

Financial and Investment Sources of Housing Sector Development

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ABSTRACT--- *The problem of development of financial and investment sources of the housing sector of the Republic of Kazakhstan is examined in this article. Analysis of the current state of the housing sector in Kazakhstan by funding sources is presented and conclusions on the need of improvement of the funding mechanisms are made. Budget funds are considered as a accelerator of the financial and investment process. Dynamics of the investment to the housing occupancy construction are shown, where non-governmental financial resources remain being leaders in the financial and investment process for the past 10 years. Based on the analysis of macroeconomic indicators of socio-economic development of Kazakhstan, the justification for the implementation of systems of financing offered by Russian economists is given, which will complement the "direct" methods of housing finance.*

Keywords--- investment, housing, housing sector, state budget, housing construction, subsidizing, funding

1. INTRODUCTION

When investing to the housing sector, concerns about the sources of its funding remain relevant to the community at all the stages of its development.

For Kazakhstan creating effective system of housing finance remains the state and financial problem today. Prior to the beginning of reforms after gaining Kazakhstan the independence, housing finance was conducted centrally: main sources of the housing stock of the country were public housing and housing constructed by companies and organizations, while cooperative individual building played a supporting role. And the main source of housing finance in Kazakhstan was the state budget.

With transition to a market economy, approach has changed: now the population, except for certain social groups itself, must take care of buying a home. This is the only real opportunity to improve living conditions for the majority of citizens. The problem associated with the accumulation of financial resources is sources of investment.

The state can no longer afford to subsidize the construction industry in the previous volumes by money emission. A variety of, but primarily not emission options, is being considered. Among possible options are government (budget) resources, funds of enterprises, means of citizens, loan proceeds, etc. The order of financing the construction, modernization and acquisition of property in a market economy is definitely getting complicated, depending on many factors.

2. ANALYSIS OF RESEARCH

Problems of development, essence, factors affecting the real estate market as a whole and its component parts have been covered in the works of Kazakh scientists Adilov Zh. M. [1], Kulumbetova L.B. [2], Outin T.M. [3], Bayahmetov T.B. [4], S. Bolatkyzy [5], Ilasheva S.A. [6], Zhumanazarova G.M. [7], Kazieva A.K. [8], Schokhan R. [9], Konysbaeva A.A. [10] and others. Studies, conducted by Russian scientists Polyakov L.A. [11], Sergeev A.S. [12] and foreign economists Helmut Jenkis [13], Gurley J.G. and Shaw E.S. [14], R. Heaney, S. Srianthakumar [15], Bradley T.E., James E.P. [16], Stanley M., Cooper D., Ring A. [17], Bradley T.E., James E.P. [18], in the theory and practice of market relations confirm that funding sources can be considered in different ways: from the point of view of the types of sources of financial resources (state funds and private funds); the perspective of investment in the housing sector (housing construction, renovation, buying a home), as presented in Figure 1.

In the figure, two points are clearly reflected: first - governmental and non-financial resources, the second - opportunities for the state when it provides funds. From these four types, for Kazakhstan more interesting ones are: non-repayable financial loans, indexing housing quota and providing trade loans. Today preferential allocation of land is practiced widely in domestic practice. Presented group of non-state funds is analyzed in our work.

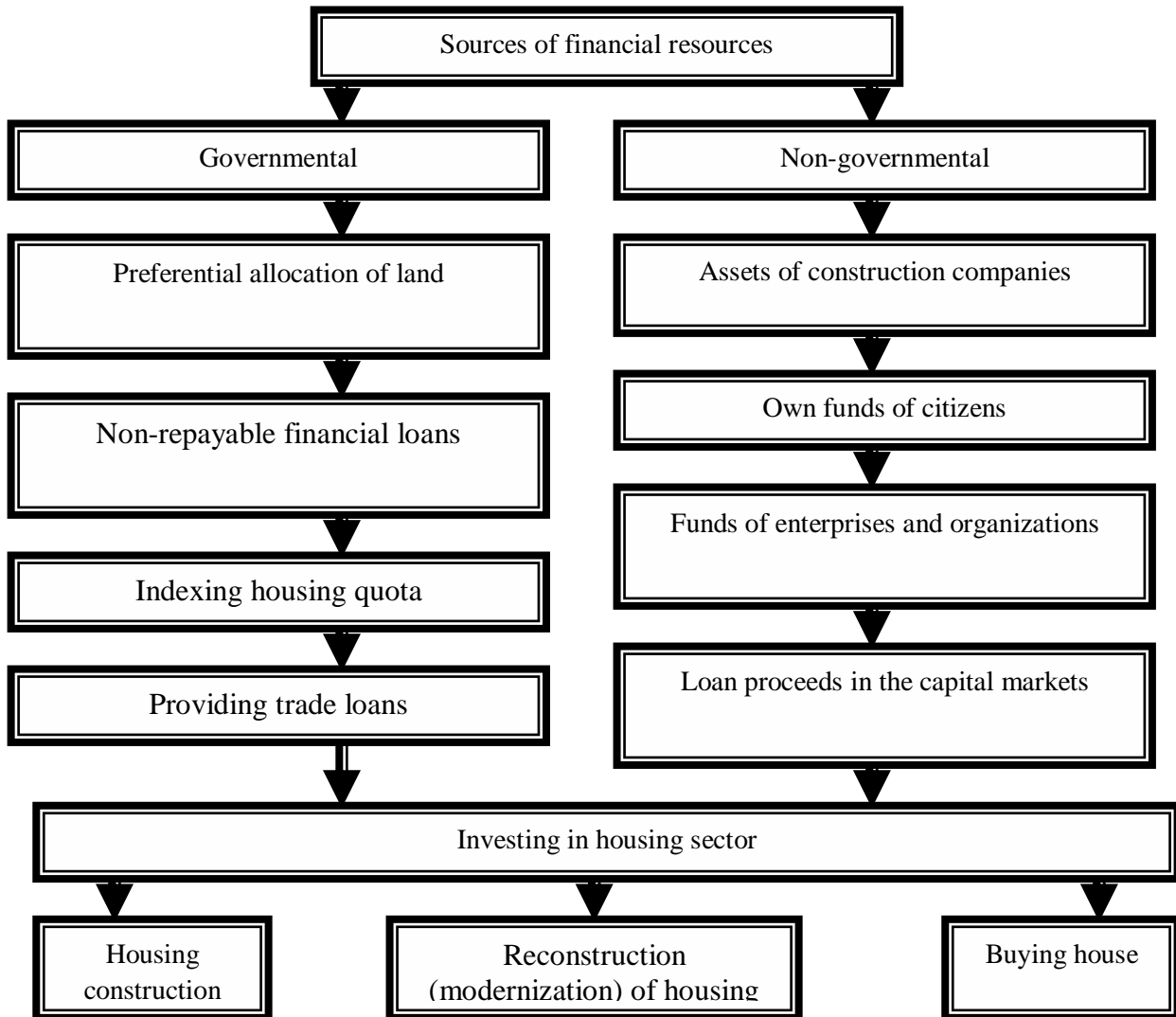


Figure 1 - Sources of financing and purchasing housing in a market economy

Helmut Jenkis [13] believes that in the process of housing finance there are three sources of funding [13; p.2-22]. Among possible sources are government (budget) resources and private resources, which include own funds of enterprises and citizens, loan proceeds. The author relates loan proceeds to the third independent source.

1. Public funds are mainly represented by financing from the state budget. Gurley J.G. and E.S. Shaw [14], for example, emphasize funding through government subventions, when decision on subsidizing housing sector can be made within the public policy, including the burden on the state budget. Subsidizing housing may be direct or indirect. Under direct subventions we understand target payments to the population for housing purchase. Indirect subsidy can be expressed, for example, by the possibility of deducting the interest for the loan from the tax base. On this basis, the two phases are distinguished:

- a) Subsidizing phase of prior accumulation of funds for the purchase of property;
- b) Subsidizing the accumulation phase of funds after the purchase of property needed for repayment of loans for this purpose.

The first option is the most appropriate one because it encourages those, who wish to purchase housing, to create preliminary savings for this. Availability of preliminary savings to reduce the amount of loan proceeds required and, consequently, allows insuring the borrower against the risk of insolvency and inability to pay the loans and interest thereon.

The second option, in contrast, promotes the accumulation of debts. When choosing a method of subsidizing one needs to consider the procedure of taxation in the country. the second method is also applicable if the rate of income tax is fixed, since in this case there is no discrimination of groups with lower income.

2. Gurley J.G. and E.S. Shaw [14], noting the non-state resources, focus on: the financing of own funds, which implies the formation of savings (financial resources) prior to investing, in this case it is possible to talk about the target stocks. This accumulation is formed by the income which is not spent on the current consumption. Real estate financing

(housing) exclusively at its own expense is possible only in a limited number of cases, due to the relatively high cost of real estate. However, availability of own funds in the amount of at least 20-30% of the cost of housing is a prerequisite in almost any state. Availability of own funds to purchase housing designed to limit the potential risk of the borrower in the event of adverse economic changes. The higher own funds, the lower the required amount of the loan and the less interest for the loan will be paid in the future.

3. Highlighting separately loan proceeds, it should be noted that funding by loan proceeds is related to the high cost of real estate, therefore in most cases, there is a need to buy a home using loan proceeds. In the scientific literature [8] there are two basic models of financing the purchase of property:

a) Funding through the loan. This method involves first receiving of the loan, and then the purchase of housing, with subsequent payment of received loans with interest. The loan is paid by the borrower after the purchase of property. This method is called "Principle of subsequent savings" in the Western literature, because the person accumulates savings and makes payments on the loan in a subsequent time period. The most common type is mortgage lending. Such a system of credit is open, as investors are not borrowers at the same time.

b) Funding, this consists of the initial accumulation of the required amount and then receiving the lacking sum in the form of loan at low interest rates. This method is called "Principle of prior savings" in the Western literature. This system is closed, as the person, who accumulates funds in savings accounts, will be the recipients of the loan later. An example of such a model can serve as a financing housing construction fund of the German model. This method of financing housing is cheaper for those wishing to purchase housing, rather than the first model.

3. CURRENT TRENDS OF HOUSING SECTOR FINANCING

Today, non-financial resources are in priority, including loan sources for the market relations in Kazakhstan. Budgetary funds may be used already as a basis for extra budgetary funds. Public funds in Kazakhstan will now be directed primarily to the implementation of the program of social housing for those categories of citizens who are legally supposed to have free housing. Built apartments will continue to be provided to citizens in a queue and conditions of employment. The volume of this building is small; therefore the housing problem is not significantly weakened.

State housing program provides the implementation of affordable housing population, priority right is provided for certain categories of citizens [2, p. 182]. These categories are: 1) young families with children, and 2) employees of state bodies and institutions financed from the state budget, and 3) employees of state social enterprises.

Allocation of budgetary resources to encourage investment in housing, even in a small amount, can be a catalyst for financial and investment process.

Lack of effective demand in the housing market in Kazakhstan accounts for the fact that the finished housing facilities remain unclaimed because of lack of funds or construction works are being delayed and even postponed indefinitely. In this situation, the provision of government subsidies is the determining factor in solving the housing problem.

Nevertheless it should be noted that the main cause of a complex state of the funding the vital sectors of the economy (housing) is the lack of a working mechanism of formation of monetary resources - "long" money for investment in the housing sector. Even understanding the special value of housing problem for Kazakhstan existing inflationary expectations, the risk of long-term investments and undeveloped state regulation mechanism in the formation of the housing market prevent its expansion. It should be recognized that in recent years, Kazakhstan has accumulated considerable experience in attraction of financial resources of public and enterprises in the sphere of housing construction. Many large corporations and joint stock companies show initiative. Although these initiatives are positive, they do not yet add up to a reliable and large-scale vector. It is important that the government acted as guarantor of investments in public housing. Public funds should be involved not only for traditional housing subsidies but for insurance reserve fund deposits by target population. In this case, one can also expect rapid growth of investment in housing construction program from persons who are not in need of housing, but are interested in housing shares or certificates, as if playing the role of a parallel currency, which is more stable than the currency in circulation. Connecting state and commercial interests will give lacking impulse to force the widespread housing. In addition, this priority will be clear to the people and provide support for it.

Studying the whole housing sector and its financial sources, we can agree that the growth trend and successful development of the housing industry in Kazakhstan started relatively recently. In the first years of market relations in Kazakhstan it was also impossible to determine the reality of the functioning of finance and lending the housing, also all the second-tier banks did not get its popularity, which were able to deal with long-term projects.

However, it should be noted that in the early 90s first attempts of the Government were made to reform the existing housing finance system. In particular, in 1991-1995, legislative acts were adopted "On Pledge", "On investment activity", "On mortgage of immovable estate", "On state registration of rights to immovable estate and transactions with it", the Law "On Housing relations" that created the initial legal basis for the formation and development of market relations in the housing sector. In 1993 also Presidential Decree "On the state program of new housing policy and its implementation mechanisms" was adopted [19, 20, 21, 22, 23, 24].

Created in 1993, the first in independent Kazakhstan JSC "Zhilstroibank" was opened with a single and a moral goal: to help purchase their own housing to poor citizens who lost any chance to get a roof over their head after the

collapse of the USSR and the final collapse of budget of housing financing and social programs developed at socialism times. JSC "Zhilstroibank" produced issuing credit resources of the state in accordance with the Presidential Decree of 6 September 1993 № 1344 "On the new housing policy."

The need to reform the current system of housing finance predetermined transition from budgetary framework to finance extra-budgetary resources (i.e. the borrower's own funds and credit funds STB), the construction of credit relations in the banking system, which caused the need to develop a savings and savings accounts.

According to the *Regulations of attraction of the population's financial resources to the housing savings and loan accounts* two main types were distinguished: simple (simple savings) and specific accounts [8, p. 63].

Simple (simple savings) housing savings and credit accounts – accounts, where accumulation of funds, needed for subsequent referral to the completion of unfinished housing objects, is made during certain amount of time.

Research of the housing market of Kazakhstan in the first decade of its gained independence proves that the main considerations of the market, according to the data of the Statistics Agency of Kazakhstan, were: rapid development of finance, including banking sector; availability of social loans for the purchase and/or construction of housing in the period 1990-1995; crisis period during 1998-1999 which is associated with the banking crisis in August 1998 in the Russian Federation and the decline of public confidence in the banking system of Kazakhstan; growth of the exchange rate, reducing the purchasing power of the national currency, inflation in 1999; a short-term stabilization of the crisis and the beginning of sustainable development in the period of 2000-2002 [9, p. 94].

If one analyzes more closely, it will be clear that the state of the housing sector is characterized mainly by the trend established in the early 1990s. Specificity of the construction industry is that a stable, growing economy and a certain level of propensity to save is required for its effective functioning. Despite the fact that the positions of construction companies in the country were strong, hyperinflation, lack of effective demand for capital construction led to a sharp decline in the industry. Changes in the dynamics of the development of housing in the country can be traced from the statistics on the volume of commissioned housing during 1990-2012 as shown in Table 1.

Table 1 - Commissioning houses in Kazakhstan during 1990 and 2012, year-end

| Year | Companies of all forms, th.sq.m total area | Including | | | |
|------|--|--------------------|----------------------------|--------------------|----------------------------|
| | | governmental | | non-governmental | |
| | | th.sq.m total area | share in overall volume, % | th.sq.m total area | share in overall volume, % |
| 1990 | 7869 | 6167 | 78,37% | 1702 | 21,63% |
| 1991 | 6130 | 4547 | 74,18% | 1583 | 25,82% |
| 1992 | 5046 | 3308 | 65,56% | 1738 | 34,44% |
| 1993 | 3856 | 2202 | 57,11% | 1654 | 42,89% |
| 1994 | 2322 | 925 | 39,84% | 1397 | 60,16% |
| 1995 | 1663 | 556 | 33,43% | 1107 | 66,57% |
| 1996 | 1407 | 293 | 20,82% | 1114 | 79,18% |
| 1997 | 1344 | 229 | 17,04% | 1115 | 82,96% |
| 1998 | 1132 | 174 | 15,37% | 958 | 84,63% |
| 1999 | 1105 | 108 | 9,77% | 997 | 90,22% |
| 2000 | 1218 | 132 | 10,83% | 1086 | 89,16% |
| 2001 | 1506 | 125 | 8,30% | 1381 | 91,70% |
| 2002 | 1553 | 87 | 5,60% | 1466 | 94,40% |
| 2003 | 2111 | 273 | 12,93% | 1838 | 87,06% |
| 2004 | 2591 | 101 | 3,89% | 2490 | 96,10% |
| 2005 | 4992 | 1295 | 25,94% | 3697 | 74,06% |
| 2006 | 6245 | 2565 | 41,07% | 3680 | 58,93% |
| 2007 | 6679 | 2823 | 42,27% | 3856 | 57,73% |
| 2008 | 6848 | 3321 | 48,5% | 3527 | 51,5% |
| 2009 | 6403 | 3314 | 51,76% | 3089 | 48,24% |
| 2010 | 6409 | 3436 | 53,6% | 2973 | 46,4% |
| 2011 | 6531 | 2961 | 45,34% | 3570 | 54,66% |
| 2012 | 6742 | 3403 | 50,5% | 3339 | 49,5% |

As confirmed by the data, there is a steady increase in housing construction made by private sector. The capital of the population is the leader in the financial and investment process over the past 10 years.

Decline in investment activity in the construction industry had a painful effect on the economic situation of many contractors. As a result, employment in the construction sector declined significantly. It is obvious that in such a situation the real significance of launching new mechanisms to attract extra-budgetary funds in the construction sector multiply raises, including through mortgage lending, as it can really help to stop the decline of the construction industry to improve employment rates, to solve a range of social problems. In addition, during these periods need for financing the purchase in the secondary market was well established, since the density of the population has not changed largely even with the migration in 1993 and 1994. In such a situation, understanding that it is important to create new mechanisms to finance the purchase and construction of housing occurred, which began to approach its critical value.

Despite the many factors affecting the development of housing construction, still the main cause of the analyzed situation is the low solvency of the population, and thus presenting a low demand for housing in the whole country.

It should be noted that the proportion of newly introduced housing Kazakhstan is about 74-76% of the total. The main participants of housing finance currently remain private and individual developers [9, p. 97].

The purpose of the housing finance system is expanding opportunities for the acquisition of property by the employable population. Achieving this objective is delivered by creating favorable conditions of markets for lending to citizens to purchase housing. Development of the housing finance system is considered as a priority housing policy of Kazakhstan. This means that the main efforts will be focused on solving the housing problems of the population with stable income and who want to solve the problem of improving housing conditions on their own, without financial assistance from the state. However, function of providing housing on the conditions of social or commercial hiring, gratuitous use for those citizens whose incomes do not allow them to buy housing even with a long-term loan, will remain over the state.

4. MATERIALS AND METHODS

Research of the Russian Academy of investment and construction economy is worth to note, lies in four systems on justification of housing finance, each of which has certain advantages, focused on the specific terms of consumers, which is additional to the "direct" methods of housing finance and do not oppose to the laws of the country on Housing [12, p. 38]:

1. System with major public and commercial mortgage corporation.
2. System of forming investment resources with the involvement of employers of the customer.
3. System of providing the state guarantees to the commercial banks and housing finance.
4. System of improving the efficiency of social construction.

Below the features of each of the 4 systems are introduced.

The first system - Mortgage Corporation is organized, which works in conjunction with local authorities. It considers applications for funding housing projects, acts as a state customer, places an order for the construction between contractors. Mortgage Corporation places investors' bonds (fixed-date and indefinite - savings) that can be sold on the secondary market. Further, the corporation allocates funds received through the tender project between developers, contractors and opens a special account with the Bank, which won the tender of a contractor. Upon completion of the construction contractor transmits built housing to the Mortgage Corporation, which realizes repayment annuities or providing a mortgage loan through an authorized bank, reflecting the interests of all stakeholders, especially credit borrowers [12, p. 39].

The second system - formation of investment resources is due to transfers to private retirement accounts of employees for a certain period (2-2.5 years). State may legally attribute to the first cost part of the funds allocated for the completion of personal retirement accounts. Banks open special account for this purpose and may use the proceeds (exemption from taxation of profits) only for housing. A personal retirement accounts refilled at the expense of the employer, can be used as an additional tool in the provision of collateral for mortgage loan (other than a pledge of the apartment) [12, p. 41].

The third system - linked to the provision of state guarantees and benefits to the investors in the construction industry. In the form of strict liability, the state includes the funds allocated by the bank to finance housing construction in the domestic public debt and is ready to repay the money if the bank will not be able to return the resources in certain circumstances (due to contractual delinquency by the contractor or the lack of funds in regional budget, which was planned to assign for providing housing for those who are in waiting list). Scope of the risks, protected by the guarantee, must be accurately determined in the interests of the state. It is also possible to provide special program of state guarantees to local authorities on the development of housing [12, p. 42].

The fourth system - aimed at increasing efficient use of budgetary funds allocated for social housing. Authorized bank implements factoring of the payments of a construction company, which has received a contract on tender. The main aspect is starting price of construction, calculated from the average cost and the average profitability of the project in order to save investment resources which are budgetary resources [12, p. 45].

Analyzing the parts of each of the systems, it should be noted that they are basically realistic; moreover social aspect is presented in the mechanism of their realization in addition to all the market regulators and tools. In each of the methods actions and interests of commercial banks, construction contractors, and the role of state and local governments are presented clearly enough. The most important thing in these methods is the ability to use all kinds of financial

resources (budget, investors, private pension savings, funds of employers, banks' capital) based on the development of a specific mechanism for the flow of financial resources to housing. It is encouraging that the methods focuses on strengthening the government's housing policy, focus on the management of local budget funds and focus on buying quality housing, as well as on the development of the mortgage lending. In our view, there is a need to develop new Kazakhstan systematic approach to housing finance on the basis of scientifically proved estimations, the choice of effective models in social terms of financial and credit relations in the process of financing and crediting of housing construction in the country, providing a worthy development the market mechanism for every member of society. Authors' vision can be justified by comparative analysis of macroeconomic indicators in the field of socio-economic development of the Republic of Kazakhstan in connection with the performance of the housing market for a specified period, assuming that processes in the economy, positive trends in financial and social spheres are the basis for the development of housing construction industry and this is confirmed in table 2.

Table 2 - Comparative analysis of macroeconomic indicators of socio-economic development of the Republic of Kazakhstan in connection with the development of the housing sector

| Indicators | January-July 2013 to January-July 2012 | Comments on the level of growth and verification of the actual impact to the current date (early 2013) |
|---|--|--|
| 1 | 2 | 3 |
| 1. Real GDP growth | 106,0 | Growth has a positive impact |
| 2. Consumer price index, including paid services | 104,8 | Growth has a negative impact |
| 3. Price index for construction (end of period, to December of the previous year) | 103,3 | Growth affects the estimated cost of construction |
| 4. Industrial production volume | 102,3 | Growth has a positive impact |
| 5. Gross output of agriculture | 110,8 | No strong influence |
| 6. Total volume of cargo/transportation | 103,8 | No strong influence |
| 7. Retail turnover volume | 112,8 | Growth has a positive impact |
| 8. Volume of investments in fixed assets | 106,5 | Effect is not strong yet |
| 9. External turnover, including export and import | 98,9 95,4 105,4 | Growth has a positive impact |
| 10. Revenues to the state budget | 45,3 | Growth has a positive impact |
| 11. Expense of the state budget | 60,7 | Positive impact |
| 12. Deposits in the banking system, including deposits (deposits) of the population | 49,2 47,3 | Growth has a positive impact |
| 13. CTB investments in industries, including long-term loans to construction | 63,8 77,6 | Growth has a positive impact |
| 14. Money supply (M3) | 47,5 | Growth has a positive impact |
| 15. Average nominal income | 109,012 | Need to raise |
| 16. Real cash income | 103,0 | Need to raise |
| 17. Proportion of population with incomes below the subsistence minimum, percent | 3,1 | Effect is not strong yet |
| 18. Real wage | 101,6 | Need to raise |
| 19. Construction works | 103,0 | Out of 410,2 bln.tg – 78,2% - private constr. companies; state organizations – 0,8% |
| 20. Investment in housing | 1,4 times | Volume of 154,1 bln.tg |
| 21. Commissioned houses, total area | 101,5 | 6,9 mln.sq.m. |
| 22. Average actual construction cost of 1 sq. m of total housing areas | 11,7 | January-July 2012 – 186 thousand tg |

Certainly, main macroeconomic indicators show housing development, while the effect of the degree of their relationship is even more obvious. Such indicators as: volume of state budget revenues, expenditures of the state budget, deposits and loans, real incomes and wages are the fundamental sources of fundamental housing development in the country. Indicators of housing development in 2007 confirm further growth. Only in January 2007 houses of 542,245 sq. m. were commissioned, 364 952 sq.m. of which is commissioned at the expense of the population. Growth in commissioning compared to January 2006 made 167.1%, and due to population it made 156.3% [5, p. 56]. Population's capital dominated construction in Almaty, Southern Kazakhstan, Northern Kazakhstan, Mangistau, Kyzylorda, Kostanai, Western Kazakhstan, Zhambyl and Atyrau regions.

The task of providing a sufficient quantity of housing, affordable by price or method of purchase of house is one of the determining factors of social policy for any state. It is therefore very timely implementing national quality and affordable housing construction programs at public expense with developing public housing programs. Thus, financial resources regardless of its type (budget, own funds or loan proceeds), which should develop the housing sector of Kazakhstan, remain the main factors of housing construction.

5. RESULTS AND DISCUSSION

The current situation in the housing sector of Kazakhstan requires a thorough analysis of theoretical generalization of the experience of financing and lending, a detailed study of the functioning and transformation the credit and financial system and investment in terms of economic reforms. Housing in Kazakhstan continues to be the main focus for investment. The housing market in a short time has grown to a developed industry with enormous growth of all its component elements from investments to construction. Against this background, at the same time, overheating economy factors and various risks, faced by all participants, including financial institutions and banks, are of particular concerns.

Comparative analysis of housing finance by banks clearly confirms the differences between the transition and market-based system of financing and lending since the beginning of the 1990s. The last phase (2001 to 2013), which made innovations in all performance criteria, clearly requires a comprehensive study.

To assess the situation in the housing sector it is appropriate to examine the history of housing sector; provide housing needs in our country with illustrating the funding sources with an aim of confirming the role of financial resources. Periods of housing development can be divided into several stages, taking into account the last century (Table 3):

Characteristic periods of housing construction and its source can be shown in Table 3.

| Stages (Years) | Types of housing under construction and their characteristics | Funding sources |
|-------------------|--|--|
| 30-50 | Barrack types for workers, 2-4-storey brick houses on individual projects (on a turnkey basis) | State budget and own resources of large industrial enterprises |
| 50-80 | Panel, compact 5-storey building («Khrushchev houses») (on a turnkey basis) | State budget and share participation of enterprises |
| 80-90 | Large high-rise buildings of the state and cooperative sectors (on a turnkey basis) | State budget, share participation of enterprises and funds of cooperatives |
| 90-2000 | Minor construction of private and individual property | Private capital of individual owners, reduction (lack of) budget |
| From 2000 onwards | Development of non-residential construction with the transition to various projects (economy, business and elite class) (surrender of the draft with subsequent alteration and turn-key), joining of public sector | Private capital of construction companies, (own) with equity participation. Bank loans (mortgage), individual savings of individual citizens. Involvement of the state budget - budget funding and budgetary lending |

Analyzing these periods, it can be concluded that the state considered the problem at all stages and implemented programs of housing development and eventually improved housing, upgraded, met the criteria for the needs of different social layers of the country. However, comparing the development of common approaches to the housing sector in Kazakhstan in a planned economy and after the transition to a market economy, we can confirm the differences and diversity in the mechanism of financial support for housing construction, methods of financing and implementation of housing programs.

Investment in housing construction in the pre-reform period was primarily from the state budget on the basis of approved plans. And in a market economy investment in housing is a set of costs, realized in the form of long-term investments by private or public capital, pursue profit in shorter terms, while investments are paying off after a considerable period after the investment [3, p.229]. The last 5-6 years in the construction of housing (the housing market) of Kazakhstan the presence of a number of characteristics is drawn simultaneously: presence of the state policy on housing development and the search for effective tools of financial and investment mechanisms; rapid growth in housing,

accompanied by elements of the speculative approach; growing need of public in housing in all regions of Kazakhstan with not meeting the demand for housing; awareness at the national level need to develop the "housing industry" on strong legal basis while improving the financial and investment process.

Tracing the economic growth in the country, the growth of individual sectors, including the field of housing, it is possible to present in conjunction the main indicators of socio-economic development, that are somehow related to housing. Overall picture can be traced in dynamics for 2008-2012, according to the Statistical Yearbook of the Statistics Agency [9, 91]: GDP 2 times, investment in fixed assets grew 2 times, volume of performed construction work - 1.9 times; commissioning housing - 3.1 times, the growth of average nominal wages of the population - 1.7 times, growth of household savings (retail deposits) - 2.3 times, long-term loans of STB - 4.5 times, including the construction sector - 3.7 times.

Noting the positive trend in the social sector in recent years, however, one can observe the tense situation in the area of meeting housing needs in Kazakhstan. In circumstances where one third of the population has income below the subsistence minimum per family (of 1, 2-3, 5 or more persons) and continuing low wages of the main category of the working population, the problem of housing is still quite complex in the country. It is unrealistic to expect a solvable problem of housing without a noticeable increase in the average income level.

Creditworthiness of the population is not unlimited, despite the economic growth in the country. And investment in apartments, which in the absence of other effective financial instruments have become so popular in recent years, is only valid for constant growth in housing prices (Figure 2). This growth continued in subsequent years. Moreover, the rise in prices is accompanied both in the sale of new housing and in the resale of housing and rental housing.

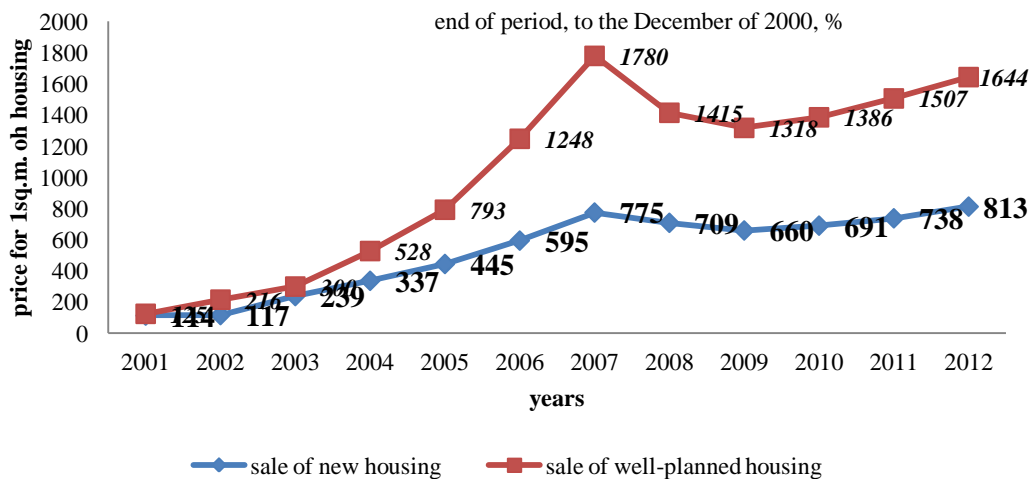


Figure 2 – Dynamics of prices in the real estate market.

The volume of investment in housing is growing, as seen in Figure 3.

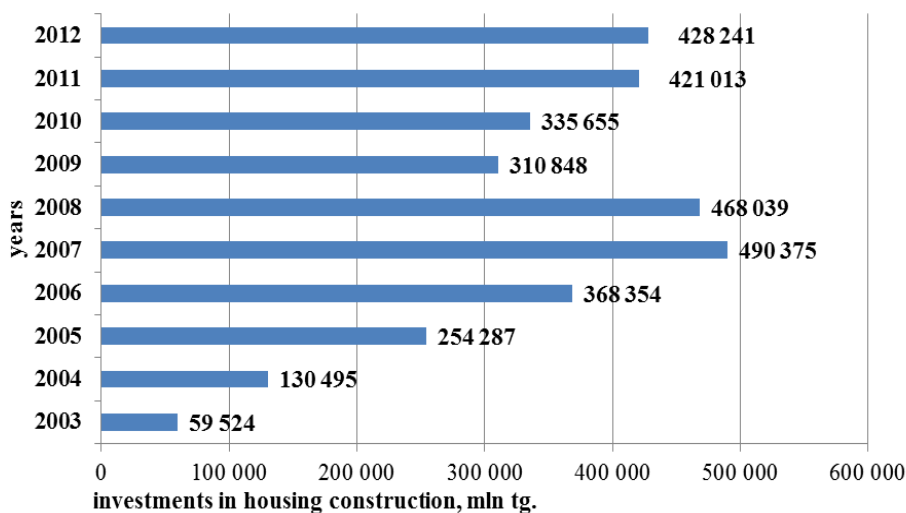


Figure 3 - Volume of investment in housing.

As it can be seen from the figure, investment increased more than seven times and Astana remains the leader among the cities of Kazakhstan. Based on these facts it is clear that investment, both public and commercial, will only grow. However, the fact that many real estate transactions are made in the informal economy, without reflecting the real sums, or through cash, is not taken into account. Such turnovers are difficult to control and take into account in the statistics. Therefore, for banks it is very difficult to promote mortgage lending programs, especially in commercial real estate segments.

Also, significant economic multiplier effect for allied industries (construction materials, transportation, energy, etc.), housing construction, as the author has multiply pointed out, is an extremely important social aspect, because housing provision, its comfort is considered as the most important indicators of living standards. As a result, growth in construction will increase the amount of property tax collection, income tax that is imposed on the construction industry. Also recovery effect is expected in allied industries through the development of industry and increase of output of the construction industry, electrical, metallurgical and chemical industries, as well as rise in volume of arrangement items of new housing. In all of this huge investment importance of the housing market for the country is determined.

Reforms undertaken by the Kazakh authorities allowed the country in a relatively short period of time firmly occupy the position of the country with a stable economic and social situation, and create favorable conditions for attracting capital and investment.

Annual GDP growth in the range of 9-10%, allows conclude that Kazakhstan is one of the most dynamic and favorable for capital allocation countries. Consequently, the expansion of investment demand is confirmed. Moreover, it will be primarily due to the internal sources of investment financing obtained by enterprises' own funds.

6. CONCLUSIONS

In addressing the current housing problem with an aim to open the access to housing, Kazakhstan started to use different mechanisms for financing housing construction. Changes in the economic and social order of the country required the replacement of traditional public funding sources that form the basis of housing investment in pre-reform era, and the introduction of new investment instruments. Naturally, the housing sector was not prepared, not provided with the necessary investment, loans and financial mechanisms and technologies that would allow the population to buy housing massively, which affected the housing construction, leading to economic overheating. There appeared the need to create new mechanisms for the redistribution of financial resources, finding and attracting large amounts of investment funds. Creating massive housing affordability is impossible given the situation in Kazakhstan with housing, unequal incomes and without real housing reform. Accordingly, the development of principles, conditions, characteristics and mechanisms of formation of long-term reform of the housing market investment in Kazakhstan becomes the main problem.

The study of the theory of financial relations in the sphere of housing construction and investment process as a whole, financial, legal and organizational aspects as well as the compilation of international experience allows us to conclude the housing sector of Kazakhstan and the state of its finances. Recognition of the independence of financial and investment process in the housing sector of the Republic of Kazakhstan, undoubtedly, requires justification as a concept.

As a result of analysis of the current state of the housing sector in Kazakhstan by the funding sources, conclusions about the need to improve funding mechanisms were made in this study. The main reason of a complex state is a lack of operating mechanism of formation of financial resources for investment. As shown in the analysis of macroeconomic indicators of socio-economic development of Kazakhstan, there are all grounds for the implementation of systems of financing offered by the Russian economists, which will complement the "direct" methods of housing finance.

For the market relations in Kazakhstan non-financial resources are in priority, including loan proceeds. Budgetary funds can be used as a catalyst of the financial and investment process.

In a situation where ready housing facilities remain unclaimed because of lack of funds or construction works are delayed and even postponed indefinitely, the provision of government subsidies is the determining factor in solving the housing problem.

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