Current Trends in the Field of Financing Residential Constructions

**[Tendințe în finanțarea
construcției de locuințe]**

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Abstract: The solution for the complex housing problem goes beyond people's concerns, depending on economic and social conditions, and for building houses it is necessary to take decisions and strategies, at the state level. On the other hand, “housing constructions, regardless of the period of execution, are influenced by a number of financial, technical, cultural, etc. factors, depending on the concrete political and economic situations.” (Tașcă, 2012). The way of living reflects the way we live, and the countries with a good housing background also have a high standard of living for the population. On the other hand, the housing industry represents an important area that can drive the entire economy of a country, by engaging horizontally a significant volume of activities producing materials, subassemblies and techniques necessary for the constructions as well as by the amount of labor force that represents this branch. In this context, the construction of houses should not be a challenge to itself, including through the possible simplification of the execution process, but to avoid the uniformity and lack of personality of the buildings. The research undertaken in this paper proposes to study the ways of financing the housing constructions in the context of the current economic and social environment and from the perspective in Romania and in the European Union.

Keywords: *construction; housing financing; housing developers; risks associated with construction.*

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1. Recent developments in construction and financing of housing construction

In the conditions of modern economies and especially in the last decades, the activity of housing construction and financing has undergone important transformations.

A modern housing finance system must be efficient, stable and accessible. In order to achieve these desires, an evaluation of the structures that influence the proper functioning is necessary, respectively: the legislative framework, the system of sale of houses, the structure of the financial-banking system, the political and economic context, as well as the governmental policies.

Thus, for the financing of the houses, a law of the real estate guarantee is essential to explain the modalities of registration, guarantee and transfer of the rights arising from the mortgage contract. The Romanian legislation establishes the institutional framework and the conduct of transactions on the secondary market of the mortgage industry, "however we cannot yet speak of transactions in mortgage bonds in order to attract the necessary funds for granting mortgage loans" (Ciumaș, Pop, Beju, & Racolta-Pana, 2006). The volume of mortgage loans can be significantly increased by streamlining the system of valuation, sale and registration of properties and foreclosure procedures, through increased protection of mortgage lenders.

For the development of housing constructions, the local authorities have the responsibility of identifying the viable lands.

As the complexity of housing issues, we consider it useful to strengthen the role of the National Housing Agency - as a specialized governmental institution - for coordinating actions in the direction of real estate market reform; brokerage activity, financing of housing construction, etc.

Also, banks operating on this market must accept the granting of long-term mortgage loans based on short-term deposits.

In order to finance the housing construction, the granting of bank loans to the construction companies should be encouraged. The bank, together with the construction company, must analyze a variety of factors, including the demand for the type of housing proposed, the builder's ability to meet the deadlines and the estimated expenses, so that at the end

of things, the prices agreed before remain actual and the terms and conditions of sale established initially do not change.

This system is required to function properly together with the mortgage lending of individuals, who are the buyers of the houses from the buildings built according to the following mechanism: the mortgages contracted and the own funds of the beneficiaries to be used to pay for the houses, the builders having the possibility to repay the loan for previously contracted construction.

The main objective of long-term mortgage lending is to create an efficient system useful to middle-income citizens, allowing them to purchase their homes on the real estate market or to build their homes using their own sources and long-term mortgages.

"Since mortgage loans are long-term loans and the interest rate is usually variable, it is necessary that the variation of the interest rate is related to the fluctuations of a reference index stipulated in the contract" (Dumitriu & Tașcă, 2010).

It is useful for the mortgage lending system in Romania to be based on the experience existing worldwide, to be adapted to our legislation and to take into account the specific economic conditions, the limited solvency of the population and the high level of inflation.

The strategic development of long-term mortgage lending should include the following aspects:

- focusing on those categories of people who need low value mortgages, given the limited resources, would allow the satisfaction of several applicants.
- the possibility to partially pay for a new house by selling the houses owned by the property. In order to obtain loans of small value, the borrower has to own substantial funds, and those who do not have them, have the opportunity to sell their house in order to be able to pay partially for the new home.
- granting government subsidies to the borrowers who purchase homes through mortgage credit. Eligible citizens can use the subsidies, according to an established procedure, to make a partial payment of the house. In completing own funds and mortgage lending, in the context of integration into the structures of the European Union, small and medium-sized enterprises, including those of construction, are more exposed to the many changes in the business environment, caused by the economic restructuring, being affected those in the areas where acquis- the Community provides for the obligation to implement environmental standards, quality and labor protection norms.

"The necessity for mortgages loans as a financing resource for housing construction was negatively influenced by the international economic and financial crisis" .

We emphasize that Romanian companies generally make small and medium-sized investments, without having to buy technologies, competitive, capable and face the lack of information regarding the market potential, and regarding the regulations in the European Union have major difficulties. in accessing the appropriate financing (on linked maturity bands).

Therefore, financing is one of the most important aspects for these enterprises, access to finance is the most serious problem, and banking institutions are the main sources for extreme financing. For this reason, the banking environment has developed programs for attracting funds for businesses but also for consulting.

Considering these needs, especially when many of the companies invoke the lack of information, it can be appreciated that the advantage of collaborating with a bank specialized in such activity, is decisive for their present and future evolution.

Depending on the degree of expansion, the financial situation and the monetary experiences accumulated internally and internationally, the bank, as a financial intermediary is able to act as a bridge between companies, suppliers and beneficiaries.

From this perspective, the improvement of the banks' offer, by creating new financial-monetary products, which respond to the increasingly diversified demands, is imperative for increasing the competitiveness of enterprises, given that the most important source of financing remained its own resource, followed by bank loans and sources of non-reimbursable financial assistance, of budgetary allocations and European grants, since the share of the sources on the capital market is still insignificant.

The decision regarding the diversification and improvement of banking products is based on market needs, competition, customer expectations, changes in regulatory and related requirements, as well as data on existing products, policies and objectives.

For the selection of the feasible banking product, it is necessary to choose those ideas that best correspond to the existing situation, generated by the bank's policy, competition, etc.

In the elaboration phase of proposals, based on viable ideas, a selection is made, together with the functional entities involved in the process of creating new loan products and services.

The new banking product must incorporate features that highlight unique benefits and compatibility with market needs, so that the risk of

market rejection is eliminated or remains minimal. Otherwise, the bank must exercise caution in the development of each product and communicability in the promotion action on the market.

In this context, the bank, during the implementation of the product, will define its main characteristics along with the route directions, will mention the advantages that this product can offer to the companies, compared to the products and services already existing in the bank's portfolio and on the credit market.

The banking institution will carry out a market research to identify relevant aspects related to the availability of enterprises, to contract the new product, the profile of the clients, the characteristics appreciated by them as optimal.

The projects for the development of residential constructions must be economically, technically and financially sustainable, meet the eligibility criteria established by the banking institution and be implemented within a certain period of time.

In case of making a large housing complex, which includes several implementation phases, more financing from own resources, from bank loans, from non-reimbursable funds from the European Union, etc. is possible and practiced.

Banking projects can be financed only if the national and European Union requirements in force, regarding the various procedures and mechanisms of acquisition, transfer, payment, etc. are fully met.

"The construction companies that are in the category of small and medium-sized enterprises can submit financing projects with European support." (Stancu, 2007)

The characteristics of the financing product, such as the loan granted by the banks, refer to the currency of the loan (lei, euro, dollars, etc.) and value). In this sense, projects with a higher value can be financed, case in which the bank is using a combined palette of monetary products, the contribution from own resources is essential for obtaining bank loans.

The lending period is negotiated directly with the bank, depending on the type of project, the grace period that is granted at the request of the beneficiary, respectively a number of months from the date of the credit draw. The level of the interest charged should be attractive, EURIBOR + product margin, and the bank fees oriented towards the minimum. Credit repayment can be done in monthly / quarterly / semi-annual / annual installments or single rate.

Another important stage in the financing of companies, at European level, is the implementation of the Basel III Agreement, which introduces a new approach to the credit relations of small and medium-sized enterprises,

in which most of the housing construction companies considered more risky than granting loans to large companies. Thus, this agreement introduces a new concept in addressing and evaluating the risks related to these companies, in the sense that banks can grant loans without risk assessment and measurement being differentiated from the big companies. The main objective is to maintain a balance in the single market aimed at creating a level playing field in access to financing, between small and medium-sized enterprises and large companies. The activities of small and medium-sized enterprises are still more risky than the activities of large companies, but following the introduction of this agreement, the capital adequacy rules for granting loans recommend the same procedure for setting up both for large companies and for small and medium sized businesses.

From the point of view of the banking companies, the classification of the clients, according to risk, remains, the same, respectively the big companies are considered to be less risky than the small and medium companies, and the appreciation that these two types of companies have the same level of risk, related to lending, it is only scriptural, respectively only for the purposes of banking supervision and capital adequacy. Thus, lending to small companies, under the same conditions as that of large companies, it remains at the discretion of banking companies and refers, strictly speaking, to the decision to grant or not to lend to enterprises. For this reason, the extension of the market of bank loans and to the market segments made up of small and medium-sized companies is a problem of banking behavior and in general the banks, in order to increase the market share, will also approach these segments of the market, for this purpose, increasing, appropriately also the complexity of the banking product portfolios and lending services.

In order to prefigure the behavior of enterprises, regarding the problem of bank lending, the analysis requires the evaluation and the implications of the risks, at the level of the credit prices. The appropriate capital, corresponding to the granting of loans, is a function of the following main indicators:

where:

$$CA = f [S, A(PD), B(LGD),, R, N] \text{ (EU Directive)}$$

CA - the appropriate capital corresponding to the credit;

S - the loan amount;

A - coefficient deriving from the rating calculation;

PD - the possibility that the debtor will not be able to fulfill the obligations of the credit agreement;
B - coefficient stemming from rating calculation;
LGD - uncovered losses;
R - coefficient of correspondence between credit and risk;
N - the amount of the appropriate capital from the norm in force.

The following competitive phenomena are taking place on the market:

- a. the competition of the financial-banking companies for the increase of the quotas in the markets of the credits and investments and the attraction of funds;
- b. Competition of the applicants for loans and investments for price facilities and contractual conditions and the attracting of funds, considering that the development of economic activities outpaces, in a first stage, the increase of available funds.

At the level of the financial strategy, it is discounted on the appeal to financial-banking products and services, specific to the saving and investment activities, which bring profit, from which the participation in various variants of the use of personal funds for the purchase or construction of houses will be completed. The development of the investment phenomenon and the availability of the population for saving and investments will generate the possibility of financial-banking companies for investments, according to the following model:

$$CE = CA + CP$$

where:

EC - the economic capital;
CA - the appropriate capital;
CP - the capital for investments.

By increasing the economic capital of the financial-banking companies, the capital for investments will increase, respectively, the availability of impelling the development of housing constructions.

Escrow account acts as a buffer between the beneficiary's risk of not receiving the home and the developer's risk of running out of cash.

The implementation of this special type of deposit would protect the buyers in case of bankruptcy of the developer or the failure, in due time, of the obligations assumed by the contract, in the developed countries, the escrow account used in the transactions with properties.

In the relationship between the seller and the home buyer, banks have a decisive role, which should host and obviously manage these accounts, but also the state, which would regulate this relationship and its effects.

Buyers would feel protected if the banks find a system for guaranteeing the deposit made and such policies would be regulated directly by the state, which would involve ensuring the completion of the constructions, as happens in other European states. This protection will be found in lower sale prices offered by developers, because it uses the advance received from the buyer as a source of interest-free financing.

In the developed countries, the construction contracts stipulate that the general contractor offers the beneficiary financial protection against the non-observance of the contractual obligations regarding the works provided in the contract and to pay all the expenses associated with them. For the two categories of obligations, there are two types of insurance: "execution insurance" and "insurance for payment of material and living expenses", the builder being obliged to obtain these insurances from the current insurance company.

The international community deepens the concept of sustainable development, launched in the report of the World Commission for Environment and Development, entitled "Our common future", also known as the Brundtland Report of 1972. At the Rio de Janeiro Conference in June 1992, it was declared the fact that the environment and the economic development are compatible, having complementary objectives. Through the international agreement expressed in the Rio de Janeiro Declaration and the adoption of Agenda 2 and sustainable development, it has become a global strategic option.

In the broad acceptance of the concept of sustainable development, as the ability to meet the demands of the present generation, without compromising the ability of future generations to meet their own needs, economic prosperity and environmental conservation must be mutually supportive. Thus, the impact of housing constructions on the environment must be evaluated from the first phases (choosing the project variant, the feasibility study) and be taken into account in the assessment of efficiency

because counteracting this impact after the project is completed can lead to considerable losses. Any home construction project is substantially affected by the environment in which it is carried out, when starting it is normal to analyze the natural risks.

Housing construction projects face climatic risks, which materialize in random torrential rainfall, drought and strong floods, with implications on the duration of execution and the duration of housing exploitation; seismic risks, Romania finds itself characterized by a seismic activity that manifests itself with violence from time to time, earthquakes causing human victims and substantial damage to the housing stock; the risk of floods that represent a serious risk on the localities, generated by torrential rains or massive snow melts, also generated by human activity.

At the same time, construction works can increase the risk of flooding if the site is not well chosen, the project involves massive deforestation or if the project bottlenecks certain ways in which the surplus water is discharged.

Homes consume very large amounts of energy and raw materials, which is a heavy burden on the environment. Thus, the volume of materials extracted from the natural context (stone from quarries, gravel, sand from ballast, wood from plaster etc.) causes imbalances in the natural environment, and each one of these interventions influences the humidity, air currents, groundwater, the fertile soil layer etc., which has costly repercussions for the ecosystems on which they operate.

During the period of operation of buildings appear new polluting factors mainly represented by the consumption of energy and the

elimination of the domestic residues in the residential constructions with a high degree of environmental damage.

The European Parliament (EP) recently established that, starting with 2019, any new building built in the European Union will be "green" and for the construction of government buildings the term is 2020. The EP decision has come to confirm the tendency to impose new rules of construction of buildings, regardless of destination: residential, office, retail or even industrial.

According to the Romanian Council for Green Buildings (RoGBC), a building is considered "green" if through the design, the building materials and the technologies used it reduces both the energy consumption and the negative impact on the environment, both during the construction, as well and during the period of operation compared to traditional buildings. But the development costs are in most cases higher than the costs of traditional buildings. Thus, the realization of a "green" construction involves costs of

design, execution, as well as costs of the equipment higher by 10% - 20% compared to the costs for a common building.

Developing a building with zero carbon emissions - environmental standard and more burdensome than the highest levels of international accreditation (BREEAM and LEED), could add to the premium cost of construction about 12.5%, implicitly increased financing sources. But the additional costs bring with it the possibility of obtaining higher incomes from the recovery of the respective building and lower operating expenses.

Operating costs decrease by a minimum of 10-15% for a "green" building, as the incidence of occupational diseases registered to employees of this type of building is much lower. Thus, it is possible to obtain an increase of the value of the property by 7.5%, also an increase of the rents by a minimum 2% compared to those of the classic buildings.

We mention that in the present time, the addition of the manufacturer represents between 5 and 20 percent of the estimated cost of the project and includes a whole series of risk margins, such as the profit of the builder and depends on the size and complexity of the project: location, risks and estimated difficulties, norms of the manufacturer's mark.

Even more expensive, "green" buildings tend to become attractive to both investors and potential tenants. Moreover, regardless of options, in about ten years, new constructions will have to comply with the conditions imposed by the European legislation, the main aims of the builders to be both adapting to the new requirements, as well as cost and revenue efficiency. All this requires an analysis of the impact on the environment as an integral part of expressing the economic efficiency of housing construction projects.

In the developed market economies, most of the sources needed to finance the housing sector come from the savings made voluntarily by the population, but in the case of Romania, the state still directly funds this sector. That is why the development of the real estate market is closely linked to the macroeconomic conditions existing at one time, as well as the degree of development and efficiency of the financial-banking system. In our country, the main macroeconomic elements that contribute to the development of this sector are related to the purchasing power of the population and to the very high level of interest.

Conclusions

The financing modalities, that take into account the market conditions, attract resources from the private sector in order to provide the necessary housing for a large part of the population, and, a well-developed and stable financing system allows the capitalization of the surplus resources in long-term real estate investments, protected by inflation.

In our opinion, all forecasts converge towards the idea that in the field of housing we will witness the following trends:

- increasing the quality of housing and reducing consumption in operation, especially energy and the use of new materials, without risk to health (non-toxic and non-allergenic);
- denser cities, at the same time with smaller suburban structures and less housing in apartments, including demolition of suburbs with lower housing;
- urban areas with a lot of greenery through very careful landscaping.

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