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Securitization As an Instrument of Financial Globalization of The Russian Real Estate Market Facilities and Projects

La titulización como instrumento de globalización financiera de las instalaciones y proyectos del mercado inmobiliario ruso

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Resumen

Los cambios ocurrieron en la economía mundial desde principios de los 90 del siglo pasado. La globalización de los mercados financieros y de materias primas, la desregulación del sector financiero y el crecimiento del papel de este último en la economía, también llevaron a cambios significativos en el mercado inmobiliario, que tradicionalmente es uno de los más conservadores. En relación con este último, el proceso de penetración de las instituciones financieras en el grupo de participantes, en diversas investigaciones, se denomina cada vez con más frecuencia como "financiarización". Las manifestaciones particulares del proceso especificado (especialmente, la titulación de activos inmobiliarios) ganan más influencia sobre lo fundamental de la economía de mercado: el instituto de la propiedad inmobiliaria que es potencialmente capaz de producir efectos y consecuencias sociales y económicos a largo plazo. Análisis de la titulación de la propiedad inmobiliaria como parte de la "financiarización" del mercado inmobiliario y factor de transformación o "dilución" de la propiedad de los activos del mercado inmobiliario. El autor considera que la titulación de la propiedad inmobiliaria es parte integrante de un proceso más amplio de penetración de las instituciones financieras en el mercado inmobiliario, las características específicas de la titulación permiten llegar a una conclusión sobre la transformación del derecho de propiedad de la propiedad inmobiliaria.

Palabras clave: Financiarización, Titulación, Bienes Raíces, Inversión De Cartera.

Abstract

Changes occurred in the world economy since the beginning of the 90th of the last century. Globalization of financial and commodity markets, deregulation of the financial sector and growth of a role of the latter in the economy, led as well to significant changes in the real estate market – traditionally being one of the most conservative. In relation to the latter, the process of financial institutions' penetration into the pool of the participants, in various researches increasingly frequently is referred to as "financialization". Particular manifestations of the specified process (especially, real estate assets securitization) gain more influence over the fundamental to market economy the institute of the real estate ownership that is potentially capable to result in long-term social and economic effects and consequences. Analysis of securitization of the real estate as part of the "financialization" of the real estate market and factor of transformation or "dilution" of the real estate market assets' ownership. Securitization of the real estate is considered by the author as an integral part of a broader process of financial institutions' penetration into the real estate market, specifics of securitization allow to draw a conclusion on transformation of the real estate ownership right.

Keywords: Financialization, Securitization, Real Estate, Portfolio Investment.

Introduction

It is specified in the United Nations Human Rights Council report on "Adequate housing as part of the right to an adequate standard of living and the right to non-discrimination in this context" (United Nations, 2017) that a trend on so-called "financialization" of housing (Aalbers, 2016) is one of major factors of the residential real estate market restructuring which among other things may lead to decrease in availability of housing for wide (and often the most vulnerable) population groups and to other long-term social consequences. The financialization in this context most often is understood as "expansion of a role and unprecedented domination of financial markets and corporations in the housing sector".

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At the same time the most institutionalized tool of "financialization" as the penetration process of finance corporations, banks, fund and other professional financial market participants on the real estate market, is the "securitization" process or securities and other financial instruments issue secured by the real estate but having formally isolated from the real estate market turnover.

The specified institute isn't the only capable to make fundamental impact on institute of the real estate ownership right (in particular, further development of a number of technologies at the intersection of the real estate market and "fintech" may lead to similar consequences), however it acts as the most complete part allowing to asses possible scenarios of further transformation or "dilution" of the ownership right.

Materials and Methods

The review of the wide range of the research devoted to a phenomenon of "financialization" of the real estate market as a long-term trend and also deeper analysis of the most institutionalized part – institute of securitization of the real estate is carried out in this article. The author gives the analysis of practice and approaches to securitization of the real estate in the Russian Federation (in particular – mortgage securities, shares and obligations of the developers) to draw conclusions on comparatively long-term effects and consequences for the institute of the real estate ownership right.

Result and discussion

The wide range of publications review gives grounds to claim that the trend of "financialization" is global and isn't limited only to the developed or emerging markets this being confirmed by a high frequency and a variety of publications on the "financialization" of housing and the real estate markets in general (Wu, et al., 2020, Wijburg, 2020, Fauveaud, 2020; Ergüven, 2020; Chen; Wu, 2020, Fernandez; Aalbers, 2020, Leijten; De Bel, 2020; Kohl, 2020, Socoloff, 2020; Nethercote, 2020). At the same time quite often the issue of "financialization" of the housing market is considered not only in the context of an economic system and real estate markets' stability, but also in much broader sense, namely in terms of global social consequences and fundamental human rights (the right to housing being recognized as the one) that reflects the scale and depth of the ongoing process.

On the one hand as a reaction to the specified process, on the other as its peculiar continuation, there are various forms of joint use and investment into the real estate arising at the borderline of new technologies (blockchain, "sharing" economy ecosystems and crowd funding) and the real estate market, and they also have potentially strong influence on fundamentals of institute of the real estate ownership rights, in particular:

- Tokenization as a way of generating digital assets related to the real estate and having potentially global turnover (Konashevych, 2020; Berentsen; Markheim, 2020; Schmidt; Gonzalez-Briones, 2020);
- "Sharing" as a joint use of the real estate (Bao; Shah, 2020, Sdino; Magoni, 2018);
- Crowd funding as an instrument of democratization of real estate investments and alternative to more traditional instruments of collective investment into the real estate (Cinelli, 2020; Montgomery; Squires; Syed, 2018).

Transformation or "dilution" of the real estate ownership right both under the influence of "financialization" and under the influence of the technologies arising at the intersection of "fintech" and the real estate market is a fundamental and, most likely, long-term process.

Securitization (a term derived from the English language) is an economic innovation of multilevel nature understood as financing or refinancing of revenue producing assets of

legal entities by means of their liquidity increase due to issue (emission, delivery) of securities. For companies and banks, it's a typical way of raising funds in the stock market.

Assets which provide securitization have to meet two requirements:

- presence of market value (market feasibility, liquidity);
- availability of a cash flow for the current payments on securities.

Nowadays the significant role in the Russian stock market is played by such products of securitization of assets and projects of the real estate market as:

1. Shares of developers of housing, the commercial and industrial real estate and also producers of materials and technologies (major market participants combine these functions): since 2005 - Gals-development, since 2007 – PIK and LSR, since 2020 – Etalon and Ingrad (Table 1).

(Table 1): Developers issuers of shares on MICEX

	Activity	Parent company	Foundation date	Turnover in 2019 (bln. rub.)	MICEX Listing	Operating profit (bln. rub.)
Gals-development	Real estate construction	PAO "Bank VTB"	1994.	18.9	2005.	6.1
LSR	Building materials production, construction and development		1993.	110.0	2007.	16.6
PEAK	Construction and development		1994.	281.0	2007.	60.6
Standard	Residential real estate construction and development	Etalon group plc.	1987.	70.6	2020.	25.4
Ingrad	Construction and development		2012.	53	2020.	15

According to MICEX, calculations of the author

2. Bonds of residential housing developers (PIK, LSR, etc.) and the bonds secured by assets of other projects in the real estate market (Table 2). The table shows 30-40% share

of bond issues in the long-term and short-term loans structure of "old" market participants, while for the "new" participant it surpasses 80%.

(Table 2): Developers bond-issuers on MICEX

	Volume of bond issues, long-term*/short-term, mln. rub. 2016.	Volume of bond issues, long-term/short-term, mln. rub. 2017.	Volume of bond issues, long-term/short-term, mln. rub. 2018.	Volume of bond issues, long-term/short-term, mln. rub. 2019.	Share in long-term loans and loans, % 2019.	Share in short-term credits and loans, % 2019.
LSR	5000	15000	15000	27000	34	41
	-	-	-	4000		
PIK	39058	44250	35172	39850	36	33
	-	13434	18180	9902		
Ingrad	-	15000	35000	59509	84	81
	-	-	-	2000		

* less redeemed

According to MICEX, calculations of the author

3. Mortgage securities are mortgage-backed bonds and mortgage participation certificates (in Russia currently sold by DOM.RF corporation, but other major participants entry into the market is expected).

The main types of securitization products:

- CMBS (Commercial Mortgage-Backed Securities) are the mortgage securities backed by commercial real estate (hotels, shopping centers, offices, warehouse complexes, production rooms);
- RMBS (Residential Mortgage-Backed Security) are the mortgage securities backed by residential premises (apartments, residential buildings);
- MBS (Mortgage-Backed Securities) the securities backed by a pool of mortgage loans;

- CDO (Collateralized Debt Obligations) are the securities backed by a pool of various types of debt instruments, which may include corporate bonds, loans issued by financial institutions or tranches of securities issued as part of securitization transactions;
- CMO (Collateralized Mortgage Obligation) is a security secured by a pool of mortgage-backed securities, the structure of which assumes the presence of several types of securities with different maturities.

It's obvious from this list that the first three points are exclusively directly linked to real estate market assets and projects.

Let's summarize the results of a short analysis of securitization as a business model for the transformation of property relations in the real estate market.

Why do the multi-apartment housing (MAH) developers need securitization in the form of issuing shares and bonds?

- attract cheap resources to finance construction of MAH and save on bank lending within the framework of project financing with the involvement of escrow accounts.

Why do the banks performing mortgage lending for citizens need securitization?

- raise additional financing after the asset pool sale;
- the possibility of issuing new loans through additional financing;
- balance sheet improvement;
- bank liquidity ratio improvement increases its competitiveness;
- securitization partially transfers the credit risk to the end investor.

Why do investors need securitization?

- investment into ABS (the assets-backed securities);
- small volatility of this class of securities;
- DOM.RF underwriting also has an option of over-the-counter distribution (the closed subscription) that provides significant institutional rent to system investors.

How does securitization affect mortgage loan borrowers?

- has no impact or the details of the recipient will change at loan pay off.

How does securitization affect the ratio of the value of real vs. virtual assets in the real estate market?

- the financial bubble boosting market sector inflation increases.

How does securitization affect transformation of the ownership relations within the real estate market?

- in case of the borrower's default the real estate asset, actually, becomes the share property of all circle of the investors participating in underwriting or secondary trading of issued securities;

What macroeconomic and macrofinancial process as a market sector global trend is promoted by expansion of securitization under the state guarantees?

- transformations of an institutional rent of developers and other participants of the real estate market into an institutional rent of credit institutions, and further – into an institutional rent of the state institutes and corporations providing and controlling the process. In other words, it contributes to consolidation and nationalization of the industry and the market as a global trend (Sternik; Teleshev, 2018, Sternik; Malginov; Lavrentyev, 2020).

Conclusion

Assets' securitization is a part of broader process of "financialization" of the real estate market. It contributes not only to increasing the role of the financial sector in the real estate market, but also to expanding the range of potential participants in the investment process in the real estate market.

In case of defaults (especially total default, for example, in case of crises) assets in the real estate market can become de facto the share property of participants of investment process that can also boost crisis within an economic system far beyond initial "default" obligations, but generally leads to de facto transformation of the ownership rights of collaterals. In case of implementation of securitization under state guarantees, mass default events lead to expansion of a state's role in the real estate market (de facto nationalization often without any announcement) which also reflects a transformative role of securitization in the real estate market of Russia.

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