estate development company (2). Next the developer starts co-working with investor on contractual basis concerning the real estate object finance (3). The developer creates the Construction Financing Fund and he is its steward (4). Investor invests to the fund (5). The developer makes execution of project-permission documentation on real estate construction in his turn (6). The local authorities make documentation expertise and give permission on construction (7). Development company directs funds on real estate object construction (9) from CFF (8). Construction company provides the object building (10). During the construction installation works the construction company reports about of progress in implementing of works to the development company (terms, cost, quality, etc.) (11) and the development company reports about the accomplishment of works and directing funds to investor (12). Obtaining the ownership of the property by the investor (13). Moreover it is required a mandatory insurance of investor's funds from financial risks in this scheme.

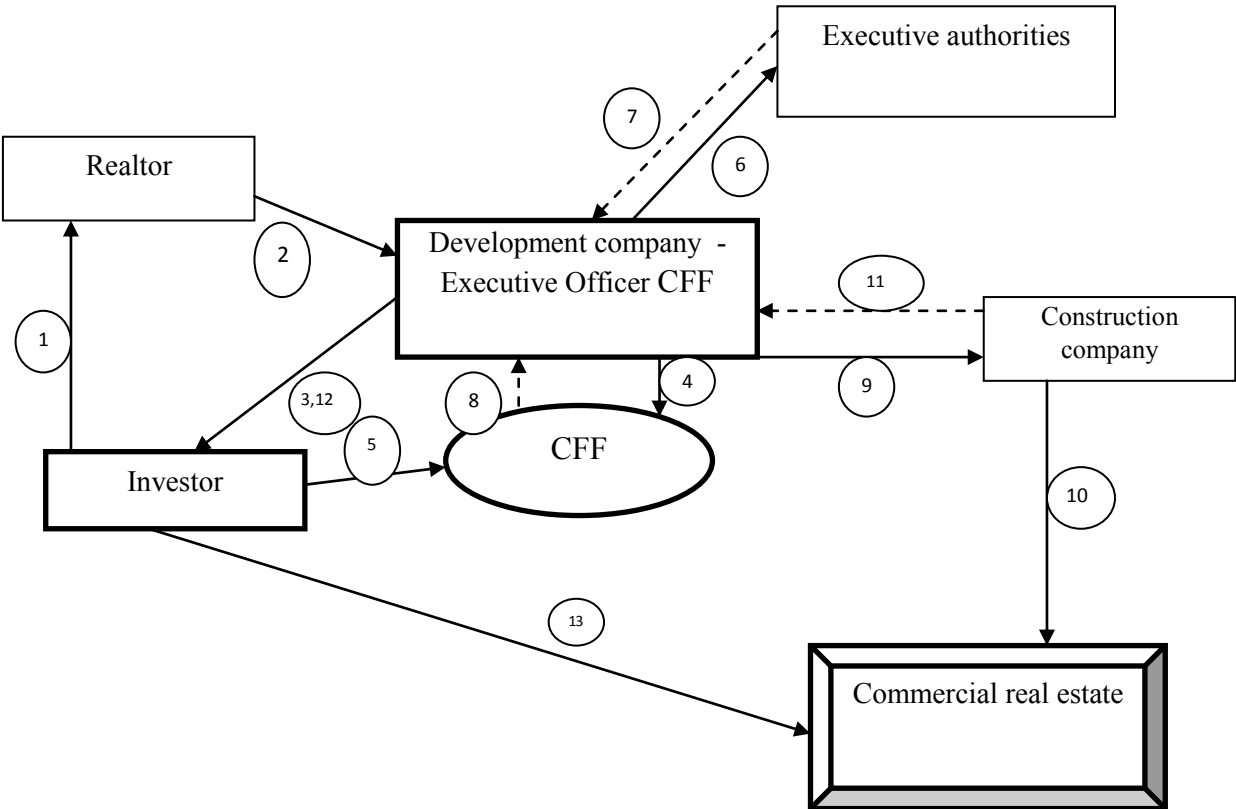


Fig. 1. The CFF Usage Scheme for Development Projects Finance on Commercial Real Estate Construction

Another way of housing finance can be performed by purposed bond certificates which provide discharge of duties by housing construction project transfer (object part). Purposed Bond Certificates – are bond certificates which provide discharge of duties by goods and/or services according to claims fixed by

conditions of such bonds distribution. Issue of purposed bonds is made on sum which can't be exceeded the value of construction object according to approved documentation and which isn't exceed the equity triple size or amount of collateral which is given with this purpose by third parties.

The Finance Model of Housing Construction is given in fig. 2. So the developer makes the emission of purposed bonds after getting tract of land usage right for construction of housing object and building permit established under legislation. Underwriter on behalf of issuer-developer floats purposed bonds on primary market. However purposed bonds sale is done by companies with asset management which act in the interests of collective investment scheme with the goal of purposed bonds further expansion among investors. Fixing the investee in house construction by investors in purposed bonds is done by a contract between owner of purposed bonds and theirs' issuer (developer) who determines the specific premises to be acquired by the owner of the bonds in the event of cancellation, the series and number of bonds as well as the conditions under which the ownership of the selected object investing.

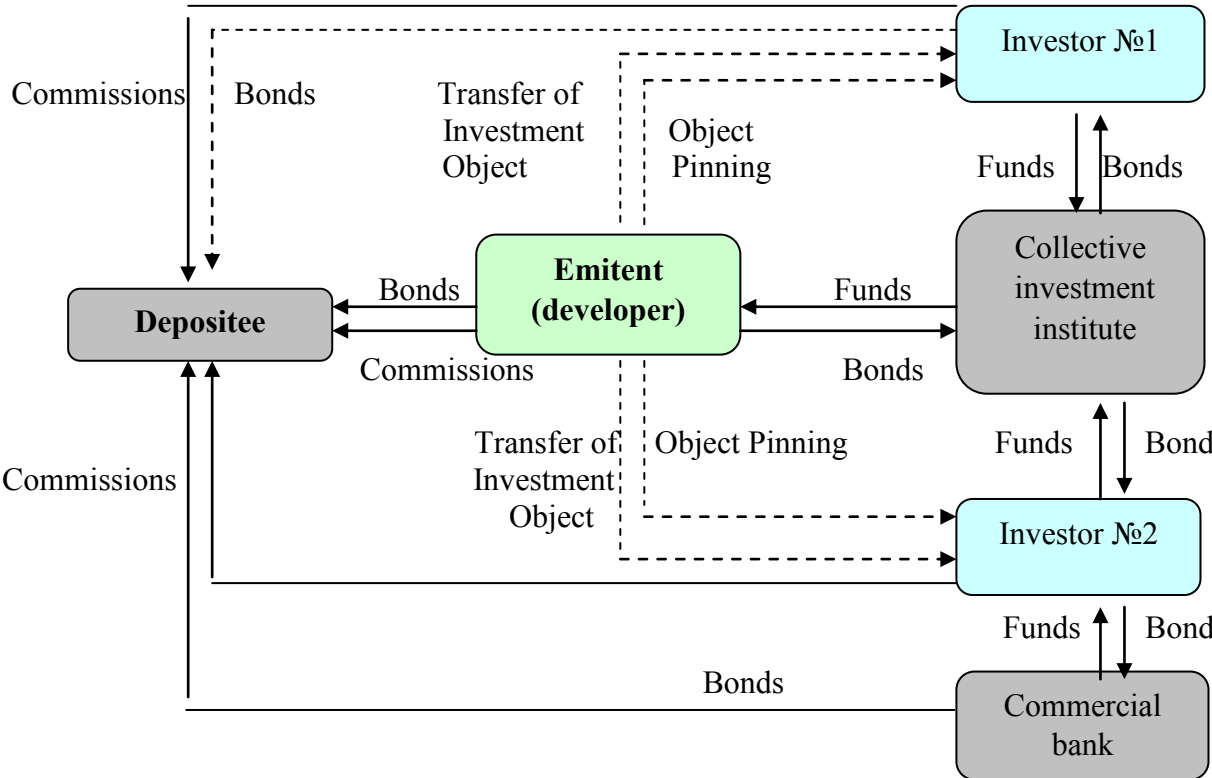


Fig. 2. Scheme of Development Projects Finance in Housing Construction using the Funds of Investors engaged from floatation of purposed bonds

Bond redemption happening at the condition of bonds transfer from owner's securities account to securities account of issuer of the depository. Registration of ownership of the appropriate number of square meters of investor's purposed bonds is dependent on the number and series of his own bonds. Thus, the

developer manages to attract funds immediately, and convey property after completion of construction by redemption. In Ukraine, the issue of purposed bonds is actually one of the possible methods of investment resources in construction.

For large-scaled development projects in the area of non-residential property is advisable to use project financing. Its main difference from other forms of loans is the fact that the source of repayment is generated project cash flows and collateral debt – assets of funding. Scheme of Project Financing shown in Fig. 3.

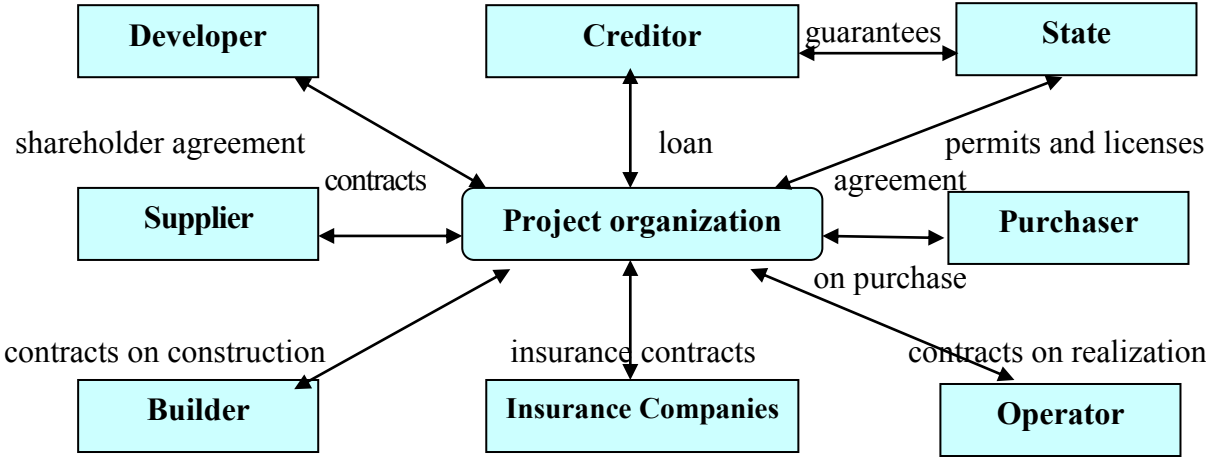


Fig. 3. Scheme of Project Financing for Large-Scaled development projects in the area of non-residential property

Note that comparing with the traditional bank lending, project finance has the following features. In schemes of project financing as a financial investment project implementation participants also often act except commercial banks investment banks, investment funds, leasing companies and other lending institutions. Particular attention is paid to the identification, assessment and reduction of risks in the implementation of investment projects. It is created the project company in order to implement the investment project by sponsors (initiators). Its creation is largely due to the fact that received credit is seen on this company balance to adequately reflect cash flows generated specific project not to mix it with other projects.

Project financing allows to estimate more reliable the borrower's credit-worthiness and consider all investment projects in terms of sustainability, efficiency, security, risks and feasibility, as well as to predict the outcome of the project [4].

One more type of commercial real estate financing is consortium credit financing. Consortia are created for credit financing big development investment projects which can't be financed by one commercial bank. Application of such scheme allows complying with all the standards set by the National Bank

of Ukraine on large loans to diversify credit risks and meet the needs of the investor's resources.

There is a perspective of insurance companies and pension capital funds participation in development projects financing. As these organizations have considerable amounts of money on a long-term basis, it is advisable to use them for financing the implementation of investment attractive development projects and those which have significant public importance.

Consequently, development projects financial security consists of their own, attracted and borrowed funds. In addition, according to the specific nature of development project there is various sources of funding involved at various stages of its implementation. Moreover, the greater project degree is, the greater share of external resources is in financing structure. The most promising schemes of realization of investment projects of development companies should be included bank lending, CFF, project finance and bond issues.

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МІЖНАРОДНИЙ ДОСВІД УПРАВЛІННЯ РИЗИКОМ ЛІКВІДНОСТІ БАНКІВСЬКОЇ СИСТЕМИ

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Як відомо, на розвиток економіки країни великою мірою впливає банківська система. Економіка України та її банківська система останнім часом перебувають у глибокій кризі, причиною якої є нестабільна економічна та політична ситуація. Однією з основних проблем, що стоїть перед вітчизняною банківською системою – є підтримка її стабільності та надійності. В світовій практиці проблемі попередження та запобігання банківських криз приділяється велика увага, держава надає істотну підтримку банкам, щодо відновлення довіри до них з боку населення та забезпечення їх фінансової стійкості та стабільності, оскільки без стійкої та стабільно функ-