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**Financing of the residential real estate
market: domestic and foreign experience**

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INTRODUCTION

The actuality of the theme: Sustainable socio-economic development of any country is impossible without the effective functioning of mechanisms for providing quality financial services in the residential real estate market. The current economic situation in Ukraine is characterized by high turbulence and growing crisis processes, which negatively affects the financial and real sectors of the economy, reduces real incomes and slows down investment processes.

In developed countries, housing construction is actively developing due to well-established and reliable financing mechanisms, primarily through bank lending. In contrast, high interest rates on borrowed resources in Ukraine, as well as imperfect risk management technologies and gaps in the assessment of technical aspects of investment construction projects limit the ability of domestic banks to lend to developers. At the same time, the renewal of the housing stock is due to the existence of an objective need for economic recovery.

Reduction of investment activity and inflow of borrowed capital in the housing sector during the crisis significantly exacerbated the problem of low, by world standards, housing in Ukraine, which requires the development of ways to improve the interaction of residential real estate finance in order to balance their rights and interests.

The specifics of financing the residential real estate market are studied in detail in the works of Ukrainian and foreign authors. In particular, the essence and features of the residential real estate market as a kind of financial markets were considered by such authors as N. Davydenko [12], E. Karapetyan [27], N. Maksishko [31], K. Pavlov [43], V. Shapovalova [31], V. Sheludko [51].

Issues of financing the residential real estate market, including international experience, have been studied in the works of such authors as Yu. Asadchev [3], O. Balanska [5], B. Bratko [9], O. Goloven [19], A. Dyachenko [15; 14], D. Davidenko [11], O. Korobkova [29], T. Kochetigova [28], O. Stashchuk [55; 54].

The problem of interaction of subjects of financing of the residential real estate market was studied in the works of F.Aronovich [2], O.Bilyk [7], N.Vnukova [10], Ya.Mykhailyuk [34], I.Rekunenko [45], M. Sadovyak [47; 46], B.Pshyk [17], O.Yurkevich [61; 62].

Despite the significant amount of research, in the Ukrainian reality the issues of balancing the protection of the rights and interests of the subjects of financing the residential real estate market still remain open and relevant for study.

The purpose of the final qualifying work is to reveal the theoretical foundations, develop methodological approaches and practical recommendations for financing the residential real estate market.

Based on the goal, the *objectives* of the work are:

1. Formulate the main stages of development of scientific thought on the financing of the residential real estate market.
2. Identify methods for studying the balance of protection of the rights and interests of the subjects of financing the residential real estate market.
3. Consider the international experience of financing the residential real estate market.
4. To analyze the legal and regulatory framework for the process of interaction between the subjects of financing the residential real estate market.
5. Assess the practice of providing financing services for the residential real estate market.
6. Systematize the problems of compliance with the balance of protection of the rights and interests of the subjects of financing the residential real estate market and ways to overcome them.
7. To offer directions of implementation of the international experience of maintenance of interaction of subjects of financing of the real estate market.
8. Develop an algorithm for maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market.

The object of final qualifying work - the process of interaction of the subjects of financing the residential real estate market.

The subject of final qualifying work is the balance of protection of the rights and interests of the subjects of financing the residential real estate market.

The following methods of research are used in the final qualifying work: analysis, synthesis, induction, deduction, system analysis, decomposition, statistical method, structural analysis, methods of comparisons, modeling and analogies, graphical methods were used to conduct a comprehensive and systematic study.

The information base of the study is formed at the expense of domestic and foreign literature sources, official regulatory documents, factual data characterizing the state of the residential real estate market in Ukraine, materials of consulting agencies, the author's own experience.

Scientific hypothesis of the study: the formation of demand for residential real estate financing services depends on the balance of protection of the rights and interests of the subjects of such financing.

Scientific novelty of the research:

- a comprehensive study of the periodization of the development of scientific thought on the financing of the residential real estate market was received further development;
- the periodization of the domestic legal and regulatory framework for the process of interaction of the subjects of financing the residential real estate market was received further development.

The practical value of the results obtained:

- systematized the key problems of maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market in Ukraine depending on the methods of financing;
- Possibilities of implementation of foreign experience of ensuring interaction of subjects of financing of the residential real estate market are defined by realization of practice of gradual transfer of means to developers depending on the executed stages of construction works and activation of participation of banking institutions and insurance companies in guarantee.

Master's personal contribution. Graduation is a self-completed study by the author.

Publications. Some results of the study are reflected in the scientific article: Shabat O. The main stages of development of scientific thought on the financing of the residential real estate market // Business processes in credit and financial institutions: Coll. of scientific art. of full-time and part-time stud. / resp. ed. N.P. Shulga. – K.: KNUTE. – 2020. – 426 p. Also some results were published in the abstracts of the report at the All-Ukrainian Student Conference: Shabat O. The main stages of development of scientific thought on the financing of the residential real estate market // Financial and credit systems: problems of theory and practice: All-Ukrainian. stud. conf. of science / resp. ed. N.P. Shulga. - K.: Kyiv. Nat. Trad. - Econom. Univ., 2020. - 462 p. (P.: 373-374).

The structure of the final qualifying work.The work consists of an introduction, three sections, conclusion, a list of used sources and appendices. The content of the work is set out on 63 pages, including the main part - 55 pages. The work contains 12 tables, 4 figures, 62 references, 5 appendices.

PART I

THEORETICAL FOUNDATIONS OF FUNCTIONING OF THE RESIDENTIAL REAL ESTATE MARKET

The specifics of the functioning of the residential real estate market as one of the sectors of the financial market has been studied by a significant number of scientists both in the general theory of the market and taking into account the specifics of real estate as an asset. Therefore, in the study of the theoretical foundations of the residential real estate market is appropriate, first of all, is to consider the main stages of development of scientific thought in this category.

From a financial and economic point of view, the real estate market is a system of specific relationships that arise during real estate transactions. The peculiarities of the real estate market from a financial point of view are the system of specific relationships that arise during the purchase and sale of residential real estate.

Residential real estate market acting as a certain system of relationships between individuals and legal entities ensures the exchange of real estate rights and plays an important role for the economy of the country and society as a whole, since: contributes to addressing one of the most pressing human needs – housing needs, is directly related to financial investments, influences the formation of complex market structure of the country and so on [50].

A study of the essence of the concept of "real estate market" found that despite the large number of studies, in the scientific literature there is no single interpretation of this category. K.Pavlov [43, p. 108] defines it as a special type of market in which the object of sale or collateral for a loan is real estate. I.Ajaman and D.Slyvka [4] real estate market is considered as a sphere of investment in real estate and as a market of services that creates conditions for human life.

Agreeing with the position of O.Goloven [19, p. 196], in the course of further research real estate will be considered as a financial asset, and the real estate market - as one of the sectors of the financial market. By definition, V. Sheludko [51, p. 64], under the financial market it is expedient to understand the sphere of manifestation

of the arising economic relations on distribution of the created value and its realization by an exchange of money for financial assets. Financial resources in the residential real estate market are investment values and cash received during the purchase and sale of residential real estate [27, p. 126].

Studying the main stages of development of scientific thought on the financing of the residential real estate market, it is advisable to identify several stages. Theoretical concepts of quantitative analysis and forecasting of financial markets have undergone some evolution over time, and the process of their formation has not yet been completed. Classical market theory (presented in the works of F. Quesnay, A. Smith, O. Cournot, etc.) was based on the hypothesis of a liberal and equilibrium market, which, despite widespread recognition, as a result of the inability to explain real processes prevailed for a long time. To replace it in the early XX century the hypothesis of an efficient market was put forward (presented in the works of L. Bachelier, P. Kutner, A. Coles, etc.). The efficient market hypothesis assumed that real estate market financing is subject to the condition of rationality of participants (hence the synonymous name - the theory of a rational investor), and business activity in the markets was seen as "accidental wandering" in search of "fair" price [32].

However, in the seventies of XX century it was found that statistical dependencies in real estate markets are not subject to the law of normal Gaussian distribution, and modeling by traditional methods leads to significant errors. Therefore, since 1990, the hypothesis of a fractal market was formed (presented in the works of B. Mandelbrot, A. Hirst, E. Peters, etc.), which substantiates the statement that the markets of the late XX century characterized by the fact that the investor is not important market efficiency, and not even a "fair" price, and market liquidity (the opportunity to buy or sell real estate).

At the same time, in 1991, T. Vege proposed a different concept of financing the residential real estate market, which argued that the real processes in the markets - is the result of the ratio of nonlinear connection of the external environment with

the internal organization and group consciousness. At the same time, these correlations are dynamic, nonlinear and have qualitative transitions [31, p. 32].

Periodization of the main stages of development of scientific thought on the financing of the residential real estate market is presented in table. 1.1.

Table 1.1

Periodization of the main stages of development of scientific thought on the financing of the residential real estate market *

Period	The name of the stage	Representatives (researchers)	Brief description
By the beginning of the twentieth century	Classical market theory	F. Quesnay, A. Smith, O. Cournot	The residential real estate market is a liberal and equilibrium market
During the twentieth century	Effective market theory	L. Bachelier, P. Kutner, A. Coles	Financing of the real estate market is subject to the condition of rationality of participants
90s of the twentieth century	Fractal market theory	B. Mandelbrot, A. Hearst, E. Peters	What is important for an investor is not market efficiency, or even a "fair" price, but market liquidity
1991 year - nowadays	Theory of real processes	T. Vege	Real processes in markets are the result of the ratio of nonlinear connection of the external environment with the internal organization and the action of group consciousness

Note:

* developed by the author on the basis [31; 32]

Thus, residential real estate is considered not only as a specific commodity, as housing, but also as a financial asset, and the residential real estate market, in turn, is part of the financial market. The evolution of concepts for financing the residential real estate market shows that modeling and forecasting market processes requires in-depth study of a particular market, taking into account the external environment in the country, global trends, as well as existing practices and interactions of residential real estate financing.

Further comprehensive and systematic research of the residential real estate market requires the definition of methods for studying the balance of protection of the rights and interests of the subjects of financing the residential real estate market.

The study of the peculiarities of financing the residential real estate market requires the definition of a set of methods to be used to study the balance of protection of the rights and interests of the subjects of financing the residential real estate market. The methodology of the study involves using of a set of modern methods and tools to study the balance of protection of the rights and interests of the subjects of financing the residential real estate market.

Gathering information for the study of the balance of protection of the rights and interests of residential real estate finance entities involves the use of research methods based on the study of scientific and practical literature, publications in periodicals, materials of Ukrainian authorities, official statistics, consulting and rating agencies, industry analysts.

The study of the balance of protection of the rights and interests of the financing of the residential real estate market will be carried out using general and private scientific methods (Fig. 1.1). Among the general scientific methods that will be used in the study, it is advisable to highlight the analysis, synthesis, induction, deduction, systems analysis, decomposition, and so on.

The method of analysis involves the study of the peculiarities of financing the residential real estate market through the conditional division of the subject into constituent elements. The synthesis involves the study of the financing of the residential real estate market in its entirety, in a single and interconnected parts. In the process of scientific research, synthesis is associated with analysis, as it allows you to combine parts of the object, dismembered in the process of analysis, to establish their relationship and know the subject as a whole [52, p. 77].

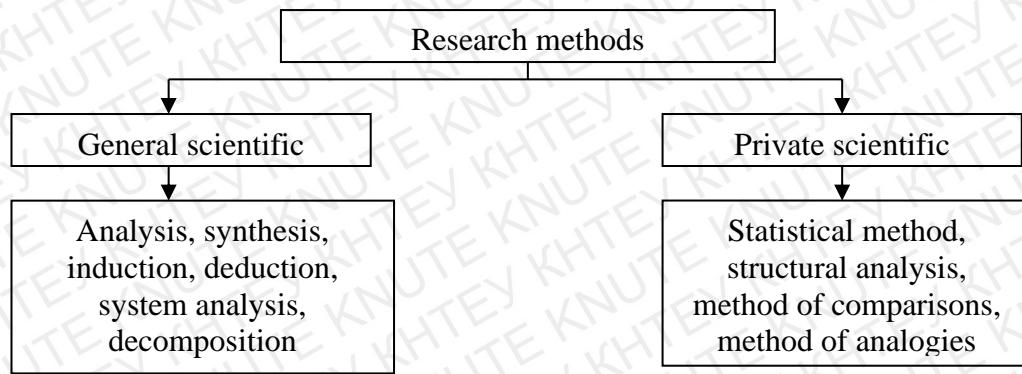


Fig. 1.1. System of methods of research of balance of protection of the rights and interests of subjects of financing of the residential real estate market *

Note:

* developed by the author on the basis [52]

Induction involves the formation of a general conclusion about the features of a set of elements based on the study of these features in some elements of one set [52, p. 78]. In particular, the study of some examples of non-compliance with the balance of protection of the rights and interests of the subjects of financing the residential real estate market, and then generalize them to the problems of financing the residential real estate market.

Deduction involves the implementation of logical conclusions from the general to the individual, first examines the state of financing of the residential real estate market as a whole, and then the state of its components, including the balance of protection of rights and interests of residential real estate market.

System analysis involves studying the system of financing the residential real estate market as a whole and its components, identifying the links between the subjects of financing the residential real estate market and bringing them into a single, holistic picture of causation.

The method of decomposition makes it possible to decompose complex phenomena into simpler ones to determine their essence [18, p. 29].

Private scientific methods of studying the balance of protection of the rights and interests of the subjects of financing the residential real estate market involve the use of statistical methods, structural analysis, methods of comparisons and analogies.

The statistical method is based on the analysis of quantitative indicators that reflect the state and dynamics of financing the residential real estate market in Ukraine.

Structural analysis involves the analysis of the processes of functioning of the residential real estate market and the interaction of the subjects of its financing as complex systems, contradictory in nature and variety of processes that take place in them.

The method of comparisons makes it possible to compare the processes of financing the residential real estate market in Ukraine with similar processes in developed countries or with the situation in previous periods.

The method of analogies is based on the use of forms of observance of the balance of protection of the rights and interests of the subjects of financing the residential real estate market of Ukraine, which have proved themselves in other countries. This method involves the development of standard solutions, defining the boundaries and conditions of their application.

Graphic methods (time series, structural diagrams, distribution histograms) will be used to present the results of the study and proposals within the study of the balance of protection of the rights and interests of residential real estate financing entities.

The quality of the analysis ensures the reliability of the proposals and forecasts based on it. A significant role in the research methodology will be played by methods of modeling and analogy (for the development of algorithms for maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market).

Thus, a methodology for studying the balance of protection of the rights and interests of the subjects of financing the residential real estate market was formed. The quality of the analysis ensures the reliability of the proposals and forecasts based on it. Further study of the peculiarities of financing the residential real estate market involves the study of international and domestic experience in this area in the application of certain methods.

An integral part of the study of the peculiarities of financing the residential real estate market is the consideration of the peculiarities of international experience in this area, especially in developed economies where financial instruments are actively used to finance housing construction.

The study of international experience in financing the residential real estate market shows that in countries with developed market economies, housing construction is carried out mainly through private investment. Most of the funding is formed through voluntary contributions of individuals and legal entities who invest in housing on their own initiative. Investigating foreign experience in the use of financial mechanisms of housing construction, O.Bilyk [7, p. 36] identifies three sources of voluntary contributions:

1. Depository model based on raising funds from citizens in need of housing. The Savings Bank accumulates funds of some citizens and issues loans to other citizens. Repayable loans are again used to refinance housing. Due to the payment of interest on the loan and insurance premiums, the cost of purchased housing increases. This model of housing finance increases the cost of purchased housing, but allows a citizen to get an apartment much earlier.
2. Contractual lending of housing systems through cooperative savings (most represented in Austria, France, Germany).
3. Long-term savings from life insurance systems and pension schemes.

An important feature of countries with developed market economies in the field of housing reproduction is the presence of a developed credit and financial mechanism that allows people with low incomes to build or buy comfortable housing.

The European mortgage lending model assumes that mortgages are provided by universal banks or specialized mortgage banks, which are not legally restricted in their financial operations (see Appendix A). Therefore, credit resources are not only the contributions of the population, but also other financial resources. According to this model, the borrower applies to the bank and after checking the solvency and credit history receives a mortgage loan at market interest rates [9, p.

97]. At the same time, he pays part of the cost of housing (about 30%) and has no obligation to accumulate these funds in the accounts of a particular bank for a certain period of time. The state, as a rule, does not take an active part in mortgage lending.

Also in European countries, the German scheme of financing housing construction, based on the system of construction savings banks, which provides that the participant first makes cash contributions to the box office at interest rates below market, and after its accumulation is 30-50% of the value of the apartment, he is given a mortgage loan at interest below market (see Appendix B). In the case of construction savings banks in its pure form, the apartment throughout the process remains the property of construction savings banks until the buyer pays the amount in full. In Germany, construction savings banks use their own assets without attracting external financing. In other European countries it is possible to attract investors [7, p. 35].

The American model of mortgage lending provides for the functioning of the secondary market of mortgage securities in the form of a one-tier and two-tier system (see appendices B and E). The first is most common in Western Europe, Latin America, Jordan, and the second system is popular in the United States, Australia, Great Britain.

The secondary market provides for the securitization of mortgage loans by refinancing them.

A one-tier system is considered to be conducting operations without the involvement of secondary market operators - specialized mortgage institutions. Under this mechanism, a bank, by issuing a mortgage loan to a borrower at market interest, either resells the loan to another bank or consolidates loans with common features and issues mortgage certificates and distributes them.

The two-tier system of mortgage lending is much more complex and requires high development of the country's financial market. Refinancing is carried out with the help of special mortgage institutions (SMIs), which buy mortgage loans from banks, group them into pools on the same basis and issue their own mortgage certificates with a high level of reliability. Within this system, it is advantageous to

issue so-called standard loans. That is, loans, the terms of which are the same, because it greatly simplifies and reduces the cost of grouping [5, p. 117].

In general, the study of international experience in financing the residential real estate market with credit funds shows that the forms of lending, the size of loans, their maturity have a significant differentiation depending on the country. There is a common tendency to increase the share of borrowed funds in financing the construction and purchase of housing. For example, in the United States and most European countries, this share averages 80%, ie the down payment of someone who buys or builds a home is 20%. But in some cases for the low-income population the share of the loan can reach 93-95% (USA, Canada). In Austria and Norway, in some cases, a full loan is provided to citizens who do not have the opportunity to make a personal contribution [7, p. 35].

Adaptation of foreign experience to modern Ukrainian conditions requires taking into account the national characteristics of the real estate market, the level of income, the specifics of the legislative and tax systems. In particular, an attempt was made in Ukraine to introduce a secondary market for mortgage securities, for which a State Mortgage Institution (SMI) was established in 2004. The main purpose of its activities is to refinance mortgage loans from funds received from the placement of securities [53]. During its existence, the SMI has issued bonds worth UAH 10 billion, but currently its refinancing activities are virtually unrealized due to the crisis in the domestic economy, high interest rates, low mortgage lending and unreliability of banking institutions.

Thus, the study of international experience in financing the residential real estate market revealed the lack of a single acceptable model, but the effective functioning of the residential real estate market in any case requires a developed financial system in the country and the appropriate regulatory framework.

Further study of residential real estate market financing involves studying the practical aspects of interaction of residential real estate market financing entities in Ukraine in recent years, including analysis of the legal framework for the process of interaction of residential real estate market financing entities, evaluation of

residential real estate financing services and determining the problems of compliance with the balance of protection of the rights and interests of the subjects of financing the residential real estate market.

The study will be the basis for the formation of directions for improving the process of interaction of housing finance entities in Ukraine by identifying opportunities to implement international experience to ensure the interaction of housing finance entities and develop an algorithm to protect the rights and interests of housing finance entities .

PART II

PRACTICAL ASPECTS OF INTERACTION BETWEEN THE SUBJECT OF FINANCING THE RESIDENTIAL REAL ESTATE MARKET IN UKRAINE FOR 2015-2019

2.1 Analysis of the legislative and normative base for the proocess of interaction between the subjects of financing the residential real estate market

The operation of financial markets, including the residential real estate market, is impossible without the appropriate legal regulation of the organization of relations between its subjects. That is why the study of the practical aspects of the interaction of the subjects of financing the residential real estate market requires, first of all, an analysis of the legal framework.

Studying the current legal regulation of the interaction of housing finance entities, it is worth noting the existence of basic legislation governing the sale of real estate, as well as the existence of certain specifics in the legal regulation for the primary and secondary markets.

The basic legislation on the process of interaction between the subjects of financing the residential real estate market concerns the settlement of civil and commercial legal relations arising in the course of purchase and sale of residential real estate or property rights to residential real estate. The legal framework for the interaction of residential real estate financing entities includes banking legislation, legislation in the field of state regulation of non-banking financial services markets,

currency legislation, legislation governing the transfer of funds in Ukraine, regulations of the National Bank of Ukraine, etc.

In particular, the basic legislation on regulating the process of interaction of entities financing the residential real estate market includes the Constitution of Ukraine, the Civil Code of Ukraine, the Commercial Code of Ukraine, the Tax Code of Ukraine, Laws of Ukraine "On Property Valuation, Property Rights and Professional Valuation in Ukraine". "On banks and banking activities", "On collateral", "On state registration of real rights to immovable property and their encumbrances", "On consumer protection" and other laws and regulations.

The process of financing residential real estate in the primary market involves investing in housing construction.

The subjects of such investment may be individuals, developers, state or local authorities, banking and financial institutions, commercial and non-commercial organizations. Legal regulation of interaction of subjects of financing of the primary market of residential real estate is based on the Laws of Ukraine "On investment activity" [40], "On financial and credit mechanisms and property management at housing construction and real estate operations" [38], "On institutes of joint investment "[39]," On securities and stock market ", " On mortgage "[41]," On consumer lending ", as well as other laws and regulations. In accordance with Part 3 of Art. 4 of the Law of Ukraine "On Investment Activities" [40], investment and financing of construction of housing construction using private funds raised from individuals and legal entities, including management, can be carried out exclusively through construction financing funds (CFF), real estate funds (REF), collective investment institutions (CII), as well as by issuing target bonds of enterprises, the fulfillment of obligations under which is carried out by transferring the object (part of the object) of housing construction.

Legal and organizational principles of attracting funds of individuals and legal entities in the management to finance mass housing construction and features of management of these funds are regulated by the Law of Ukraine "On financial and credit mechanisms and property management in housing construction and real estate

transactions" of June 19, 2003 № 978 -IV [38]. Subjects of financing of the residential real estate market in accordance with the Law [38] are trustees (individuals and legal entities that provide funds for management to finance mass housing construction), managers (banks or other financial institutions), developers, insurance companies, issuers of certificates REF and holders of REF certificates. The developer may be a person who in the manner prescribed by law received the right to use the land for the construction of construction projects and entered into an agreement with the manager. Financial institutions create the CFF or REF on their own initiative in the manner prescribed by law [38]. The purpose of the CFF is to obtain housing ownership by the CFF trustees. The purpose of creating a REF is to generate income for holders of certificates of this REF.

The specifics of financing the construction of residential real estate with the use of mortgage securities (mortgage bonds, mortgage certificates, mortgages, REF certificates) are regulated by the Law of Ukraine "On Securities and Stock Market" of February 23, 2006 № 3480-IV. Target construction bonds do not provide interest income and do not depend on price fluctuations in the market. By buying target bonds, the investor gets the right to exchange the security for home ownership after a specified period. One bond corresponds to a certain number of square meters of living space, and such bonds are usually sold in lots [60, p. 112].

The Law of Ukraine "On Joint Investment Institutions" [39] regulates the peculiarities of housing financing using CII - corporate or mutual funds, which is a form of collective investment in which participants' funds are combined and invested by an asset management company (AMC) in various assets (real estate, securities, etc.) in order to generate income by investors.

Mortgage lending is an effective tool for combining the financial market with the real estate market, which contributes to the capitalization of resources, development of the real estate market, solving the housing problem, maintaining social stability [62, p. 329]. This method of financing residential real estate can be used for both primary and secondary markets. The legal framework of mortgage lending consists of the Laws of Ukraine "On Mortgage", "On Consumer Lending",

"On Banks and Banking", "On Pledge", "On Consumer Protection", other laws and regulations.

In Ukraine, mortgage lending has been actively developing since 2003 with the entry into force of the laws of Ukraine "On Mortgage" [41] and "On Mortgage Lending, Consolidated Mortgage Debt Transactions and Mortgage Certificates" (expired on 01.07.2020) and subsequent work of the Verkhovna Rada of Ukraine on creating a legal framework for mortgage lending in the country [28, p. 703].

Mortgage lending includes the provision of long-term bank loans for the purchase, construction of residential real estate, as well as for repairs, where the collateral for such a loan is real estate. The subjects of the mortgage lending market are:

- mortgage lenders (mortgage banks or specialized mortgage companies, as well as universal commercial banks);
- borrowers (legal entities and individuals who own mortgages, or have guarantors who pledge mortgages in favor of the borrower).

Mortgage lending is the most common in the market of secondary residential real estate financing, as it is important for banks to have collateral for a mortgage loan.

On the basis of the analysis of the domestic legal and regulatory framework for the process of interaction of the subjects of financing the residential real estate market, which was formed in Ukraine in the period from independence to modern years, there are three key periods (Table 2.1).

Table 2.1

Periodization of the domestic legal and regulatory framework for the process of interaction between the subjects of financing the residential real estate market *

Period	Title	Main characteristics
1991 - 2003	The initial period	Formation of basic legislation of independent Ukraine on the residential real estate market, consumer protection, registration of ownership of residential real estate, etc. (Constitution of Ukraine, Civil Code of Ukraine, Commercial Code of Ukraine, Law "On Pledge", "On Banks and Banking", "On property valuation, property rights and professional valuation activities in Ukraine ", "On consumer protection ", etc.)
From 2003 to 2012	The period of development of financial and credit mechanisms of housing construction	Adoption of legislation on financing housing construction through the BSE or FON (Law "On financial and credit mechanisms and property management in housing construction and real estate transactions") Adoption of legislation on mortgage lending (Law "On Mortgage"), further work of the Verkhovna Rada to create a legal framework for mortgage lending in the country. Mortgages in both national and foreign currency are allowed. Development of instruments for financing the construction of residential real estate with the use of mortgage securities (Law "On Securities and Stock Market")
Since 2012	The period of stabilization of financial and credit mechanisms of housing construction	Adoption of changes to the mortgage legislation - from 2012 mortgage lending can be carried out only in the national currency. Adoption of legislation on mutual investment institutions (Law "On mutual investment institutions") and consumer lending (Law "On consumer lending")

Note:

* developed by the author on the basis [41;21]

Summarizing the above, the regulatory framework that determines the characteristics of the interaction of the subjects of financing the residential real estate market, and the content of relations between the subjects when using different methods of financing, is systematized in Table 2.2.

Table 2.2

Regulatory framework of the process of interaction of the subjects of financing the residential real estate market *

Method of financing	Regulatory framework	The process of interaction of funding entities
Financing of residential real estate in the primary market		
CFF	Law "On investment activities", "On financial and credit mechanisms and property management in housing construction and real estate transactions"	Based on the contract, the potential homeowner transfers the funds in trust to the manager in order to finance the construction. A mortgage is a guarantee of fulfillment of the developer's obligations to the manager
REF		Variety of CII. The fund issues certificates, placing which can raise funds, which can later be used to finance construction
Issue of target bonds	Law "On Securities and Stock Market"	The developer issues target bonds. By buying targeted bonds, the investor receives a residential property. A specific apartment is assigned to the investor, and the cost of bonds is equal to the cost of square meters of living space
CII	Law "On Joint Investment Institutions"	Accumulation of funds of many investors with the subsequent use for financing of construction. Also issue of bonds of the developer can be realized by CII
Financing of residential real estate in the primary or secondary market		
Mortgage lending	Law "On Mortgage", "On Consumer Lending"	Providing long-term bank loans for the purchase, construction of residential real estate, as well as for repair work secured by a mortgage loan

Note:

* compiled by the author on the basis [61; 13]

Thus, the legal framework for the process of interaction between the subjects of financing the residential real estate market is formed from regulations of civil and commercial law, banking law, legislation in the field of state regulation of non-

banking financial services, currency legislation etc. In addition, the relations between the subjects of financing of residential real estate are regulated by the Laws of Ukraine "On Investment Activity", "On Financial and Credit Mechanisms and Property Management in Housing Construction and Real Estate Transactions", "On Joint Investment Institutions", "On Securities and stock market", "On mortgage", "On consumer lending", other laws and regulations. In general, the relations of the subjects of financing the residential real estate market are regulated by a significant number of legislative acts, which are quite diverse and are used to regulate certain aspects. However, the situation in the domestic residential real estate market requires the development of a comprehensive mechanism for solving the infrastructure problems of the industry. In order to identify such problems and form mechanisms of interaction between market participants, it is necessary to assess the existing domestic practice of providing residential real estate financing services.

2.2 Assessment of residential real estate financing services practice

Assessment of the existing domestic practice of providing services for financing the residential real estate market will include a comprehensive study aimed at:

1. Identification of subjects of financing of the residential real estate market and supervisory bodies.
2. Detailing of the scheme of providing services for financing the residential real estate market with the participation of construction financing funds.
3. Study of the peculiarities of financing the residential real estate market through the issuance of target bonds.
4. Characteristics of mutual investment institutions as a source of financing the residential real estate market.
5. Consideration of the state of mortgage lending in the primary and secondary markets of residential real estate.

Firstly, residential real estate market is financed by the population's own funds (investing in the construction of residential real estate or buying real estate on the secondary market), developers' funds (at different stages of housing construction), budget funds (subject to financing the construction or purchase of housing by the state or local authorities), credit funds of principals (banks, insurance companies, other financial and non-financial organizations), mortgage lending.

Supervision over the functioning of the real estate market as part of the non-banking financial services market until 30.06.2020 was carried out by the National Commission for State Regulation of Financial Services Markets (Natskomfinposlug). The termination of Natskomfinposlug took place in accordance with the Decree of the President of Ukraine dated 30.06.2020 № 259/2020, and the successors were the National Bank of Ukraine (NBU) and the National Commission on Securities and Stock Market (NSSMC).

Secondly, one of the oldest schemes for providing residential real estate financing services is the use of construction financing funds, the activities of which are aimed at obtaining ownership of housing by the principal.

The investor, having entered into an agreement, transfers the funds in trust to the manager in order to finance residential real estate. In turn, the manager transfers the funds to the developer. The developer's obligations to the manager are secured by a mortgage.

Studying the practice of providing financing services for the residential real estate construction market through the CFF, it is worth emphasizing the use of two types of funds [60, p. 114]:

1. Type A, which is usually used by large developers to accumulate funds to finance construction, as they themselves are able to determine all the consumer characteristics of the object. The developer is obliged to put the facility into operation in a timely manner, regardless of the amount of funding. The developer assumes all risks of insufficient attraction of funds from investors.

2. Type B, when the developer undertakes to comply with the requirements of the manager regarding the consumer properties of the object, to carry out

construction without violating schedules, in accordance with the design documentation and within the total construction cost agreed with the manager. To fulfill the construction financing schedule, the manager may transfer the risks of lack of borrowed funds to the insurance company. The CFF type B is created by banks subject to the availability of monetary resources to obtain a mechanism for the implementation of construction. This type of CFF is not widely used in the housing construction market in Ukraine, as the manager is reluctant to take the risks of underfunding construction, and developers are not interested in retaining only the construction functions.

Considering the practice of providing services for financing the residential real estate market of Ukraine through the CFF (Table 2.3), it is worth noting the declining number of financial companies that had valid licenses to raise funds to the CFF over the past five years (from 57 companies in 2015 to 50 companies in the first quarter of 2020).

Although market experts note the loss of popularity of the CFF in the market of financing the construction of residential real estate in Kyiv (due to the large number of papers that need to be filled out by customers - potential buyers), but in general in Ukraine the number of CFF trustees and the amount of funds steady upward trend.

Table 2.3

The state of the Ukrainian market for managing the funds of the founders of property management in order to finance housing construction in 2015-2019 and the first quarter. 2020 *

Indicator	Years					
	2015	2016	2017	2018	2019	I q. 2020
The value of indicators						
The number of financial companies that had valid licenses to raise funds in the CFF, units	57	56	55	56	48	50
Number of CFF trustees, persons	19502	19774	25769	27365	28298	29097
- legal entities, persons	19371	19629	25599	27184	28114	28919
- individuals, persons	131	145	170	181	184	178
Raising funds from CFF trustees, UAH billion	19,25	27,61	34,39	40,20	44,05	43,19
Absolute deviation, +/-						
The number of financial companies that had valid licenses to raise funds in the CFF, units		-1	-1	1	-8	2**
Number of CFF trustees, persons		272	5995	1596	933	1777**
- legal entities, persons		258	5970	1585	930	1773**
- individuals, persons		14	25	11	3	4**
Raising funds from CFF trustees, UAH billion		8,36	6,78	5,81	3,85	629,8**
Growth rate to the previous period, %						
The number of financial companies that had valid licenses to raise funds in the CFF		-1,8	-1,8	1,8	-14,3	4,2**
Number of CFF trustees		1,4	30,3	6,2	3,4	6,5**
- legal entities		1,3	30,4	6,2	3,4	6,5**
- individuals		10,7	17,2	6,5	1,7	1,9**
Raising funds from CFF trustees		43,4	24,6	16,9	9,6	1,5**

Notes:

* developed by the author based on materials [21; 22; 23; 24; 25; 26],

** in comparison with the first quarter. 2019

The structure of sources of financing of housing construction is dominated by contributions of individuals (82.0% of the total amount of sources of financing or UAH 35.44 billion - Fig. 2.1).

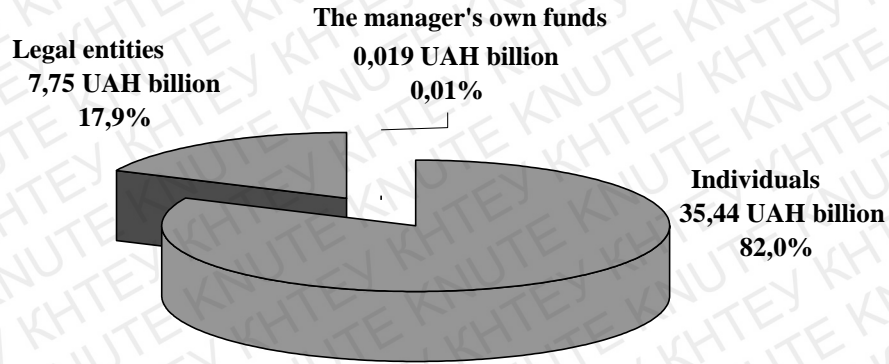


Fig. 2.1. The structure of sources of financing of housing construction through the CFF as of 31.03.2020 *

Note:

*developed by the author based on materials [21]

Funds aimed at financing the construction by creditors may be stored in the current account of the fund in the bank, in the deposit account in the bank, transferred to the developer for the construction of construction projects, written off for settlement and cash services, used to finance the manager's remuneration. As of March 31, 2020, the total amount of construction financing through the CFF was dominated by funds transferred to developers for the construction of construction projects (59.4% or UAH 25.4 billion) and funds stored in the deposit account in the bank (37, 0% or UAH 15.83 billion) - Fig. 2.2.

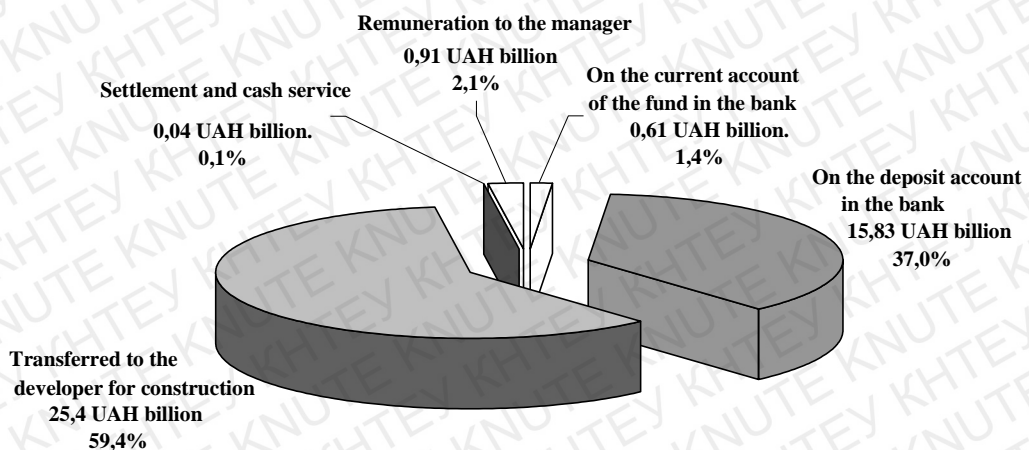


Fig. 2.2. The structure of placement of funds raised to finance construction through the CFF, as of 31.03.2020 *

Note:

* developed by the author based on materials [21]

It is important to note that raising funds from principals to invest in construction through the CFF (A, B) in accordance with the Law of Ukraine "On financial and credit mechanisms and property management in housing construction and real estate transactions" [38] is possible only after the completion of obtaining a positive conclusion of a comprehensive state examination of project documentation. That is, the developer independently finances the design and survey work (approval of project documentation, land allocation, etc.). Then he has the opportunity to recoup losses after successfully attracting investors. Ownership of the object of investment passes to the principal (investor) after the commissioning of the house by the developer and state registration of ownership [61, p. 32].

Financing residential real estate through the CFF has much in common with the real estate fund. The main difference is that the purpose of the CFF is to obtain their trustees of housing ownership, while the purpose of the REF is to generate income from the owners of its certificates, including financing the construction of housing [60, p. 113]. It is important to note that in Ukraine raising funds with the help of REF certificates has not become widespread. Since the end of 2012, legal entities have ceased to participate in real estate transactions. Raising funds from individuals who are holders of REF certificates by 2016 amounted to UAH 43.1 million, and since 2017 there are no data on raising funds through REF (Table 2.4).

Table 2.4

The number of created REF, issued permits and the amount of funds raised in 2015-2019 and I quarter. 2020 *

Indicator	Years					
	2015	2016	2017	2018	2019	I q. 2020
1	2	3	4	5	6	7
Number of permits issued	15	15	1	1	1	1
Number of companies that created REF	4	4	0	0	0	0
Number of created REF	4	4	0	0	0	0
The amount of funds raised from persons who are holders of REF certificates, UAH mln.	43,1	43,1	no data available			

Notes:

* developed by the author based on materials [21; 22; 23; 24; 25; 26];

Thirdly, the practice of providing services for financing the residential real estate market using targeted bonds, the issue of which is clearly regulated by the NSSMC, provides in accordance with the reservation agreement for the investor to secure a specific apartment (although current legislation does not oblige the developer to do so) [60, p. 113]. By choosing this method of financing housing construction, the investor has guarantees that the bond issuer is the owner or user of the land where construction will take place (as well as all permits), the statutory fund is fully formed, the conditions of construction and commissioning of housing are clear defined.

Fourthly, according to real estate market experts, in the last few years the practice of providing housing real estate financing services by concluding forward contracts has become especially widespread in Kyiv, which is a kind of financing mechanism through CII - more than 30% of financing of Kyiv new buildings in the last few years [44]. The advantages of using such a scheme are minimizing the risk of double sales through mandatory registration of forward contracts and sales contracts, as well as the ability to set the price of residential real estate below market (respectively, the developer pays almost no VAT and income tax - the apartment is sold for cost, and the markup accumulates in the accounts of the investment fund) [44].

The practice of providing services for financing the residential real estate market using forward contracts involves three stages (Table 2.5).

Table 2.5

The practice of providing services for financing the residential real estate market using forward contracts *

Stage	Stage participants	Contents of operations	Result
Stage 1	Customer of construction, Asset Management Company (AMC)	Concluding a forward contract under which the Construction Customer undertakes to sell in the future at a price specified in the forward contract the property rights to the apartment (underlying asset) to the bearer of the forward contract	Concluding a forward contract

Continuation of the table 2.5

Stage 2	AMC, Investor	Concluding a contract of sale of a forward contract. The investor receives the right to present a forward contract to the Customer and enter into a contract with him for the purchase and sale of property rights to the apartment at the price specified in the forward contract, and a certain amount of funds is accumulated on AMC accounts. According to the Tax Code of Ukraine, such transactions are not subject to VAT and are not included in the taxable income of AMC	Concluding a contract of sale (about 40% of the value of the apartment)
Stage 3	Investor, Customer of construction	Concluding a contract of sale of property rights to an apartment on the basis of a forward contract. The investor transfers the property rights to the apartment and he will be able to register the ownership after the commissioning of the construction object and the signing of the acceptance certificate	Concluding a contract of sale of property rights to the apartment(about 60% of the value of the apartment)

Note:

* developed by the author based on materials [16]

The use of forward contracts has a number of risks in the field of investor protection, which will be studied in more detail later in the paper.

Fifthly, the practice of providing residential real estate financing services through mortgage lending provides for the provision of mortgage loans by banks to purchase housing in the primary and secondary markets. The dynamics of the total volume of mortgage loans to individuals in the loan portfolio of banks over the past five years (Table 2.6) indicates a significant decrease in the share of mortgage loans in 2019-2020 (from 20-30% in 2015-2018 to 14,9% as of July 2020). Mortgage loans issued for a period of more than 5 years predominate in terms of lending.

Table 2.6

Mortgage loans of individuals in the loan portfolio of banks in 2015-2020 *

Indicator	Years					
	2015	2016	2017	2018	2019	July 2020
Mortgage loans to individuals, UAH million	60215	60265	38601	42308	26616	32990
including						
- up to 1 year	3546	3212	1659	1418	502	585
- from 1 to 5 years	4502	4374	2611	2517	2324	3195
- more than 5 years	52167	52679	34330	38373	23789	29209
Share of mortgage loans in the total amount of loans granted to individuals, %	34,4	36,9	22,2	21,0	12,5	14,9

Note:

* compiled by the author based on materials [30]

In the housing finance market, mortgage lending offers are largely limited to partnership programs between banks and developers. Currently, there are only five banks in the primary segment of the mortgage lending market - PrivatBank, UkrGasBank, Kredobank, CreditAgricol, Bank Pivdenny. According to the financial portal Finance.ua [29], the maximum loan term for affiliate programs is 20 years, and the loan amount reaches UAH 5.6 million with a down payment of 20-50%. In the secondary market of mortgage lending, the maximum loan term is 20 years, and the loan amount can reach UAH 10 million with a down payment of 20-50%.

So, in the practice of providing residential real estate market financing services in Ukraine, schemes involving construction financing funds, mutual investment institutions (concluding forward contracts), issuing target bonds and providing mortgage lending in the primary and secondary markets are used. Despite the existence of different options for financing the residential real estate market, in domestic practice there are still a significant number of problems in maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market. Identification of such problems is extremely important for the further formation of directions for improving the process of interaction between the subjects of financing the residential real estate market in Ukraine.

2.3 Problems of maintaining the balance of protection of the rights and interests of subjects of financing the residential real estate market and the ways of their submissions

The development of the residential real estate market requires ensuring compliance with the balance of protection of the rights and interests of its financing entities. However, the study of domestic practice of providing services for financing the residential real estate market indicates a number of problems in maintaining the balance of protection of the rights and interests of financing entities, the study of which will include:

1. Systematization of advantages and disadvantages in maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market in Ukraine, depending on the methods of financing.
2. Detailing the shortcomings of housing construction financing using construction financing funds.
3. Identifying problems in the financing of the residential real estate market with the use of target bonds.
4. Identifying the shortcomings of forward financing as a way of financing the residential real estate market.
5. Characteristics of the problems of application of mortgage lending schemes in the domestic residential real estate market.

Firstly, it should be emphasized that the scheme of financing housing construction, which would 100% protect the investor or guarantee the return of funds in the event of "default" of the developer. There are options for investing in housing with varying degrees of risk, which are more beneficial to the developer or investor. Therefore, the attractive value of the primary real estate is a compensation for the risk of unfinished construction, bankruptcy of the developer, problems with the commissioning of housing construction, etc. Systematization of advantages and disadvantages in the balance of protection of the rights and interests of the subjects

of financing the residential real estate market in Ukraine, depending on the methods of financing is presented in table. 2.7.

Secondly, examining the problems of maintaining the balance of protection of the rights and interests of the financing of the residential real estate market in Ukraine under the condition of financing the construction of residential buildings through the CFF, it is advisable to identify a number of risks of investor loss without housing. In particular, we can identify such risks for investors [12, p. 6]:

- the risk of bankruptcy of the developer;
- risk of non-compliance with construction and commissioning deadlines;
- the relationship between the investor and the CFF is governed by agreements that mainly include minimum conditions and do not provide investor protection.

Table 2.7

Systematization of advantages and disadvantages in maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market in Ukraine depending on the methods of financing [60, p. 114]

Method of financing	Advantages	Disadvantages
1	2	3
CFF	Control over the activities of the manager by the state regulator; the opportunity for the investor to refuse to participate in the CFF at any time and return the invested funds; securing a specific real estate object for the investor	Legislative unregulated liability of the manager to the investor; the ability to manage multiple facilities, which increases the risk of inefficient use of funds
CII	Clear regulatory requirements for the issuer, registration of forward contracts and protection of investors from double sales, the possibility of termination of operations, high liquidity of operations	The real estate object is not assigned to the investor, the right to the construction object is not secured by a mortgage
REF	Combine the advantages of CFF and CII	Combine the shortcomings of the CFF and CII The certificate holder is expected to receive income, not home ownership

Continuation of the table 2.7

Target bonds	Clear regulatory requirements for the bond issuer and time frame for construction; assigning a specific construction object to the investor; ban on changing the terms of bond issue; the issuer must be the owner or user of the land plot on which the construction is carried out	If the issue is declared invalid, the investor will receive the amount at the nominal value of the bonds; bonds are not secured by real estate due to the lack of a mortgage agreement
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Thirdly, given the use of target bonds as a way to finance housing construction, there is a problem of maintaining a balance of protection of the rights and interests of the investor regarding the need to comply with the terms of exchange of bonds for housing. Developers in their prospectuses note that you can exchange bonds for an apartment only for a few months. If the investor does not present the bonds to maturity within the specified period, the developer is released from any obligations. Such a legal conflict also exists in the issue of recognizing the issue as invalid: the investor can only count on the payment of the nominal value of securities. In addition, the current legislation does not regulate the situation when the terms of circulation and redemption of bonds have expired, and the construction site has not been put into operation. Also, as O.Yurkevich [61, p. 32], according to the law, the issuer-builder has the right, but is not obliged to redeem the bonds from the investor before the expiration of their circulation. This means that bonds can be sold only to another investor, while paying a commission to the custodian of securities for a change in the register of owners. In the case of a problem object, this will be almost impossible.

Fourthly, forward financing is of great interest to investors, as the terms of forward contracts fix the sale price at the time of concluding such a contract [60, p. 114]. However, under such conditions, the problem for investors is the inability to return the full amount of investment and lack of control over financial flows by government agencies (which allows their misuse).

Fifthly, it should be noted that the problems of compliance with the balance of protection of the rights and interests of the subjects of financing the residential real

estate market in Ukraine exist even if mortgage lending schemes are applied. In particular, for investors, the problem of mortgage lending for housing construction is the indexation of the cost per square meter of housing, so the total amount of investment is uncertain. In other cases, the peg is pegged to the US dollar, so the buyer bears currency risk. Sometimes the payment schedule implicitly provides for an annual increase in the unpaid balance of up to 10% [29].

In turn, banks as subjects of mortgage lending in the framework of financing the residential real estate market may face the following problems of maintaining the balance of protection of their interests:

- the presence of currency, credit risks, increased liquidity risks and changes in interest rates;
- insufficient level of development of the regulatory framework in the field of foreclosure procedures in case of overdue mortgage payments and growing debt (imperfection of the judicial system, insufficient transparency of public bidding, difficulties with eviction of mortgage debtors, conflict of interest of creditor and borrower, etc.);
- low level of capitalization and development of institutional investors in structured mortgage securities;
- insufficient level of technical support of the mortgage lending process;
- shadowing of the economy and the difficulty of forecasting future income of borrowers;
- imperfect legislation on the mechanisms of financing the primary real estate market;
- difficulties in the procedure of assessment of the subject of the mortgage (lack of objective indices of change in the value of real estate, etc.);
- long-term mortgage lending in the conditions of instability of financial markets, socio-political and economic situation in Ukraine increase the risks for banks issuing mortgage loans;

– the general unfavorable situation on the financial market in Ukraine and the existence of other financial mechanisms that bring more profits than mortgage lending.

So, the study shows that the biggest problems in maintaining the balance of protection of the rights and interests of the financing of the residential real estate market are faced by investors. Currently in Ukraine there are no mechanisms for financing housing construction that would fully protect the investor from the risks of losing real estate or funds paid for it. Therefore, regardless of whether the investor invests his own funds or borrowed through mortgage lending, the greatest risks are borne by him. Accordingly, the protection of the interests of investors as subjects of the residential finance market requires improvement of the legal framework and institutional support for the functioning of the housing sector.

PART III

DIRECTIONS OF IMPROVEMENT OF THE PROCESS OF INTERACTION BETWEEN THE SUBJECTS OF FINANCING THE RESIDENTIAL REAL ESTATE MARKET

3.1 Implementation of the international experience of securing the interaction of financing the residential real estate market entities

The study shows that the process of interaction between the subjects of financing the residential real estate market in Ukraine faces a number of problems and needs to be improved. It is important to study the international experience of financing residential real estate and its further implementation, taking into account domestic realities.

It is important to note that the study of the international experience of interaction of the subjects of financing the residential real estate market shows the absence of a single accepted model (see paragraph 1.3 and appendices A D). Each of the analyzed systems has advantages and disadvantages. Their effective functioning

requires a developed financial system of the country and the availability of appropriate regulatory framework. Therefore, the implementation of one of the studied models of financing residential real estate in Ukraine is a difficult task. In particular, the domestic experience of implementing the American mortgage lending system proved to be unsuccessful - Ukrainian economic and political realities are leveling the reforms and need further development.

Given the macroeconomic situation and the existing conditions in the Ukrainian housing market, the implementation of international experience in ensuring the interaction of entities financing the residential real estate market should include:

1. Improving the system of mortgage lending for the construction of residential real estate and the introduction of the principles of private-public partnership in the process of financing projects for integrated development of territories for the purposes of housing construction.
2. Using phased transfer of funds by the developer depending on the stages of construction work.

Participation of banking institutions and insurance companies in ensuring compliance by the developer with its obligations to individual investors.

The following proposals will be discussed in more detail.

The study of international experience revealed the presence in developed countries of powerful mortgage lending systems (investors) as a source of financing the residential real estate market. For Ukraine, the introduction of international experience in mortgage lending for residential real estate is especially relevant in the context of the need to form a market for affordable housing, taking into account the effective demand of the population. Currently, Ukrainians have to accumulate funds for years to buy residential real estate (even for the down payment within the framework of obtaining mortgage loans). Whereas the creation of a sustainable and economically feasible mechanism for advancing (lending) future incomes of citizens will significantly reduce the length of the accumulation period and increase the level of housing affordability. It is the development of bank mortgage lending, taking into

account international experience, that can become one of the effective mechanisms for purchasing housing under the condition of state support and control [47, p. 145].

The study of the practice of providing services for financing the residential real estate market shows a significant decrease in the share of mortgage loans over the past 5 years (from 20-30% in 2015-2018 to 14.9% as of July 2020). Mortgage loans issued for a period of more than 5 years predominate in terms of lending, the amount of the down payment varies between 20-50%. The vast majority of mortgage loans are provided for the purchase of housing in Kyiv (over 35%) [29]. The reason for this structural disparity is that most often mortgages are taken by families with a confirmed total income of 50-100 thousand UAH, which is a rarity for families from the regions. Banks do not issue mortgage loans without officially confirmed income.

In the structure of financing the purchase of residential real estate, the share of mortgages in 2019 was quite insignificant - less than 7% of transactions according to market participants. At the same time, 72% of mortgage loans are used to purchase housing on the secondary market, while in 2016 the share of mortgage loans for the purchase of secondary residential real estate was 28.5% [29]. The current trend of shifting the focus of issuing mortgage loans by banks from the primary to the secondary real estate market is due to the following reasons:

- increasing the risk of unfinished projects;
- lack of guarantees for the return of money provided in the case of mortgage lending to primary real estate;
- fraudulent transactions (change of address during the commissioning of houses, sale by borrowers or unscrupulous developers of apartments to third parties without the knowledge of the bank, bankruptcy of developers).

According to a study of construction financing models, legally recognized investors are persons who participate in the Real Estate Fund and the Construction Financing Fund, as well as in the purchase of target bonds of enterprises that have the right to issue with the conclusion of relevant agreements and exchange of these bonds for housing. All other schemes of raising funds for construction (purchase agreement, participation in construction through membership in cooperatives) from

the point of view of legislation are not investments, and persons who have invested through such mechanisms are not investors in accordance with applicable law. Relations under such schemes are considered civil. Therefore, either investors or developers are fully responsible for all problems and risks that arise. In this case, the investor can only hope that the developer is bona fide. The incentive for such investments is the relatively low price per square meter, which attracts a potential investor.

According to official statistics, by the end of 2019 there were already more than 150 problematic housing construction facilities in Ukraine (in particular, 51 facilities in Kyiv, 23 facilities in Kyiv region, 14 facilities in Odesa region), however, there are actually many more [56]. Among the main reasons for stopping the construction of such long-term facilities can be identified as:

- the emergence of financial problems for construction customers;
- interference of judicial bodies in construction processes (court decisions blocking the possibility of developers to continue construction);
- property issues, criminal proceedings, the beginning of bankruptcy proceedings of the construction customer;
- problems of registration of permit documents, absence of owners, absence of design and estimate documentation, permit documents;
- available long-term construction in the temporarily uncontrolled territory.

The presented proposals to ensure the interaction of the subjects of financing the residential real estate market are aimed at reducing the identified risks. In particular, when providing mortgage loans from the point of view of banks, the main risk is not that the houses do not surrender on time, but that the shareholders therefore refuse the real threat of losing their savings in the project. Therefore, the task of the state should be to ensure the liquidity of the investor's contribution to the construction of residential real estate until the latter receives ownership of the agreed real estate. That is, if the developer violates its obligations to investors, there must be a real opportunity to at least demand and, most importantly, get back the money

invested. It is also advisable for the state to oblige the developer to notify the mortgagee about the commissioning of the house and to insure its liability.

The introduction of the principles of public-private partnership in the process of financing projects of integrated development of territories for housing construction should be based on the interaction of the state, local authorities, developers, banking institutions and investors. The scheme of interaction will provide:

- allocation by the local administration to the developer of the land plot at a reduced price and carrying out its infrastructural preparation;
- provision by the state of guarantees to local authorities guarantees on loans for the provision of land plots with engineering and communal infrastructure;
- receipt of financial resources by the developer for construction can be both directly from the bank (project lending) and from individual investors (own funds or mortgages);
- after completion of construction, the developer sells the constructed residential real estate at market prices (to individuals) or to the state customer at state-regulated prices.

The advantages of an integrated approach to urban development and the introduction of public-private partnership are:

- the possibility of reducing the cost of construction due to the scale;
- significant state support on the basis of public-private partnership with the involvement of private investors, state development institutions, commercial banks, state and local budgets;
- more effective management of the investment process (reducing the risks of large investments, stimulating investment in housing construction, including at the regional level);
- fulfillment of social tasks - creation of a sufficient supply of housing at affordable prices with the existing social infrastructure, improvement of the quality of life of the population, creation of new jobs, assistance in increasing tax revenues to local budgets.

Ensuring the interaction of the subjects of financing the residential real estate market is possible through the use of a phased transfer of funds to developers, depending on the stages of construction work. In this case, financial institutions act as extro-agents who protect the interests of real estate buyers - the developer can dispose of funds only if certain conditions are met (completion of construction, commissioning of the building, etc.). Payments are made in tranches, which significantly reduces the risks of investors associated with the failure of the developer to meet its obligations. An example of transfer schedules from banks to construction companies used in France are given in table. 3.1

Table. 3.1

Example of transfer schedules from banks to construction companies

(French experience) [47, p. 187]

Stage of construction works	Share of funds transfer
After pouring the foundation	35% of mortgage financing
After the completion of construction works	40% of mortgage financing
After the final completion of the project	20% of mortgage financing
After the transfer of the object to the owner	5% of mortgage financing

The German version of financial relations between banks and construction companies provides for the use of the following schedule for the transfer of funds to the developer presented in table. 3.2 (taking into account the fact that housing construction involves the sale of apartments already under repair).

Table 3.2

**Example of transfer schedules from banks to construction companies
(German experience) [47, p. 188]**

Stage of construction works	Share of funds transfer
The first installment. The share of real estate becomes the property of the investor.	30% of funds for the purchase of housing
Phased payment of the remaining cost of housing according to the following structure	From the amount of installment payment:
– after completion of construction works	40%
– after applying the roof of the house and installing roof gutters	8%
– after installing windows	10%
– after installation of the heating system	3%
– after completion of plumbing work	3%
– after completion of electrical work	3%
– after finishing works	6%
– after floor screed	3%
– after facing of walls in sanitary rooms by a tile	4%
– readiness for settlement and transfer of ownership	20%

Taking into account the international experience, it is also expedient to introduce stage-by-stage financing of construction stages in Ukraine (Table 3.3).

Table 3.3

Schedule of phased financing of residential construction in Ukraine *

Stage of construction works	Share of funds transfer
Obtaining permits for construction and start of construction works (digging a pit)	10%
Foundation flooding	10%
Construction of a "box"	20%
Completion of roofing works	10%
Installation of windows	5%
Installation of utilities	15%
Connection of the house to utilities	10%
Commissioning of the facility	15%
Decoration of the adjacent territory	5%

Note:

* developed by the author based on materials [47]

An important mechanism to ensure the interaction of the subjects of financing the residential real estate market is the participation of banking institutions and insurance companies in ensuring compliance by the developer of its obligations to investors-individuals. Such requirements are enshrined in the legislation of developed European countries (in particular, in Germany, Poland, Italy and France). In European countries, in contrast to Ukraine, cases of "freezing" of construction are rare, as the format of developers in Europe involves the participation of the bank in financing the project. When issuing a loan, the bank performs a full inspection of the borrower and at the stage of project implementation controls the targeted use of funds. In addition, in European countries, it is mandatory to insure the risks of the developer. It is expedient to introduce such a practice in Ukraine as well.

Another mechanism to address this issue could be the creation of appropriate compensation mechanisms, such as the Solidarity Buyers' Solidarity Fund, which operates in Italy. The purpose of such a Fund is to pay compensation to investors for construction in progress. The fund is formed at the expense of obligatory contributions of the companies which provide guarantor guarantees to developers. Each person is entitled to receive compensation from the Fund only once.

In Ukraine, there is an objective need to create such a compensation mechanism, the founders of which may be: the Ministry of Economic Development, Trade and Agriculture of Ukraine, developers and their associations. The financial resources of such a fund should be formed primarily through the contributions of the founders in the creation of the fund, introductory and periodic (in the amount of 0.5-1% of the funds raised from individual investors) contributions of fund members, international financial assistance, loans, penalties for late payment of periodic contributions, income from the placement of the fund, as well as other funds not prohibited by applicable law. In this case, the placement of free funds can take place in shares, corporate, government and municipal bonds, real estate, mortgage securities. In addition, it is advisable in Ukraine to use the practice of insuring hidden defects of the object for up to 10 years, as is the case in France and other EU countries.

Thus, ensuring the interaction of the subjects of financing the residential real estate market in Ukraine requires the implementation of international experience. Taking into account the existing realities of the domestic market of residential real estate construction (first of all - low incomes, complexity of mortgage lending conditions and high risk of unfinished construction), practical steps in this direction were identified to improve the mortgage lending system. In the process of financing projects of complex development of territories for housing construction, implementation of the practice of gradual transfer of funds to developers depending on the stages of construction, intensification of participation of banking institutions and insurance companies in ensuring compliance by the developer with its obligations to individual investors. The implementation of the developed steps requires the development of an algorithm for maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market.

3.2 Algorithm for keeping the balance of protection of the rights and interests of the subjects of financing the residential real estate market

The development of the domestic market of residential real estate financing requires ensuring a balance of protection of the rights and interests of all entities - the population, developers, state or local authorities, banking and financial institutions, commercial and non-commercial organizations. The basis for this should be practical algorithms for maintaining a balance of protection of the rights and interests of the subjects of financing the residential real estate market.

The study found that the existing mechanisms for investing in real estate in Ukraine are focused on two main groups of investors who pursue different goals. On the one hand, these are investors interested in earning income from real estate transactions, and investors interested in the creation and subsequent acquisition of real estate. At the same time, the group of investors interested in purchasing real estate is usually limited due to lack of funds and is more sensitive to the reliability of investment models.

In addition to the above-mentioned problems of limited financial resources and the risk of unfinished residential real estate, the subjects of financing the residential real estate market may face a number of problematic situations that lead to the violation of their rights. Among such problematic situations are:

- the beginning of construction in violation of the law (it is quite common practice for developers to begin construction without the necessary permits; permits are issued already "in the process" of construction);
- continuation of work on the construction site even if the permits of the state architectural and construction control (GASK) are revoked;
- lack of adequate punishment for developers for violating legal requirements at different stages of construction;
- the developer has no start-up capital or "stabilization" fund to finance construction in case of unforeseen circumstances (reduction or cessation of income from investors and the emergence of a significant deficit of working capital);
- lack of cadastral number or right to lease the land on which the residential building is built;
- use by the developer of land plots not for the intended purpose;
- the investor does not have the opportunity to register the right of ownership (property rights) in the unfinished residential building;
- the risk of "double" sale of the object of investment due to lack of control over the ratio of sold and actually built apartments.

A number of legislative innovations were adopted in 2019 to overcome these threats of violation of the rights of residential real estate financing entities. In particular, the Law of Ukraine № 199-IX [37] provides for the gradual introduction by 2022 of the Unified State Electronic System in the field of construction, the components of which will be the Register of Construction Activities and the Electronic Cabinet of the user of the electronic system.

Law № 199-IX [37] provides for strengthening the responsibility of the subjects of administrative services in the field of construction and limiting from 01.06.2020 the powers of GASK officials regarding the abolition of town-planning conditions and restrictions, notifications, building permits and documents certifying commissioning of completed facilities.

Also, Law № 199-IX [37] provided for the abolition from 01.01.2020 of the requirements for mandatory equity participation of the developer in the development of infrastructure of the settlement, as well as the establishment of a ban for the relevant authorities in the field of urban planning, GASK and supervision, require the construction customer to provide any tangible or intangible assets, services, including the construction of real estate. It is necessary to pay special attention to the fact that all share participation agreements, which were concluded before 01.01.2020, are valid and continue to be valid until the full fulfillment of obligations under them. And from 2020 to 2021 there will be a so-called transition period, during which a rate of 2% will be applied for residential buildings, and for non-residential - 4% [35]. The process of implementation of legislative innovations, according to experts, remains debatable, and the impact of the provisions of the Law [37] on the development of the industry will depend on their implementation.

In order to prevent fraudulent schemes related to the change of address during the commissioning of buildings, the Law "On Regulation of Urban Development" was supplemented with new provisions and introduced a single procedure for assigning and changing addresses to real estate at the law level.

In order to prevent the risks associated with the start of construction in violation of the law, developers were prohibited from disseminating advertising on the construction of real estate in the absence of the right to land on which the advertised object is built, as well as the necessary building permits. These changes came into force on 01.02.2020.

It is expected that these changes will help maintain a balance of protection of the rights and interests of financing the residential real estate market by increasing

the legality and transparency of construction, reducing corruption in urban planning and reducing the burden on the construction business.

In the context of further observance of the balance of protection of the rights and interests of the subjects of financing the residential real estate market, it is important to ensure an integrated approach and the formation of system algorithms. In order to increase the level of financial security of citizens in the process of financing housing construction, it is advisable to:

- developer risk insurance;
- providing the developer with financial guarantees for the completion of housing construction and ensuring the fulfillment of obligations during its implementation;
- use of special trust accounts for individual investors in the activities of banks to finance housing construction;
- dissemination of the practice of concluding contracts for the construction of housing not with the developer, but with the financial institution, which monitors the progress of construction and transfers funds in accordance with the work schedule;
- creation of a mechanism for payment to investors of unfinished construction of monetary compensations in case of bankruptcy of the developer.

In particular, at the legislative level, it is advisable to oblige developers to have a special stabilization fund in a separate account in a banking institution, the funds from which will have a specific purpose - to finance construction in the event of a shortage of working capital.

The minimum size of such a fund should be set at 15% of the total budget of the construction project. The risk of introducing a mandatory stabilization fund is the "freezing" of working capital of developers, but in an unstable economic situation and increasing the number of unfinished projects, this will be an additional factor in protecting investors' rights to finance the residential real estate market and reduce the risk of bankruptcy.

In order to reduce the risk of "double" sale of the investment object, it is advisable to introduce compulsory liability insurance of the developer. In this situation, not only investors but also the insurance company would be interested in the timely completion of construction and would control the actions of the developer [34].

Practical measures in the framework of maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market may be the establishment of basic requirements for the conclusion, execution and termination of contracts of sale of unfinished construction and future real estate. It is also advisable to create opportunities for investors to register the right of ownership (property rights) for unfinished housing, ie to legally establish the registration of ownership of the share of space in the unfinished object, in proportion to the amount of contributions when investing in construction.

As part of the protection of the rights and interests of investors as subjects of financing the residential real estate market is appropriate:

- establish obligations for developers to post information about the residential object on their website (in particular, information about the construction customer, characteristics of the object, approved design documentation, construction progress, opportunities for investors to communicate on the electronic forum, etc.);
- establish requirements for advertising of the construction object regarding the placement of information about the construction customer and information about the housing itself (link to the website of the construction customer);
- to regulate the procedures of bankruptcy of developers and the procedure for recovery in the framework of enforcement proceedings on integral objects of unfinished construction and future real estate;
- establish legal requirements for energy efficiency of new construction sites, which must be complied with by developers;

- to limit the amount of state duty levied by state notaries for the certification of contracts for the alienation of integral objects of unfinished construction, future real estate (for example, at the level of not more than 1 minimum wage).

Summarizing the above, the algorithm for protecting the rights and interests of the subjects of financing the residential real estate market, which should be implemented in Ukraine, can be presented in the form of a diagram (Fig. 3.1).

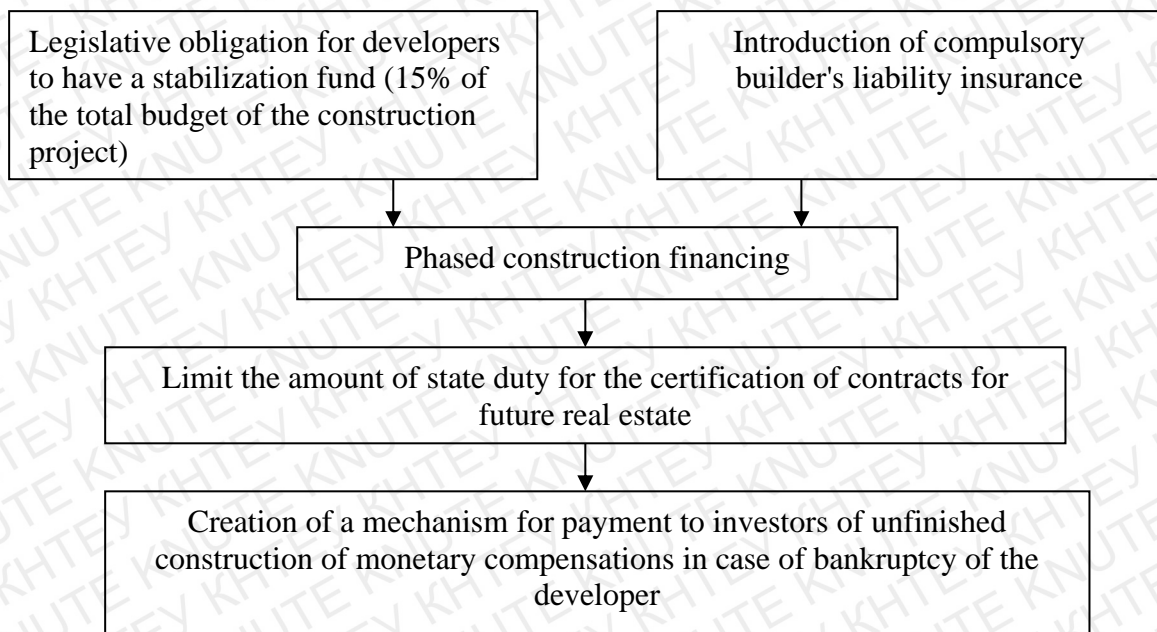


Fig. 3.1. Algorithm for protection of the rights and interests of the subjects of financing the residential real estate market, which should be implemented in Ukraine *

Note:

* developed by the author on the basis [34]

Comparative numerical parameters of the costs of the subjects of financing the residential real estate market at the moment and subject to the introduction of the algorithm to protect the rights and interests of the subjects of financing the residential real estate market are presented in table. 3.4.

Table. 3.4

**Comparative numerical parameters of expenses of subjects of financing
of the residential real estate market at present and on condition of
introduction of algorithm of protection of the rights and interests of subjects
of financing of the market of the real estate ***

Parameter	Currently		After implementing the algorithm	
	Condition	Amount, thousand UAH	Condition	Amount, thousand UAH
The developer has a stabilization fund	There are no requirements	-	15% of the total budget of the construction project	UAH 10.5 million subject to the construction estimate of UAH 70 million.
Phased construction financing	Installment payments from the developer, mortgage	Increase in the value of real estate subject to the use of installments or mortgages by 10-50%	Establishing the conditions for the phased financing of construction	The cost of residential real estate does not increase, the funds are paid by the investor after certain stages
Limit the amount of state duty for the certification of contracts for future real estate	Established by the state for public notaries; Established by a notary for private notaries, but not less than the cost of services of a public notary	5-12 thousand UAH (In average)	The state duty is set at no more than 1 minimum wage	Up to UAH 4,173 thousand

Note:

* developed by the author on the basis [57]

As part of the protection of the rights and interests of developers and construction customers, it is advisable to simplify the procedure for obtaining permits for construction work and state registration of ownership of the construction object and its components (apartments, garages, other residential and non-residential premises, parking spaces, etc.). after the commissioning of the object are independent real estate) on the principle of "single window". Also, according to the principle of "single window", it is advisable to carry out the commissioning of the

completed construction object and subsequent state registration of ownership of such objects.

As part of the formation of algorithms for maintaining the balance of protection of the rights and interests of residential real estate finance entities, it is possible to transfer control over compliance with the law to banks or specially licensed companies with high human, professional and reputational potential in law and auditing services. These structures should have the authority to supervise and control all permits, land allocation, purpose of land plots, declared storeys of buildings, checking the status of accounts, etc. It is also advisable to introduce civil liability of officials of "supervisory" structures for the implementation of housing construction by developers without permits and other documents [57].

The formation of the algorithm for maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market should take into account the role of the state as a social institution. In particular, stimulating the financing of the residential real estate market in order to provide the population with affordable housing may include:

1. Establishment of economically and socially reasonable prices for affordable housing on the basis of the cost of construction.
2. Introduction of a mechanism for calculating and monitoring the cost of construction of affordable housing by creating and using appropriate information sources with access to their information [47, p. 159].
3. Formation of a state mechanism for free allocation of land for the construction of affordable housing.
4. Introduction of mechanisms to limit investment demand for housing by taxing the purchase of the second and each subsequent unit of housing (in order to prevent rapid and uncontrolled growth of prices in the residential real estate market and the formation of "price bubbles").
5. Legislative regulation to prevent the emergence of regional and national monopolies in the housing market (in order to ensure competitive pricing in the housing market).

Thus, compliance with the balance of protection of the rights and interests of residential finance entities requires comprehensive measures aimed at introducing mechanisms for transparent attraction of funds of individuals and legal entities in construction, guaranteeing the completion of the facility, minimizing legal risks and strengthening investors' rights. Individuals and financial companies providing mortgage loans), increasing the level of financial security of citizens in the process of financing residential real estate, the introduction of requirements for the availability of "stabilization funds" for developers. It is also important to simplify permitting procedures for developers and reduce the risk of corruption when obtaining the necessary building permits, commissioning, etc.

CONCLUSIONS AND RECCOMENDATIONS

Writing the work ensured the achievement of this goal - to reveal the theoretical foundations, to develop methodological approaches and practical recommendations for financing the residential real estate market.

Based on the study, we can draw a number of conclusions about the implementation of the tasks.

1. Formulated the main stages of development of scientific thought on the financing of the residential real estate market. The residential real estate market is considered an integral part of the financial market. Financial resources in the residential real estate market are investment values and cash received during the purchase and sale of residential real estate. The evolution of residential real estate financing concepts has demonstrated the transformation of scientific approaches from classical market theory to the evaluation of financing processes as a result of the relationship between the nonlinear relationship between the external environment and internal organization and the action of group consciousness. In modern conditions, modeling and forecasting of market processes requires in-depth study of a particular market, taking into account the external environment in the country, global trends, as well as existing practices and features of interaction of residential real estate financing entities.

2. Methods of research of balance of protection of the rights and interests of subjects of financing of the residential real estate market are defined. The study of the balance of protection of the rights and interests of housing finance entities provides for the use of general scientific methods (analysis, synthesis, induction, deduction, system analysis, decomposition, etc.) and private scientific methods (statistical method, structural analysis, methods of comparison and analogies). Graphic methods (time series, structural diagrams, distribution histograms) will be used to present the results of the study. The collection of information involves the use of office research methods based on the study of scientific, practical and analytical materials.

3. Considered the international experience of financing the residential real estate market, in particular the features of the European, German and American models of mortgage lending. Financial mechanisms of housing construction in developed countries are based on the use of the depository model with the involvement of funds of citizens in need of housing; contractual lending of housing systems through cooperative savings and the use of long-term savings from life insurance systems and pension schemes. Adaptation of foreign experience to modern Ukrainian conditions requires taking into account the national characteristics of the real estate market, income level, the specifics of the legislative and tax systems, the development of the financial system in Ukraine and the creation of an appropriate regulatory framework.

4. An analysis of the legal and regulatory framework for the process of interaction of entities financing the residential real estate market as a set of regulations of civil and commercial law, banking law, legislation in the field of state regulation of non-banking financial services, currency legislation and more. It was determined that the special laws regulating the relations between the subjects of housing real estate financing are the Laws of Ukraine "On Investment Activity", "On Financial and Credit Mechanisms and Property Management in Housing Construction and Real Estate Transactions", "On Joint Investment Institutions". , "On securities and the stock market", "On mortgages", "On consumer lending", etc. Conclusions are made about the need to develop a comprehensive regulatory mechanism to address the infrastructure problems of the industry.

5. Evaluated the practice of providing residential real estate financing services using schemes involving construction financing funds, collective investment institutions (concluding forward contracts), issuing target bonds and providing mortgage lending in the primary and secondary markets. The use of the CFF is one of the oldest schemes for providing residential real estate financing services in Ukraine (during 2015-2019, the number of CFF trustees and the amount of borrowed funds have a steady upward trend). Due to the growing instability of the macroeconomic situation over the past 5 years, there has been a significant decrease

in the share of mortgage loans (from 20-30% in 2015-2018 to 14.9% as of July 2020). Mortgage loans issued for a period of more than 5 years predominate in terms of lending, the amount of the down payment varies between 20-50%. The vast majority of mortgage loans are provided for the purchase of housing in Kyiv (over 35%). Instead, in the last few years, the practice of providing services for financing the residential real estate market by concluding forward contracts has become especially widespread, which is a kind of financing mechanism through CII - more than 30% of financing of Kiev new buildings in the last few year.

6. Systematized the problems of maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market and ways to overcome them. It was found that the biggest problems in the field of compliance with the balance of protection of the rights and interests of the subjects of financing the residential real estate market are faced by investors (primarily - the risk of unfinished). Currently in Ukraine there are no mechanisms for financing housing construction that would fully protect the investor from the risks of losing real estate or funds paid for it. Therefore, regardless of whether the investor invests his own funds or borrowed through mortgage lending, the greatest risks are borne by him. Risks of developers are associated with the process of obtaining building permits (or their revocation during construction), the risks of financial institutions and banks mainly relate to the lack of guarantees for the return of money in the case of mortgage lending to primary real estate.

7. Proposed areas of implementation of international experience to ensure the interaction of financing of the residential real estate market by improving the mortgage lending system for residential construction, introduction of public-private partnership in the process of financing integrated development projects for housing, implementation of the practice of phased transfer of funds depending on the completed stages of construction work, intensification of the participation of banking institutions and insurance companies in ensuring compliance by the developer with its obligations to investors-individuals.

8. Developed an algorithm for maintaining the balance of protection of the rights and interests of the subjects of financing the residential real estate market, which provides for the implementation of comprehensive measures aimed at investors (individuals), developers, public authorities, banking and other financial institutions. Practical actions within the algorithm suggest the introduction of mechanisms for transparent attraction of funds of individuals and legal entities in construction, guaranteeing the completion of the facility, minimizing legal risks and strengthening the rights of investors (both individuals and financial companies providing mortgages), increasing financial safety of citizens in the process of financing residential real estate, the introduction of requirements for the availability of "stabilization funds" for developers. The state must provide conditions for the introduction of "single window" for developers and customers of registration of documents related to construction, commissioning, etc. (in order to simplify permitting procedures and reduce the risk of corruption when obtaining the necessary permits).

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