

THE MAIN FEATURES OF HOUSING DEVELOPMENT IN LVIV OVER THE PERIOD OF 2008–2015

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Abstract. The article describes the patterns of housing development in Lviv over the recent years. It explains the basic causes and conditions of such development. It provides the findings of the study of the modern state of the real estate market of the city including the level of prices, quality of the architecture and the participation of foreign investors.

Key words: housing in Lviv, reasons, preconditions for the development of housing and modern housing market conditions, foreign investment.

1. Introduction

The most common and important type of building in Lviv is residential architecture. The desire to achieve an average rate of housing population and the popularity of investing in real estate leads to a considerable demand for housing. In order to make a reliable prediction of the further processes in housing and management we need to analyze the basic patterns of the industry, causes and preconditions of this development, to explore the current state of the real estate market in Ukraine on the whole, and in Lviv, in particular.

2. Basic Theory Part

2.1. Analysis of recent research and publications. The problems of residential architecture and trends of investment in residential construction are discussed in both architectural publications and those of economic direction. Monitoring of housing in Ukraine including the promotion and optimization of investments was conducted by L. G. Levit and described in his abstract [1]. Organizational support for the development of residential real estate in the city was explored by I. M. Kornylo and P. G. Kurgan [2]. European and global experience in the sphere of housing was analyzed in the articles of O. Nepomnyaschyy [3], D. Isayenko [4]. There are also numerous legal documents devoted to the formation of principles of the housing policy in Ukraine and in Lviv, in particular [5].

The purpose of the article is to highlight the main patterns of housing development in Lviv over the recent years, to find out the preconditions and background of this development and to explore the current state of the real estate market of the city.

2.2. Patterns of housing development in Lviv. The author analyzed *the actual laws* under which the city developed its housing construction over the period of 2008–2015.

Projected in 2008–2010, on the second stage of the general plan adjustments, annual dynamics of housing construction in Lviv is presented in Fig. 1.

Shares in land plots including those of land owners for housing to the Trust Fund for the development of social infrastructure of Lviv made 20780 mln. UAH in 2008, 23719 mln. UAH in 2014, 30599 mln. UAH in 2015 and significantly exceeded the level of 2009–2013. (5320 mln. UAH -11215 mln. UAH respectively).

Actual housing construction rates were higher than those projected in 2008, 2014, 2015 (Fig. 1, Tab. 1): in 2014 – twice (105 %) to October 2015 – in half (66 %), which was caused by the reasons discussed below. Note that in Ukraine overall, unlike the city itself, construction volume decreased by 26.7 % over the past 7 months [6].

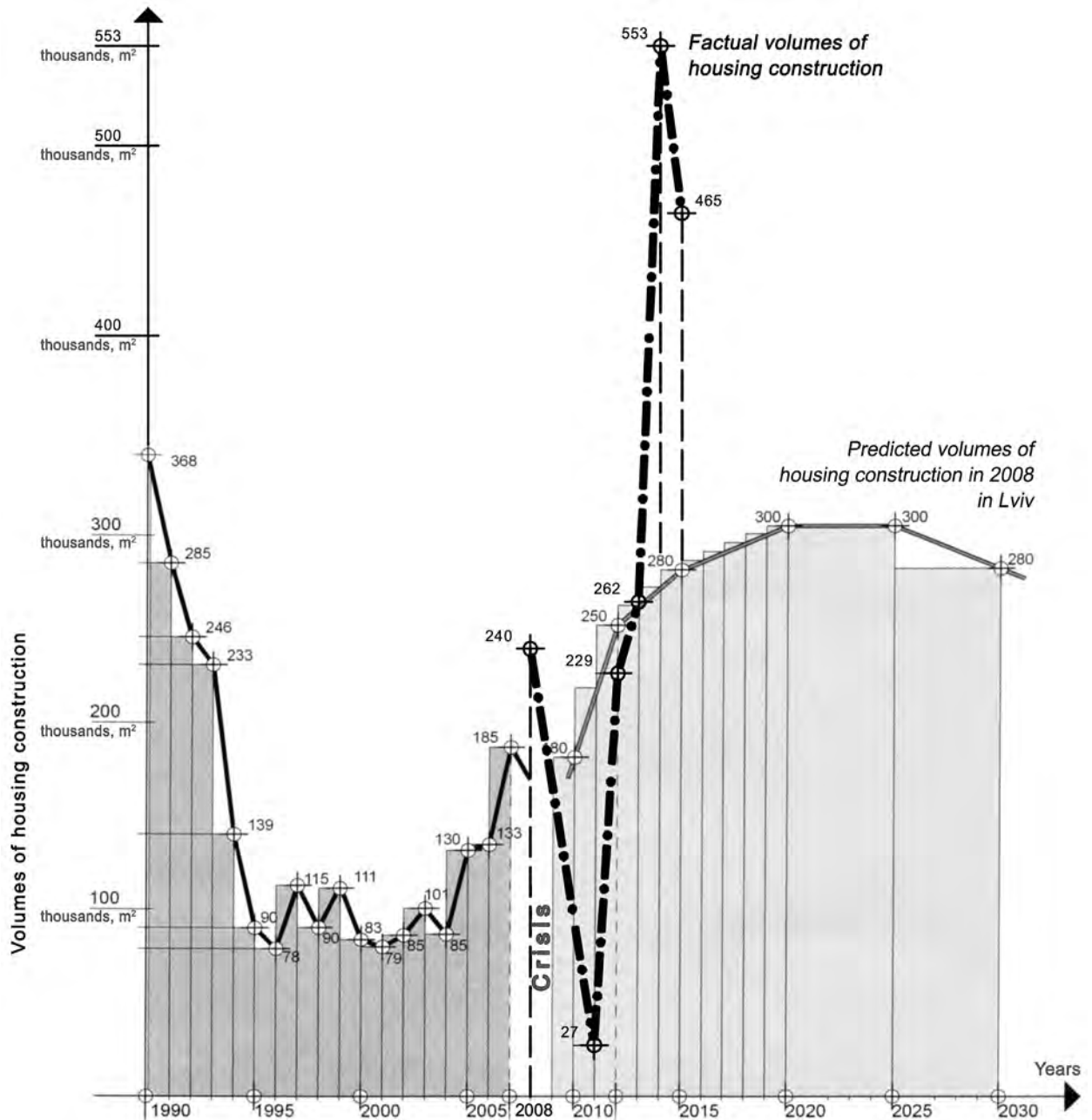


Fig. 1. Projected [5, c. 14] and the actual dynamics of annual volumes of housing construction in Lviv

Table 1

Comparison of generalized projected and actual indicators of residential development in Lviv over the period of 2008–2015

Year	Estimated total area of residential development, thousands, m ² (with graph in Fig. 1)	Actual total area of residential development, thousands, m ²	Difference, thousands, m ²
2008	Less than 185	240,019	More than 55,019
2011	215	27,264	-187,736
2012	250	229,479	-20,521
2013	260	262,310	2,310
2014	270	552,697	282,697
until 10.2015	280	464,840	184,84

Due to the influence of significant rates of housing construction on both the price and demand-supply formation, this results not only in increased competition but also in moving this competition to a new level. This, in turn, leads to the failure of many “old school” Ukrainian projects, who are reluctant to change their approach or fail to catch up with the changes of modern trends.

2.3. Reasons and preconditions for the development of housing in Lviv. The processes described in the previous paragraph can be explained through the following reasons:

1) *economic*: crisis of 2008; unstable banking system and as a result, the unreliable bank deposits; the citizens lost trust in the national currency due to its weakening. This led to the withdrawal of public funds from deposit accounts in banks and to increased activity in the economy segment¹, in early 2015, which manifested itself in the first place in citizens with low income investing in relatively inexpensive, mainly residential real estate. Investing in real estate moved to the premium segment as well, but a bit later, after the stabilization of the political situation (after frustration and broken hopes for the changes in the country);

2) *political*: change of power as a result of social and political upheavals of 2013–2014; military action in the East of Ukraine.

Having analyzed the current situation in the housing market in Lviv, the author states that there have been formed the following preconditions for sustainable development of the industry:

1) *demographic*: there are 33 higher educational establishments, 26 vocational schools, ample opportunities for employment and development which attracts migrants for permanent residence from smaller towns and villages, as well as other regions of Ukraine;

2) *social*: the city established itself as a safe place which made it attractive for migrants from unstable regions of Ukraine;

3) *economic*: the city has a significant number of local developers and construction materials producers; a significant share of investment in housing construction belongs to foreign investments, this trend has increased since 2014;

4) *legal*. The Master plan of the city indicates that the estimated average housing is classified in accordance with the standard of living into social or affordable (economy class) and business class for different categories of the population and its structure is predicted by the number of family members ranging from 20,6m²/person to 29.4 m²/person. There are no standards set for luxury and individual housing standards [5, c. 13]. Housing in Lviv, which is approximately 17.6 m²/person, is lower than the average in Ukraine, which can be viewed as a serious argument for the increase in housing of different classes.

Rapid construction led to the formation of such alternatives and adjustments to the master plan as detailed plans for areas of the city. Over the period of 2010–2015 the detailed plans for 19 areas were developed and approved, 15 of which – during 2013–2015; 11 of them through public hearing; other 21 – are currently being developed [7].

5) *availability of local resources*. The city has sufficient territory for residential buildings which is specified in the Master plan within the city and within urban planning system “Great Lviv”.

In the city – these are the following types of areas:

1) free unoccupied areas – Ryasne 2, Levandivka;

2) the territory of communal gardens – the “North” district, Ryasne- 1, Warshavska str;

3) the territory of inactive or transferred industrial plants, warehouses and depots – Zelena Str.; Washington Street, Khutorivka and Stryiska streets;

4) the territory of former military units which were transferred to other parts of the city.

Within the urban planning system “Great Lviv” there is a free area of suburban settlements which are being developed, in particular: Lysynychi, Sokilnyky, Sknyliv, Malehiv, Soroky Lvivski.

Available resources in the city allow the city planners to main use of 998 hectares of the territory and build 6.8 million m² of housing increasing the housing stock of the city to 18.8 million m² and providing an additional housing for approximately 765 thousand residents. There is a possibility to build 3–3.5 mln m² of additional housing in suburban towns thus resettling additional 80 thousand of residents [5, c. 14].

¹ Internationally they distinguish between four price segments: 1) *Low-cost segment* or a segment of special (saving) offers; 2) medium-range segment mentioned here as a comfort segment; 3) high-priced segment mentioned here as a business segment; 4) premium segment.

Consequently, the potential settlement in the city and suburban settlements which are specified by the general plan are considered as sufficient for a significant rate of housing construction.

Many different sites for housing in Lviv are now being offered for sale. In this case it all depends on the financial capacity of potential buyers, class of the areas including their location.

The areas of the greatest demand are those of historical value, and/or near parks and green areas as well as in the southern part of the city, especially Frankivskyy and Zaliznychnyy districts.

The land market also offers some lots of urgent sale, but most of them are overpriced. At the same time, the cost of land pays back in 80 % of cases after the construction of the house and/or selling of residential apartments.

In some cases, with some of these sites there are problems with histories of ownership, which result in the long-lasting suits of purchase and sale.

As for foreign investors, they are only interested in offers to purchase plots for own property. In choosing the sites they take into consideration mainly the cost and the location details, such as it is located near the historic site, the proximity to former factories and industrial zones. If the cost of land is acceptable, the difficulties associated with clearing the territory and its reopening under the appropriate category and functionality, is not viewed as a problem.

2.4. The current state of the housing market in Lviv. Subjects under research are *the price level, quality of the architecture, the participation of foreign investors.*

The level of prices. Nowadays, in Ukraine under the conditions of large variety of real estate property and land their cost indexes reached their minimum. Although analysts argue that further price reductions will not come – we are at the beginning of the 2–3 year period of stagnation in the industry, only then it is predicted that there will be its gradual growth. The potential investors are still waiting though hoping for further price reduction of land and real estate.

The price of 100 m² of land depends on:

- Its location within the city borders. For instance, the plot of land of 100m² located in historical area, along with parks and green areas varies slightly and amounts to 50 thousand USD. The price of the same size plot of land (100 m²) but located in former industrial areas, on the contrary, varies significantly and fluctuates at the level of 10–15 – 20–25 thousand USD;

- Potential of the area, namely, the volume of residential area itself that can build on it (typical areas of former industrial sites). Surely, the price of 100 m² of large building plots for quarters would make 10–15 thousand USD (or 10–20 % of future building structure), and plots with the area of 0.3 hectares for building of detached houses will cost 20–25 thousand USD respectively.

It is also worth mentioning, that the prices of actual transactions differ significantly from the declared prices.

The quality of the proposed architecture. There are still not enough of projected residential facilities in Lviv that would fully meet the needs of consumers who are interested not only in the quality, which includes also rational planning, but also in aesthetics and originality of the object including its architectural style and composition. Constantly increasing levels of customer requirements create demand and stimulate the development of high quality residential architecture.

The participation of foreign investors in housing in the country overall and the city in particular. Foreign investors play a significant role in a housing development in Ukraine and in Lviv in particular. Their main principle of work is – no partnership with local businessmen and no joint investments. This approach is the result of the reputation of the most local market participants.

It was found that the investors from different countries have developed their own approach to housing investments in Ukraine and in Lviv housing in particular.

Some investors, particularly from Europe and the United States, hoping for simplification of bureaucratic issues associated with obtaining permits, a supply of communications and commissioning, initiated their projects in our country following the events of 2014. While others, for example Turkish investors, are well aware that they invest in the sector of the economy of a weak country. But they expect a significant growth of Ukraine's economy within five years.

While representatives of investors from Turkey, the USA, Azerbaijan, Lithuania are only sending their application; Polish, Belgian and Israeli companies have already implemented their projects in Ukraine in the construction of club houses ².

From October 1, 2015, Polish investors have been firmly keeping the leading positions on the housing investment market in Lviv (332.0 mln. USD), followed by Austria (141.3 mln. USD) and Cyprus (112.6 mln. USD) (Fig. 2).

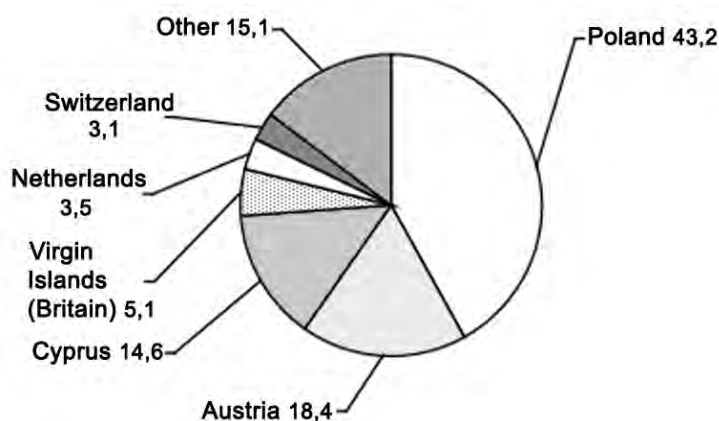


Fig. 2. The structure of FDI by country as of 1/10/2015 [9, c. 2]

As of 10.01.201, FDI in construction in Lviv, including housing made 14.9 mln. USD [9, c. 2].

Foreign investors are interested in such types of real estate in various segments:

- commercial property of a premium segment – these are investors- representatives of developed countries. They are willing to invest, despite the risks;
- real estate of economy or comfort segments – these are investors- representatives of the Eastern states. They are oriented to the fast pace of construction and sales, their plan is to relatively quickly withdraw from the market;
- house insertion or separately located clubhouse of a premium class on a small plot in the prestigious area – especially appeals to some groups of individual investors who have no history of previous housing investments.

Among all the above-mentioned segments, a business segment is notably absent. This can be explained due to the fact that the middle social class in the country in recent years is not clearly identified or is even absent.

Foreign investors prefer short-term investments. Algorithm of investment is the following: to enter the market at the time of the biggest recession, to purchase the land at lowest price, to construct at the time of stagnation, to implement during the demand of recovery period, and eventually – out of the market at its peak. Housing of economy and comfort class is the most appropriate for such investment. The duration of such projects in these segments – is an average of 2.5 years, ROI is 30–40 % per annum.

Analytical forecasts indicate that initiating of a housing project now and its completion (in the absence of force majeure) with the release of a new product within 1,5–2 years would be the most profitable in the meaning of maximizing profits in the long run over the next five years.

3. Result and Discussion

As a result of the study we found that in 2008, 2014, 2015 there was a sharp growth in the rate of construction far exceeding the forecast. The reasons, preconditions and background as well as a current state of the housing market have showed that the city is a “fertile ground” for intensive housing development. At the same time, the lack of quality in architecture, the reputation of local businesses- these are the factors which do

² Club house – elite-class house with the limited number of apartments for residents of same social level and life philosophy [8].

not contribute to the development of cooperation with foreign investors and are viewed as highly negative for the development of the industry overall.

Activation of foreign investors in residential construction in Lviv, though not acquired a massive scale, can lead to fundamental changes in the positioning of forces in the real estate market. This will improve the quality of city residential architecture in all segments.

4. Conclusions

The development of housing construction in Lviv is a part of the construction process in the city as a whole. Patterns of developing of other types of constructions deserve a separate study.

Obtained as a result of the analysis, the findings of this study are recommended to be used in the future to better forecasting of housing development as well as further providing of favorable conditions for its development, such as more professional approach to policies in this sphere.

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ОСОБЛИВОСТІ РОЗВИТКУ ЖИТЛОВОГО БУДІВНИЦТВА м. ЛЬВОВА 2008–2015 рр.

***Анотація.** Розглянуто закономірності розвитку житлового будівництва м. Львова впродовж останніх років. Висвітлено основні причини та передумови такого розвитку. Досліджено сучасний стан ринку житлової нерухомості міста, зокрема рівень цін, якість пропонованої архітектури, участь іноземних інвесторів.*

***Ключові слова:** житлове будівництво Львова, причини, передумови розвитку житлового будівництва, сучасний стан ринку житлового будівництва, іноземні інвестиції.*