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e-mail: anschluss@ukr.net***FINANCIAL AND CREDIT INSTRUMENTS FOR ENSURING EFFECTIVE  
FUNCTIONING OF THE RESIDENTIAL REAL ESTATE MARKET**

**Abstract.** Problems with financial and credit provision of the residential real estate market participants negatively affect the functioning of such a market and leads to a deterioration of the socio-economic environment, because the population is unable to satisfy their primary needs — housing needs. The results of our research showed that in the process of financial and credit instruments realization on the financial market there is a two-way process of transformation: on the one side, financial assets are transformed into financial liabilities for their issuers, on the other side, financial liabilities are transformed into financial assets in the form of rights of claim for buyers of financial products. It was found that under the usage of financial and credit instruments, the transformation takes place in the following directions: transformation of assets, transformation of risks, transformation of terms. The main essence of financial and credit instruments in the residential real estate market is that they allow to mediate operations during the transition of transactions under the process of investing in real estate, transform risks arising in the market, increase liquidity and turnover of real estate (from creation to consumption). Functions performed by financial and credit instruments in the residential real estate market are generalized, namely: redistributive and transformational, information-protective, regulatory, accumulative. By disclosing the essence of the concept of «financial and credit instruments for ensuring effective functioning of the residential real estate market» the following elements are taken into account: components of the essence (mediation of investment operations with real estate, establishing beneficial interaction between their participants, the presence of target orientation, transformation of assets, risks and terms), the role of financial and credit instruments in achieving the expected results from their application in the financial and credit mechanism of investment processes management in the residential real estate market, functions of financial and credit instruments.

**Keywords:** financial and credit instruments, residential real estate market, transformation, financial assets, financial liabilities, functions of financial and credit instruments.

**JEL Classification** G19

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e-mail: anschluss@ukr.net***ФІНАНСОВО-КРЕДИТНІ ІНСТРУМЕНТИ ЗАБЕЗПЕЧЕННЯ ЕФЕКТИВНОГО  
ФУНКЦІОНУВАННЯ РИНКУ ЖИТЛОВОЇ НЕРУХОМОСТІ**

**Анотація.** Проблеми з фінансово-кредитним забезпеченням учасників ринку житлової нерухомості негативно впливають на функціонування такого ринку й призводить до погіршення соціально-економічного середовища, адже населення неспроможне задовольнити свої первинні потреби — потреби у житлі. Результати наших досліджень показали, що в процесі реалізації фінансово-кредитних інструментів на фінансовому ринку відбувається двосторонній процес трансформації: з одного боку, фінансові активи перетворюються для їхніх емітентів у фінансові зобов'язання, з другого — фінансові зобов'язання трансформуються для покупців фінансових продуктів у фінансові активи у формі прав вимоги. З'ясовано, що під час використання фінансово-кредитних інструментів трансформація відбувається за такими напрямками: трансформація активів, трансформація ризиків, трансформація строків. Головна сутність фінансово-кредитних інструментів на ринку житлової нерухомості полягає в тому, що вони дозволяють опосередкувати операції при переході правочинів у процесі інвестування в нерухомість, трансформувати ризики, що виникають на ринку, підвищити ліквідність обігу і обіг нерухомості (від фази створення до фази споживання). Узагальнено функції, які виконують фінансово-кредитні інструменти на ринку житлової нерухомості, а саме: перерозподільна і трансформаційна, інформаційно-захисна, регулятивна, акумулятивна. При розкритті сутності поняття «фінансово-кредитні інструменти забезпечення ефективного функціонування ринку житлової нерухомості» ураховано такі елементи: складові сутності (опосередкування інвестиційних операцій із нерухомістю, налагодження вигідної взаємодії між їхніми учасниками, наявність цільової спрямованості, трансформація активів, ризиків і строків), роль фінансово-кредитних інструментів у досягненні очікуваних результатів від їх застосування у фінансово-кредитному механізмі управління інвестиційними процесами на ринку житлової нерухомості, функції фінансово-кредитних інструментів.

**Ключові слова:** фінансово-кредитні інструменти, ринок житлової нерухомості, трансформація, фінансові активи, фінансові зобов'язання, функції фінансово-кредитних інструментів.

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**Introduction.** The residential real estate market in Ukraine is characterized by complex and contradictory financial and investment relations, and in addition to the unsatisfactory state of financial and credit security of its participants it becomes the cause of market failure. As a result, it leads to complex socio-economic problems that are related to satisfying the primary needs of population — housing.

As modern practice shows, the use of financial and credit instruments to ensure the effective functioning and development of the residential real estate market is deficient and requires some changes, which requires a clear understanding and theoretical justification of financial and credit instruments usage on this market.

**Analysis of recent research and problem statement.** Many scientists have studied the real estate market and its tools, including: O. Voronchenko, D. Galagan, P. Gudz, S. Sharova, V. Kovtun, O. Mukhin, K. Pavlov, V. Prokopenko, T. Vasylieva, S. Lieonov, A. Golovko, M. Stolbova, G. Zagorodniy, G. Voznyuk, T. Smovzhenko, V. Korneiev and others. Paying tribute to the work of scientists, it should be noted that there is no clear understanding of the essence of «financial and credit instruments for ensuring the effective functioning of the residential real estate market», as well as areas of development of financial and credit tools for the financial and economic relations implementation that accompany the realization and exchange of property rights to housing. In this regard, the study of this issue becomes relevant.

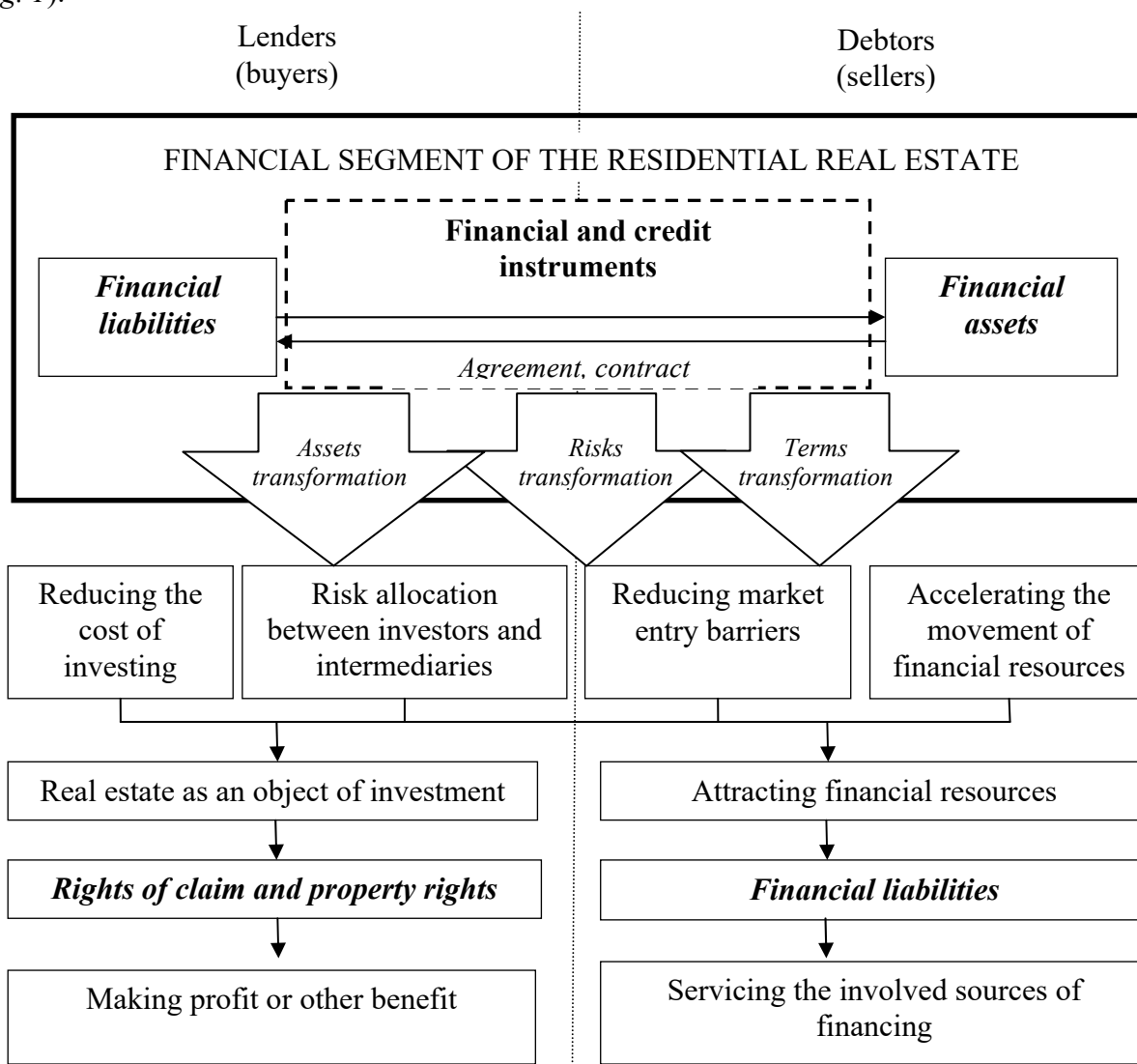
**The purpose of the article** is to study the economic essence of financial and credit instruments, determine their functions and role in ensuring the effective functioning of the residential real estate market.

**Research results.** The theoretical basis for the development of financial and credit tools for ensuring the effective functioning of the residential real estate market is a correct understanding of such tools essence.

We understand the residential real estate market as a complex social phenomenon, a system of direct and indirect socio-economic, financial and credit, organizational and legal relations between economic entities — participants of this market, whose interaction meets their individual and collective housing needs (housing is an object of consumption and / or investment) by reconciling different interests, which leads to the establishment of market value and property rights of residential real estate on the basis of balancing market conditions, combination of patterns of commodity, financial and services market functioning as a basis for effective implementation of economic processes (financial and investment ones, production (creation), consumption (use), real estate exchange and management) and relevant infrastructure mechanisms that ensure functioning of such a market [12; 13].

In our opinion the difference in views on the essence of «financial and credit instruments» is due to their transformational content, which means the mutual transformation during implementation of such financial assets instruments into financial liabilities and vice versa.

There is a two-way process of transformation while selling financial and credit instruments on the financial market: on the one hand, financial assets that are the subject of such instruments are transformed into financial liabilities for their issuers, on the other hand, financial liabilities are transformed into financial assets in the form of rights of claim for buyers of financial products (Fig. 1).



**Fig. 1. Transformational content of financial and credit instruments in the residential real estate market**

Source: created by authors.

Similarly, in case of financial and credit instruments usage by the state, for example, to finance construction of social housing, to implement government housing programs for certain categories of population, as a result financial institutions receive revenues for budget resources formation due to transformation of financial assets into financial liabilities, and buyers obtain the right to possess housing, to improve living conditions.

It should be noted that transformation occurs in several areas while the usage of financial and credit instruments:

**1) assets transformation** (discussed above): the use of instruments allows to transform a sole, physically indivisible real estate into a set of financial and credit instruments that maintain a connection with it, and accordingly receive useful properties from it for the stakeholder, especially the investor (for example, income stability, protection of invested funds); this reduces the market entry threshold due to lower investment costs;

**2) risks transformation** — financial and credit instruments transform the risks associated with real estate by reducing the initial deposit and its distribution between the direct (primary) investor and financial intermediaries;

**3) terms transformation** — transformation of terms due to acceleration of financial resources movement.

Kaneieva I. mentions these three types of transformations, in particular, in her research [1].

Thus, in our opinion, the main essence of financial and credit instruments of the residential real estate market, as G. Yasynskiy [2] noted in his study, is that they allow to:

- mediate operations in the transactions transition in the real estate investing process;
- transform the risks arising in the market;
- increase the circulation liquidity and real estate turnover (from creation phase to consumption phase).

Given that financial assets indicate the investment objects, and financial liabilities indicate the sources of financial capital and the its involvement conditions, in our opinion, approaches based on the identification of financial and credit instruments as these specific means of social activity are not legitimate [14; 15]. Financial and credit instruments only outline the scope of their use. Accordingly, it can be argued that such instruments mediate the process of investing financial capital, namely the emergence of financial assets and financial liabilities of counterparties in the process of attracting investment resources in the financial segment of the residential real estate market. It should be noted that not all types of financial and credit instruments are based on financial assets in the classical sense of this term (as free funds invested in a financial instrument and the right to receive future monetary income).

Generalization of researches on the role and importance of financial and credit instruments [3; 4] to ensure the effective functioning of the real estate market in general and residential real estate in particular allows us to highlight the list of financial and credit instruments functions:

- **redistributive and transformational function**, which consists in the distribution of investment flows by volume and time through the use of financial resources to finance investments in creation and acquisition of real estate and related rights;

- **informational and protective function**, which means that financial and credit instruments implement legal protection mechanisms aimed at redistributing risks and transaction costs associated with a high level of information asymmetry needed to make effective investment decisions in the residential real estate market, which contributes high probability of opportunistic

behavior of market participants;

- **regulatory function**, which includes the ability of financial instruments to ensure the effective functioning and development of the residential real estate market, or to curb the emergence and manifestation of negative trends in its development, due to the fact that «financial and credit instruments, mediating cash flows, affect on the one hand, on their availability from the borrower's point of view, on the other hand they affect on directing attractiveness in the sphere of real estate circulation from the investor's point of view. Both indicators are determined by the state of the real estate market (stable price growth attracts potential investors) and the relevant segment of the financial market (for example, instability of banking sector as a whole negatively affects the state of mortgage lending) and government policy (tax rates, central bank discount rate)» [3]. That is, the availability and efficient use of financial and credit instruments determine demand and supply in the real estate market: on the one hand, partially by turning potential demand into solvent one, and on the other hand by activating supply through financing new real estate construction [5; 6];

- **accumulative function** implies that with sufficient development of financial institutions and use of market competition effective mechanisms, financial and credit instruments application allows to accumulate significant amounts of money in the real estate market needed to finance construction of new real estate and other society investment needs through their redistribution by financial market into other spheres. However, it should be noted that the use of only such tools can lead to price volatility in the real estate market (the emergence of «bubbles») [3; 8].

The residential real estate market is served by various types and forms of financial and credit instruments, which naturally formalize and accelerate investment capital circulation [9; 11]. The main financial and credit instruments of the real estate market include: credit, mortgage loan, municipal loan, leasing, securities, derivatives, mortgage securities, real estate fund certificates.

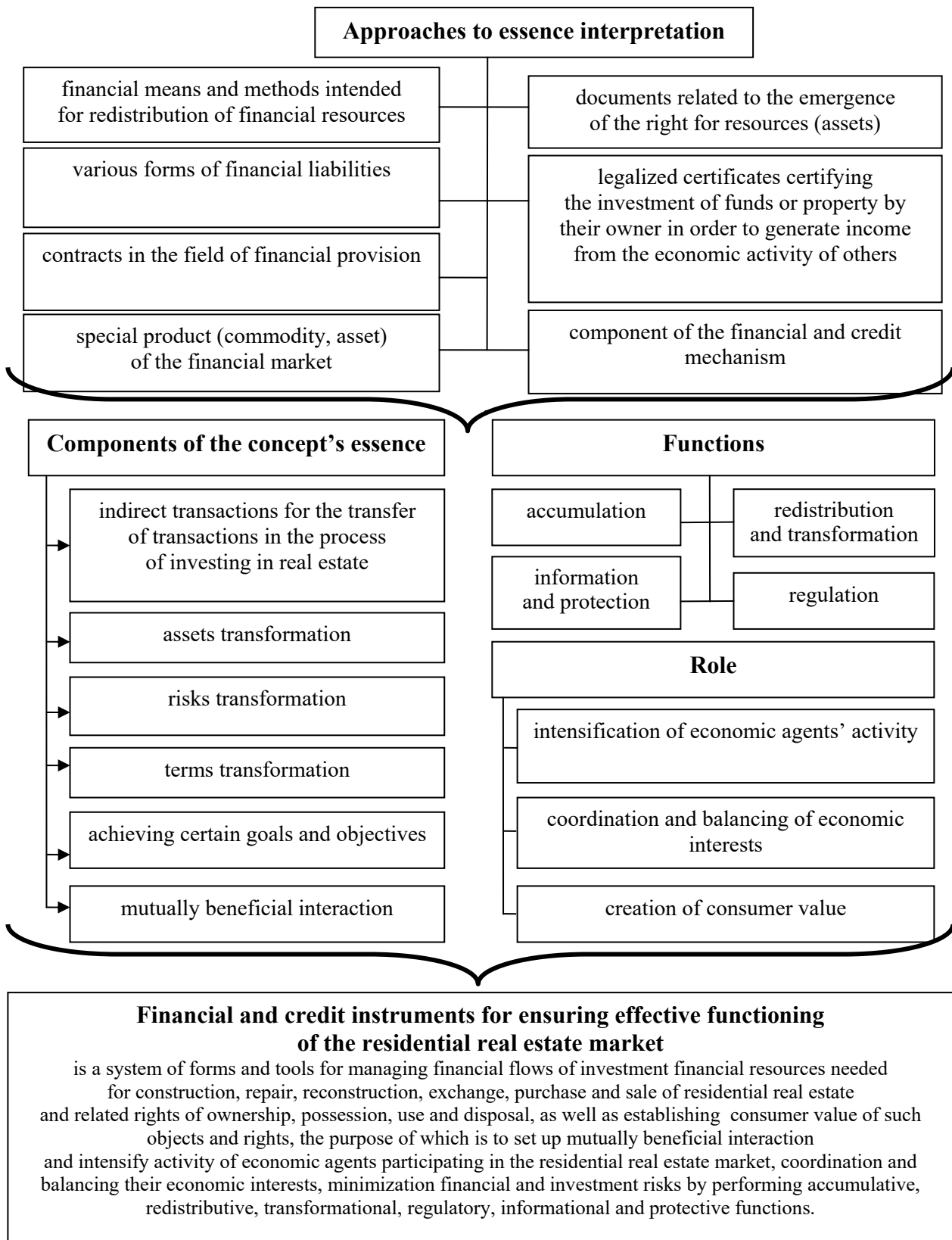
In our opinion, when defining the concept of «financial and credit instruments for ensuring effective functioning of the residential real estate market» following elements should be reflected:

– components of the essence, which are the mediation of real estate investment transactions, establishing mutually beneficial interaction between their participants, target orientation, transformation of assets, risks and terms, which allow to interpret financial and credit instruments as a system of forms and tools for managing financial flows within investing in residential real estate and related rights;

– the role of financial and credit instruments as an expression of the expected target results from their application in the financial and credit mechanism for managing investment processes in the residential real estate market, which involves intensification of market activities, coordination and balancing of participants' economic interests, including to minimize financial and investment risks, as well as creation of consumer value of real estate;

– functions of financial and credit instruments as an expression of opportunities to achieve certain goals and objectives of their use.

Generalized approaches to the interpretation of the concept «financial and credit instruments» are presented on the *Fig. 2*, as well as the main components of this concept are identified, functions and role of such tools for ensuring effective functioning of the residential real estate market are outlined.



**Fig. 2. The essence of financial and credit instruments for ensuring effective functioning of the residential real estate market**

Source: created by authors.

Given the above, we propose to consider financial and credit instruments for ensuring effective functioning of the residential real estate market as a system of forms and tools for managing financial flows of investment financial resources needed for construction, repair, reconstruction, exchange, purchase and sale of residential real estate and related rights of

ownership, possession, use and disposal, as well as establishing consumer value of such objects and rights, the purpose of which is to set up mutually beneficial interaction and intensify activity of economic agents participating in the residential real estate market, coordination and balancing their economic interests, minimization financial and investment risks by performing accumulative, redistributive, transformational, regulatory, informational and protective functions.

In our opinion, the proposed approach to the financial and credit instruments definition allows to:

- 1) reflect the specifics of such instruments in terms of its application in the residential real estate market — financial flow management, which is expressed in certain features of residential real estate and related rights as investment objects that have a certain consumer value (utility), which obtains market evaluation through the balance of demand and supply;
- 2) take into account the complexity of such instruments purpose, which is expressed in the establishment of mutually beneficial interaction, what involves economic interests coordination of different market participants, their balancing and risks redistribution;
- 3) identify the role and purpose of financial and credit instruments in the list of functions they perform on the residential real estate market.

Investment needs of the residential real estate market are served by a significant number of financial and credit instruments, the composition and application of which are constantly modernized and improved depending on the development of new innovative forms and means of managing financial flows of investment resources, changing forms of cash capital, new participants of financial and credit relations emergence, current legal framework change, study and implementation of different countries' best practices etc.

The volume and structure of involved financial and credit instruments are also determined by the general financial and economic situation in the country taking into account the needs of the residential real estate market at a certain stage of economic development [7; 10], which determines the importance of further research on the state and trends of financial and credit instruments for ensuring effective functioning of the residential real estate market in the conditions of Ukraine's economy development.

**Conclusions.** The proposed approach to the interpretation of financial and credit instruments for ensuring the effective functioning of the residential real estate market as a system of forms and means of managing financial flows of investment financial resources and creating consumer value of real estate and related rights (property and ownership) allows to improve the system of financial and credit instruments, and therefore, it will simplify financial and credit transactions, formalize and accelerate financial capital circulation, intensify investment processes. At the same time, it will improve the residential real estate market functioning and help to solve social problems related to housing.

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