

Incomplete construction: Russian and foreign experience

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Abstract. The study is devoted to the objects of unfinished construction (hereinafter - UCO). The problem of the UCOs is urgent both for the regions and for the Russian Federation as a whole. The main reasons for the large number of the unfinished construction objects are analyzed in the paper. The global experience of solving the issue of long-term construction is considered. The unfinished objects spoil the architectural outlook of the city, while the lands are used inefficiently and the necrosis of capital occurs. In Russia, as a rule, conservation of these objects is not done that creates a real threat to life and health of people. The state and society cannot count on the economic effect of these objects, and they do not justify the goals and the means invested in them. Based on the conclusions drawn, measures are proposed that will allow preventing the suspension of the objects under construction at the moment, and complete the construction of the objects that begun earlier.

At present, there are a lot of uncompleted construction objects on the territory of the Russian Federation. With each year, the amount of such objects is increasing. The growing volumes of the state unfinished construction are becoming a significant problem in the context of a crisis reduction in budgetary investments [1]. The relevance of the study is based on the fact that the growth of the volumes of unfinished construction has financial, political, and legal prerequisites, and the consequences are of both economic and socio-environmental nature.

According to the Head of the Accounting Chamber, the amount of unfinished construction has increased to 2.2 trillion rubles. "The state of affairs in this area requires the most serious assessment and taking measures, and in August 2015, the President of the Russian Federation gave the appropriate instruction on that. So far they has not been fully implemented".

The structure of unfinished construction is noteworthy:

- 3,400 objects have not started, but funds for their design estimates have been spent. The prospect of construction is unclear, and the documentation becomes obsolete;
- construction of 2,400 objects is underway;

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- construction of 2,400 objects have been completed and they were put into operation, but state registration of rights to these facilities has not started, or has not been completed.

Accordingly, the issue of legality of their commissioning arises;

- construction of 2,000 objects is suspended, as a rule, without conservation with an unclear prospect of their subsequent improper suitability;
- for 1,700 objects, there is no information at all [2].

It should be noted that since 2000, according to the Federal State Statistics Service (Rosstat) data, there has been a positive trend of reducing the number of buildings and structures of unfinished construction in the Russian Federation (Table 1). Although the analysis of the absolute amount of unfinished construction shows that they are still very significant (Table 1) [3].

Table 1. Number of buildings and structures of unfinished construction in the Russian Federation (at the end of the year).

	2000	2005	2010	2013	2014	2015	2016	2017
Number of buildings and structures of unfinished construction, total	149667	128496	103107	103371	101601	97965	90342	86847
including: suspended or conserved	88379	45810	24796	16015	14626	13525	11800	11776

Let us consider the main reasons for the suspension of construction of objects:

1. Launched in 1980-1990 and unfinished construction of large enough buildings and structures. The main reason for the growth in the amount of unfinished construction at this time was a sharp reduction in the volume of investment from the federal budget. At the same time, the situation was exacerbated by the lack of funds for conservation and protection of such facilities, and therefore many of them for a number of years are unprotected, open, and as a result, building structures are becoming unusable. This leads to a permanent loss of the costs incurred.

2. The default of 1998 when many investment projects were simultaneously frozen. As a result, many construction projects stopped. According to the data of the Federal State Statistics Service, at the end of 2000, 49.2% of the total number of buildings and structures were in the unfinished construction state. In general, the amount of unfinished construction was 1.5 times higher than the number of buildings commissioned in 2000.

3. The economic crisis of 2008-2010 caused a new jump in the amount of unfinished construction. In this case, the crisis was of an international character. In Russia, in particular, it was manifested by a sharp increase in the cost of loans, which struck, first of all, on housing construction and hampered the development of the construction industry as a whole. It is known that high rates of housing construction were largely supported by bank loans. After the termination of “cheap” financing, many participants of the investment process could not return loans because of a sharp decline in sales of housing, and complete the construction of facilities. Since 2009, the number of unfinished buildings and structures in the Russian Federation remains at the level of 105-106 thousand objects per year, an average of 46-48% of the total number of buildings put into operation [4, 5].

4. Potential long-term construction, or the problem of “deceived co-investors”. In Russia, 80% of new housing is being built according to the scheme of shared construction, that is, with the involvement of future owners in the construction of the facility [6]. Potential long-term construction refers to the objects, on which construction works are currently being carried out, however, they are conducted irregularly, with delays, and in this

connection there is a high probability of construction freezing. The reasons why construction companies do not fulfill their obligations to equity holders are the following:

- bankruptcy, which can occur against the background of unfavorable economic situation or instability of the activity of a particular construction company;
- during the erection of the object, the building materials can become more expensive, the normative calculations for construction and installation work can change, which can entail the need for additional financing and, as a result, the stoppage of construction work;
- inclusion of additional conditions into the contract that are not coordinated with the equity holders. Because of what they have to pay considerable sums;
- signing of non-compliant contracts (for example, a preliminary sales contract is signed instead of a shared construction agreement);
- sale of real estate on behalf of a well-known construction company, but the actual signing of a contract with another developer (most often, it is an unreliable company that turns out to be untenable);
- setting fees for extra meters (this is due to the absence of the project documentation at the time of construction, which would indicate the exact area of the apartment);
- double sale of real estate (for example, simultaneously to real estate companies and equity holders, as a result of which the same apartment can be sold to two people at once).

The first three reasons are the consequence of political and economic transformations in the country. The fourth reason is the consequence of insufficient and untimely elaboration of the issues of regulation of relations in the sphere of investing in the construction of residential real estate. We have to agree with the authors of the study [10, 12] that "... only a few aspects of the investment process of housing construction are being investigated in the scientific literature". Practical attempts to solve the issues of "deceived co-investors" are being undertaken, but with a significant lagging behind the time of the emergence of the problems.

Since January 2017, Russia has created a state compensation fund for shared construction. The main objective of the fund is to pay reimbursements to equity holders under equity participation agreements (EPA), in the event of bankruptcy of the developer. Each developer, attracting money under equity participation agreements (EPA), is required to make contributions to the state compensation fund for shared construction. Money accumulated in this fund will be used exclusively to pay compensation to the defrauded co-investors in case of the bankruptcy of the developer, or to finance the completion of the construction. In the latter case, it can be financial assistance or a loan to a new developer that will undertake to complete the construction of the problematic object. For new investors, this means a significant reduction in the risk of investing in the purchase of apartments in new buildings. First, there is a real chance to complete the house, even when the developer went bankrupt. Secondly, these private funds will be managed not by private insurance companies, but by the state structure. According to the law, since January 2017, when registering each new share agreement, the Federal Service for the State Registration, Cadaster and Cartography (Rosreestr) will send to the fund a request for payment or non-payment of mandatory contributions under this agreement [7]. Thus, developers will be encouraged to pay contributions to the compensation fund on time, and equity holders will provide real financial protection of their rights. The law applies only to new buildings where the first contract of equity participation was concluded after January 1, 2017, so the problem of the "defrauded co-investors" in Russia remains unresolved.

According to the working group on protection of the rights of depositors and co-investors of the Presidium of the General Council of the party "Edinaia Rossiya" (United Russia), as of January 1, 2017, Russia had 928 problematic residential properties, and the number of defrauded co-investors was about 132,000. Some of them wait for their housing for ten years or more. The compensation fund for shared construction is one of the tools

with which the state plans if not to prevent the appearance of deceived co-investors, but at least to eliminate the danger of leaving people without apartments because of the collapse of developers [8].

Let us turn to the foreign practice of solving the issues of long-term construction and unfinished construction.

In the developed countries of Europe (England, France, Germany, Austria, Switzerland, etc.), there is almost no “deceived co-investors”, because the rights of consumers are reliably protected. The developer, before starting construction, has all the permits and, most importantly, all the necessary financing from the bank. In addition, construction is always phased: the first tranche is allocated, the first phase is under construction, and sales are analyzed. After the developers have settled with the bank, they get permission to build and finance the next phase. That is, sales can begin only when there is guaranteed funding from the bank.

Any construction of new housing in France is a long-term construction. The French do not like to pay in advance the second and third stages of construction, so the developers work in one stage - from start to finish. French law obliges any developer to insure construction sites for a period of ten years. Therefore, investing in housing in France is quite safe. Even if the developer does not manage to complete the construction within the time specified in the contract, the insurance company will pay the damage. In addition, the right to own housing in a newly built house is already being drawn up at the first stage of construction, so that the French “equity holder” is protected from all sides.

In the UK, in the event that the house is commissioned with violation of the deadline, the developer can be withdrawn the license.

In Germany, the bank that lends to construction is responsible and acts as a guarantor of the completion of works on time. Therefore, in West European countries, there are very few problems with the disruption of construction.

According to the expert Knight Frank, the fundamental difference between Russian and European developers is that in Europe the buyer never pays the full value of the property before the completion of construction. As a rule, payments are tied to the degree of readiness of the project. At the stage of construction pit, the buyer contributes 5-10% of the cost; when the frame is erected - 30%, everything else – with certain shares as the construction develops. So, it is not profitable for developers to delay construction: they are linked by the debt obligations with banks that have fully financed the project. Banks, providing funds, make the insurance of risks mandatory, because of which the extension of the construction time is very expensive for developers.

Most often, with long-term construction face real estate buyers in Eastern and Central Europe. The traditional reason for the emergence of massive long-term construction is the crisis in speculative real estate markets. For example, in Spain and Bulgaria, construction companies are more likely to experience various financial difficulties, the apogee of which is real bankruptcy. In the crisis, many foreign developers have faced problems, having lost the main sources of financing - affordable bank loans and stable demand from buyers. Not all of them were able to fulfill their obligations to customers just in time.

Summing up, it should be noted that foreign systems of shared construction have their own peculiarities, and in many respects are radically different from the system that has developed in our country. Abroad, problems are resolved in a more civilized way, and the terms of delay do not look that big, compared to Russian construction sites. There is also another fundamental difference: abroad, when buying at the construction stage, there is almost always a phased payment, where the payment schedule is tied to certain stages of the construction. In other words, if the construction suddenly stopped - the buyer also has every right to stop payments [9].

As one can see, the problem of long-term construction also exists in European countries, but the number of such cases is insignificant. In Russia, this problem is of a large scale and requires the adoption of cardinal measures.

To reduce the objects of unfinished construction, the following measures are necessary:

1. The introduction of penalties for non-compliance with construction deadlines.
2. Increase of the cost of renting the land, on which construction is being carried out (progressive scale of rent).
3. Termination of land lease agreements, deprivation of the possibility to continue construction and withdrawal of land in case of long-term construction (with permanent postponement of commissioning).
4. Informing interested actors (investors and developers) about ongoing investment competitions and tenders for the sale of unfinished construction projects.
5. Selection of investors for transfer of unattractive objects not completed by construction, which have been for a long time (more than a year) at auction, on the preferential terms.
6. Subsidies for the completion of facilities with a high degree of readiness and socially important for the region (country).
7. Completion of socially significant unfinished objects on the principles of public-private partnership [11].
8. Improvement of the legislative framework in the field of housing construction. To date, there is no bill that takes into account the interests of all participants (developers, co-investors, and the state).

The proposed measures will make it possible not to allow the construction projects being stopped at one moment, and to complete the construction that started earlier. In the crisis, for more fruitful activity, small construction companies should unite with each other that will significantly reduce construction costs.

The territory with frozen construction sites is a problem of the state. The growth of unfinished construction projects leads to serious social and economic consequences. Therefore, it is necessary to pay great attention to the state of the industry, to exercise constant control over it, to make the work on the construction site resumed, or the unfinished object are to be demolished, and the territory transferred to another developer.

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