

PROBLEMS OF DEVELOPMENT OF CONSTRUCTION CLUSTER AS AN INVESTMENT OBJECT

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Keywords: construction cluster, construction materials production, competition in construction market, logistics center, qualified workforce, permit documentation, self-regulating organization, financial and economic crisis, measures on construction sector back up.

The author considers the significance of the construction industry in Samara region, the necessity for heavy investment in this sphere; the key problems of the construction cluster performance and possible ways of solving a number of them.

The Strategy of Samara Region Social and Economic Development for the Period through to 2020, revised to comply with the List of the RF President Assignments dated December 19, 2007 and the Concept of Long-Term Social and Economic Development of the Russian Federation for the Period through to 2020 dated November 17, 2008, is based on cluster approach. Cluster is understood as a combination of independent companies, constantly interacting with one another and working in one and the same field or industry, and companies, providing services to the main companies. The regional government is an obligatory member of a cluster. Financial, educational, research and other organizations can also be involved in a cluster. Regional clusters are formed in most powerful and competitive sectors of Samara economy – motor industry, aerospace industry, petrochemistry. Construction and construction materials production belong to the group of promising sectors of economy with high investment appeal, primary investees.

Successful implementation of a number of investment projects in Samara region and, first of all, of the national program “Affordable and Comfortable Housing for the Citizens of Russia”, requires due development of the construction cluster and the construction materials market in the region, and the attraction of investments for financing the initial stage of residential and industrial construction. It is necessary to point out that the construction

industry plays a key role in the development of most parts of the rest industries, including those considered backbone for the region.

Construction complex is a powerful industry of Samara region economy. It ranks among the leading RF subjects concerning adoption of high technologies and modern design approaches, and activity in the construction market. Moreover, there has been steady growth in construction volumes and output of construction products in the recent years, the qualitative indexes of which conform with the world level in many respects (see table)¹.

Socially-oriented construction – residential building, engineering, education, medical care, culture and sportfacilities construction – is given top priority in Samara region. Development of the construction sector in the region encourages the creation of the present-day construction materials manufacture. Regional construction companies follow the policy of procuring the equipment for manufacture of the required materials and components abroad, and adopting high technologies, which makes it possible to expand the market of construction materials industry, to create conditions for its development, and opportunities for business initiative and attraction of investment.

Analysts recognize high potential for the development of the Samara region construction market. It is not just a mere coincidence that Moscow investors take a keen interest in it. Moscow and foreign investors have a substantial competitive

Key Figures of Construction Industry Performance in Samara Region

	2000	2001	2002	2003	2004	2005	2006	2007
Volume of works, carried out in the field of "Construction", MLN RUR	8643,5	13094,1	15163,0	16862,7	21574,5	27600,1	33358,4	47978,4
Volume of works, carried out in the field of "Construction", % against the previous year	118,3	100,3	100,4	97,0	106,9	114,7	114,2	126,6

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advantage – vast current assets, which only one or two Samara region companies possess. However, in accordance with the analysts' estimates, for the next few years Moscow companies will only be able to act as building owners in Samara market, using local companies as contractors, since setting up their own construction business will take three or four years. For the time being the local companies in their turn, trying to increase the volume of their own current assets, seek to profit by the most effective tool – the creation of closed-end real estate share investment funds.

The construction of logistics centers is regarded as promising for investors in the region. The profitability of such projects is high, as market capitalization in Samara is higher than in Moscow. According to the analysts, at the moment commercial construction and building of office blocks are twice more gainful than residential construction.

In addition to business competition with Moscow investors, the region's construction companies have to meet some other difficulties which hinder increasing the investment activity in the region and achieving the results, targeted on in the Strategy of the region development.

So, for example, Samara builders are concerned with the shortage of construction materials. Speaking in particular, the production capacities of Zhiguli Cement Plant, the principle cement supplier, are insufficient for providing the construction sector with the necessary volume of construction material. In the near future the problem of brick and cement shortage will grow rather acute. The quality of construction materials is assessed by the builders as good, but not premium. However, due to constantly increasing competition in the market of construction materials their quality is gradually improving. Unjustifiably big rises in prices of construction materials, which exceed rises in the cost of a square meter considerably, are largely caused by generally increasing demand, brought about by the increase in construction volumes.

The current enlargement of the construction business offers a significant advantage to holding companies, where the materials production, construction itself and realtor services are combined. In the future such diversified companies will be able to reallocate their financial flows within the group in the most optimal way, to decrease their own expenditures and increase their market presence.

The construction market of Samara region is in extreme want of skilled workforce – concrete

workers, brick-setters, finishers, etc. Regional builders and analysts believe that the main reason for it is the shortage of construction educational institutions, and the Department of Education and Science of Samara Region refers to school leavers' disinterest in getting a profession in construction. The problems connected with the shortage of skilled workforce threaten the builders with longer construction periods and workforce cost increase.

An advance in solving the raised problem is the target-oriented program "Developing Effective System of Manpower Training for Samara Region Construction Industry" for the period from 2007 to 2011, worked out by the regional authorities. The program suggests that the Association "Educational Complex of Samara Region Construction Sector," intended to attract funds from construction business into the system of professional education, to award supplementary scholarships to students and trainees, will be established in the region. The program also provides the interaction between regional professional educational institutions, as well as information, marketing and advertising support for construction industry manpower training. Meanwhile, many big construction companies follow the line of training the staff for themselves, by arranging and financing young people's education for the needs of their own production.

The problem, regarded as extremely important by the construction companies, is the one connected with preparation and legalization of permit documentation on construction. In accordance with the current legislation, the documentation shall be agreed with dozens of organizations, each of which drags out the issue of its permit for two or three months. Companies have to wait for up to a year and a half before getting a construction permit.

Shortage of land for development within the city results in appreciation of new buildings on the remaining land, and causes rapid development of suburban areas².

In December of 2007 the State Duma passed the Federal Law "On Self-Regulating Organization", in compliance with which licensing as a form of state control is cancelled, and the system of licensing is replaced by the system of construction companies certification. The indispensable condition for carrying out construction activities becomes the membership in self-regulating organizations (SRO).

Self-regulation as such is a gradual transfer of regulatory functions in construction sector from the state bodies to non-commercial organizations – construction market participants. For the time be-

ing the principle of self-regulation underlies the work of Samara Guild of Constructors (SGC), which is responsible to customers for conscientious rendering of construction services by its members. It rules out the possibility of “fly-by-night companies” appearance, which, as a rule, causes problems, connected with defrauded homebuyers, collapsible roofs, disabled lifts, absence of water and electricity in new houses, and others. According to the law creators, transition to self-regulation also minimizes the risk of construction market monopolization.

The law on SRO shall structure the legislative basis of the construction complex which, in fact, does not work at the moment. This particularly refers to the Town-Planning Code. However, in analysts’ opinion, the law as it has been passed and as it exists at the time being, cannot function. There are quite a number of normative acts and a large variety of documents to be worked out for its successful practical application. For example, it is not clear, what requirements shall a construction company meet in order to join SRO; how many SRO there will be in Samara and how construction companies shall decide what SRO they shall join, in case there are some; what is in store for those companies that will not be certified and will not manage to join SRO.

The cancellation of construction licensing is regarded as premature, the industry is not ready for such changes. Instead of replacing licensing by SRO it can be offered to severe the procedure of issue of licences for construction and to cut down the number of licensing bodies.

Financial and economic crisis, combusted in the country and in the world, could not but echo in the state of the Samara construction sector. Many construction companies depend on outward investments that are declining considerably. The rise in the value of money on the international markets is reflected in crediting rates within the country. It had an effect on both — buyers of accommodation, resorting to mortgage credit lending, and construction companies. A number of big companies, used to attracting financial resources in open capital markets and to resorting to bank crediting, feel that the situation with fund raising is getting worse. At the time being the live issue for the construction companies is further financing of their projects and current activity. Less possibilities of bank crediting as a source of financing and refinancing the

projects out of sales can mean only one thing — the decrease in the range of construction activity. In conditions of insufficient financing the current projects will be carried out more slowly or will not be started at all, and the terms of construction will be prolonged. A considerable fall-off of new projects is forecast. As of February 1, 2009, construction of 46 blocks of flats is suspended. Under the circumstances the companies with most shiftable project portfolio and minimal level of debt financing for projects take up more stable positions.

The measures on construction sector back up, taken by the anti-crisis staff of the Samara region government, are as follows:

- ◆ weekly monitoring of regional construction companies’ activity;
- ◆ moratorium on increasing the rent rates on the use of sites for construction, the state ownership of which isn’t differentiated, on the territory of Samara region;
- ◆ state backing of strategic enterprises;
- ◆ attracting funds of the Fund to assist housing-communal service reformation to acquire accommodation for the resettlement of the citizens from the emergency dwelling stock in the amount of RUR 2.3 billion and for capital repair of blocks of flats in the amount of RUR 3.6 billion;
- ◆ buying of housing in the primary market of dwellings for its further gratuitous transfer to municipal authorities for resettling citizens from slum and emergency dwelling stock at the cost of regional budget funds (in the amount of RUR 600 million);
- ◆ granting subsidies to legal entities in order to reimburse for their expenses on public infrastructure in the course of housing construction at the cost of regional budget funds (in the amount of RUR 100 million)³.

In our opinion, the reduction of land tax rate, cost reduction of leasehold building ground rent and review of its terms should also be in the list of measures, given above. It is necessary to establish an effective system of control over the utilisation of funds, allocated to the construction sector by the regional authorities. State guarantees on crediting of construction companies and loans guaranteed by state contracts can also become an effective measure of backing the construction sector. It seems reasonable that further development of the construction industry should be in the form of public private partnership.