MODERN OPTIONS FOR THE FINANCING OF THE REAL ESTATE INVESTMENTS

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Abstract: The investments represent one of the most important elements in the national economy development strategies, as well as in all the business fields and branches. The notion of investment is extremely complex, perceived with different meanings and significates. In a general, wider meaning the investments represent a capital placement which is made with the purpose of obtaining profit bearing incomes in the future. In a narrower meaning, investments mean the totality of expenses made for obtaining capital assets which are future potential factors in the formation of incomes. Investments represent the most important factor in the development strategies of the national economy as well as in all the business fields and branches. The investment strategy represents an important element in the management of the investments and a component of the general strategy of the entity. The use of investment strategies in the management activity implies the application of scientific techniques and methods. The great number of studies carried out shows that there were no certain answers formed, very often the option for a form of financing or the other is influenced only by the "level of accessibility" of the resources available on the financial market and the financing policy of many companies is guided rather by the constraints of the financial market than a coherent company strategy. In order to ensure a constant economic growth it is necessary to prepare investment projects. In practice the predominant one is the investment activity based on real investments performed for the modernising of assets, in order to ensure their physical and moral wear and tear. The analysis of real estate investments can be made using a various range of indicators, from the traditional ones to those based on the updated cash flow, using traditional analysis techniques or complex techniques used by specialists with training in the analysis of real estate investment. The accountancy of real estate investments is made with the respect of the provisions of IAS 40. The present paper makes a brief overview of the most frequently used financing options of the real estate investments. In order to exemplify the importance the real estate investments must benefit of, we offered financing solutions for them. Real estate investments help the fulfilment of the main management objectives: the continuation of activity and performance of entity.

Keywords: real estate investments, mortgage loan, real estate leasing.

JEL classification: G 10
REL classification: 8 D, 11 D.

1. Introduction
At the beginning the investors do not really have to own an amount of money to cover entirely the investment expenses. An investment can be financed in various proportions, from several sources. Nowadays, the most frequently used financing options of the real estate options are the following:
- mortgage loans;
- development of a real estate project financed through a bank;
- real estate leasing;
- non refundable financing for investment projects;
• other financing methods.

One of the recently introduced terms in OMFP 1802/2014 is the concept of “real estate investments”.

According to OMFP 1802/2014, a “real estate investment” (a plot of land or a building, or a part of a building, or both) owned (by the owner or a tenant by a financial leasing contract) more likely to obtain income from rent or to increase capital value, or both, instead of:

1. Being used in the production or supply of goods or services or for administrative purposes;
2. To be sold in the ordinary course of the business.

A real estate property used by its owner is a real estate property (owned by the owner or a tenant by a financial leasing contract) for use in the production or supply of goods or services or for administrative purposes.

It is important to be mentioned that, to establish if a real estate property can be a real estate investment professional judgement is needed.

Specialized literature shows the fact that the interaction between the investment decision and the financing decision was researched by several authors (Ross, Westerfield, Jaffe, 1999; Myers, 1974; Dean, 1951; Brigham, Gapenski, Erhardt, 1999; Solomon, 1955; Grinblatt, Titman, 1998; Benninga, Sarig, 1998; Myers, 1977; Boyle, Guthrie, 2003, etc.). Their approaches are grouped in static and dynamic patterns and both decisions – the investment one and the financing one are endogenous and depend on elements such as: the state of capital markets, features of the investment opportunities for the company and available internal sources.

2. Mortgage loan for real estate investments

The mortgage loan is the type of loan granted exclusively by licensed institutions, with the respect of the legal regulations in force in that country, for the purchase or construction of buildings. Therefore, in countries such as the USA, Germany, Great Britain ecc, the mortgage banks are those institutions that grant long term loans for real estate investments and the loans granted are guaranteed with mortgage on the buildings (Căpraru and Onofrei, 2013: 47).

Mortgage banks obtain financial resources through specific value titles, namely mortgage bonds that are sold on the secondary market of the mortgage financing, being forbidden to attract deposits, obtaining incomes from commissions and from the interests perceived for credits. But in countries such as France, Spain etc. the mortgage banks are not the only institutions that issue mortgage bonds, they can be released also by trade banks (Căpraru and Onofrei, 2013: 47).

In Romania, Law n. 32/2006 regulates the mortgage loan for real estate investment (Official Journal n. 264 from March 23rd 2006).

Therefore this law regulates the juridical regime of the loan credit for real estate investments. According to this law (Law n. 32/2006, Art. 2, paragraph c), the mortgage credit for real estate investments is the credit granted with the total fulfillment of the following conditions:

1) is granted with the purpose of contracting real estate investments with living destination or a different destination than the living one or in the purpose of reimbursing a mortgage loan for real estate investments contracted previously;
2) the granting of the credit is guaranteed at least with the mortgage on the real estate that makes the object of the real estate investment for whose financing the loan is granted, respectively with the mortgage on the building object of the real estate investment for whose financing such a mortgage loan for real estate investments was granted whose reimbursement will be financed this way.
On the basis of the same law (Law n. 32/2006, Art. 2, paragraph d), e) and g) the following notions are defined as well:

- **real estate** – the construction and/or the land on which a construction is or will be placed, that makes the object of real estate investment;
- **licensed institutions** – universal banks and mortgage loan banks, the National Housing Agency, the mortgage credit companies and any other entity adjusted through special laws to grant mortgage loans for real estate investments;
- **real estate investments** – investments having as object the acquiring of the ownership right on a building through legal documents with onerous title, real estate settlement, improvement, rehabilitation, consolidation or extension of it but without limiting to it.

For each issue of mortgage loans, the issuer must keep an internal evidence registry to reflect the structure and the dynamics of the credit portfolio and the public offer of bonds issue is made according to the phases of each public offer of transferable securities, implying a licensed intermediary to carry out financial investment services. The mortgage bank or another financial institution has the obligation to appoint an authorized agent with the following attributions (law n. 32/2006):

- to verify the correct keeping of the internal evidence registry by the issuer;
- to register in the archive the securities on the portfolio as well as any further modifications related to them;
- to represent the holders of mortgage bonds.

The structure of the mortgage credits used as guarantee for the issue of mortgage bonds is subject to the fulfilment of conditions, such as (Căpraru and Onofrei, 2013: 48):

- each mortgage loan from the portfolio must have been granted according to the legal norms on that date;
- the levelling of the portfolio in order to include a single type of mortgage credits from the point of view of the real estate investment;
- weighted average of the deadlines of the mortgage loans from the portfolio allotted to their issue be higher than the due date of the real estate that will be issued based on them;
- the updated value of the receivables affected to the guarantee of a mortgage bond issue to be at least equal to the updated value of the payment obligations of the issuer in respect to the holders of mortgage bonds from the emission guaranteed with that portfolio;
- the total value of the mortgage credits guaranteed with mortgages on the lands without construction and those guaranteed with mortgages on the real estate in construction not to exceed a total percentage from the value of the portfolio;
- the fulfilment of the general eligibility criteria foreseen by the law and the performance characteristics announced in the issue prospect.

The real estate market knows two main types of mortgage loans (Căpraru and Onofrei, 2013:65, 70-71):

- fixed interest mortgage loans which are those credits whose interest rate does not vary along the reimbursement period, remaining fixed. Therefore, the loan instalments are also fixed and the debtor will know a priori how much will they have to pay to the bank during the reimbursement period;
- the mortgage loans with variable interest is characterised by the fact that the interest rate can vary along the reimbursement period. It can rise or drop according to the pre-established reference index (EURIBOR, LIBOR, ROBOR). Variable interest real estate loans have a disadvantage for the client through the fact that a likely increase of the index level might lead to an increase of the credit rate level. The higher and the longer the growth is, the more drops the probability of it paying the loan instalments. Also, for the bank, the variability of the interest rate is favourable, the loan instalment being adjusted to
the market interest, but to the extent to which the client will be able to keep up with the payment of the credits monthly instalments, otherwise the credit can become non profitable. For this reason the bank will make a stress test for each client and by corroborating its results with the degree of indebtedness and refunding capacity, the client will turn out eligible or not.

3. The development of a real estate project financed by a bank

In the opinion of the authors Căpraru and Onofrei (2013: 72), in the context of development of a bank-financed project that contributes to the insurance of the success of obtaining such financing, the following general principles are to be taken into consideration:

- incorporation of a new company with the purpose of independent development of the project;
- attraction of investors that sustain partially the project and that participate at the incorporation of the new project company;
- guarantee of the project financing with the assets of the new-formed project and not with the assets of another business;
- considering as a primary reimbursement source of financing the cash flow generated by the financed project, instead other sources obtained from other older businesses undertaken.

Usually, in the context of the development of a project proposed for financing (such as, for example in a shopping centre), the newly-incorporated project company though the participation of already selected investors that will contribute partially to the financing of the project has to establish first collaboration relationship with a series of partners involved in the project, before proposing the project to the bank for financing (Căpraru and Onofrei M, 2013: 73). They would be: a general contractor for constructions, a work supervisor that will represent their interests in the relationship with the general manager and that will monitor the costs and the quality of works, an insurer (insurance company) in order to insure the project in case of events that might disturb the work development. In case of development of residential areas, the bank can participate through financing offers for the clients of the future project, offering them real estate loans.

Basically, the banks will consider as selection criteria of the projects the following aspects (Căpraru and Onofrei, 2013: 73):

- viability of the project;
- the financial power and the experience of the investors partners of the project company;
- quality of project management;
- business plan quality;
- financing plan and project budget;
- venue and accessibility of the project;
- quality and experience of the general constructor;
- quality of the potential clients if there are pre-contract conditions;

Through the financing plan, the weight of participation of the investors will be established as well as the bank’s financial contribution and through the project’s estimated budget the cost elements of the land, the construction, the project and marketing costs, the costs with the legal assistance and consultancy, interest costs, etc will be taken into consideration.

4. Real estate leasing

The leasing is a medium and long term financing technique that allows a company the exploitation of an asset (usually an intangible asset) without being forced to turn to bank loans for the purchase or to other forms of loans or to own capitals.

The final institutions specialised in such leasing operations, as owner of the asset (owner) will transfer the use right on the asset to a user (tenant) based on a firm request,
concluding an agreement (contract) between the two parties and in exchange of a series of payments, called royalties or rentals. The royalty can include, according to the case, the following elements (Dragotă et al: 186):

- asset write-off;
- remuneration of the invested capital (based on commission);
- risk premium due to the fact that the bank institution (lessor) support the entire financing;
- administrative expenses.

Of course, the choice of this financing variant will be realised only in the conditions in which the costs involved are lower than in the situation of financing the investment by turning to bank credit. It is well-known that the leasing has been in use since ancient times, at the beginning for the financing of lands and buildings and later it became a financing tool for the purchase of other types of assets.

Practically, a wide variety of leasing contracts are known, however, the majority of specialists believes that at operational level, the following main categories can be found:

- operational leasing;
- financial leasing;
- leasing through indebtedness;
- leaseback associated with a sale.

Further on we intend to stop and develop the financing tool found in case of a real estate investment, specially for extensive projects. Thus, according to the authors Căpraru and Onofrei (2013: 74) is the most used form of the real estate leasing type is the sale-leaseback type. In such situation the owner of a real estate will sell it to an investor, concluding with them a long term leasing contract for the same estate as well. If the leasing contract implies that at the end of the leasing period the owner can purchase the real estate than the leasing is the sale-leaseback-buyback type (Căpraru and Onofrei, 2013: 74).

As presented previously, the lease-back transaction consists in the sale of an asset and the immediate take-over as rental. It is obvious that through this operation, the real situation of the company does not change, continuing to use the asset. The lease-back operation allows the observation at results, in the year of the sale of an added value that, in reality, will be neutralized by the future rentals. Moreover, by placing the leasing contract in the category of operational leasing, we avoid the acknowledgement of a debt and, consequently, the increase of the indebtedness rate. These transactions can appear when the owner-seller has cash flow or financing problems or because they can obtain a series of fiscal advantages after such a transaction.

In such a context it is important to take into consideration the fact that two distinct economic transactions take place. To be mentioned that there is no physical transfer of the asset. First there is a sale of the asset and then a leasing agreement for the same asset, agreement in which the initial seller becomes lesser and the buyer becomes lessee. A sale and leaseback transaction is usually structured so as the sale price of the asset is higher or equal to the current market value. The result of such a high sale price is a periodical lease payment higher on the duration of the leasing period. The transaction is often attractive because of the fiscal advantages induced and because it offers financing to the lessee (Bogdan, 2009: 195).

The seller–lessee benefits of the high sale price because they obtain a higher income from the sale, as well as the deductibility of the leasing payments that are usually higher than the depreciation previously taken into consideration. The buyer–lesser benefits both from the payment of high rents as well as of a wider base for depreciation.

The context pertaining to this financial system is suggested by the following principle scheme:
Real estate leasing has a series of advantages, such as (Căpraru and Onofrei, 2013: 74-75):

- the lesser, who is at first owner, obtains cash after the sale of the estate in which they will continue the activity, cash they can count on for other purposes such as equipments, retechnologization, etc.
- leasing instalments are entirely deductible, being operation expenses, unlike the variant through bank loan, where only the interest and the write-off quota are deductible;
- if the building is already written-off, its sale followed by a leasing contract is beneficial from the perspective of taxation, both for the user and for the landlord who will be able to write-off the building, enjoying the deductions of the write-off instalments. If the building is partially written-off, the sale made at the market’s price, higher than its accounting value can bring a higher write-off rate therefore, bigger advantages of the investor from the fiscal point of view who can establish in these conditions a leasing instalment more convenient for the lessee;
- the leasing does not affect the lessee’s level of endowment, as they can turn to loans for other investments;
- through the sale of the estate, the value of the user will drop leading to the increase of profitability of the assets in the financial reports, in the context in which profits remain the same;
- at the end the seller-lessee can opt for the purchase of the building or not, at a price established in the moment of contracting. This option is valid if the construction is new in the moment of concluding the leasing agreement;
- if the tenant needs the building for a shorter period of time, the leasing is the best alternative, because the purchase would involve extra transaction costs;
- for the investor, this way of financing is convenient because it will have a safe user, for a longer period of time, at a pre-established rent (leasing rate);
- the investor can manage the risk of the investment according to the quality of the user, establishing a higher or lower rate, proportional with the risk.

The main disadvantage of the real estate leasing is the fact that in case of conclusion of the leasing contract, the seller-user cannot benefit of the appreciation of the estate’s market value.

5. Non refundable financing for investment projects

One of the recent external financing options at the disposition of the companies is the one that refers to accessing European funds for the financing of the real estate investments. European funds, according to OUG n. 63/1999 regarding the management of the reimbursement funds allotted to Romania by the European Community, as well as the co-financing funds pertaining to them are defined as the financial contribution of the European Union, represented by amounts that are transferred to the Romanian Government by the Committee of the European Union, as non refundable financial assistance. Structural funds
are post-adhesion funds financed by the budget of the European Union having as a purpose the support of the member states in fields of interest such as: education, research, agriculture, development of SMEs, etc. (CECCAR, 2011: 54).

In order to pay the European funds for the financing of the investment the beneficiaries of the program must know the type of the European funds for the proper implementation of the projects. Therefore, the main financing lines that can be accessed in Romania for the financing of the real estate investments are POR and POSCCE.

Investments in the real estate field that are susceptible of benefiting of financing from European funds mainly aim at the regeneration of disadvantages areas, the investments in the SME real estate infrastructure and the various investments materialized in: buildings or building group rehabilitation, modernising, restoring, etc.

The opportunities considered by the European funds for the financing of the investments in the real estate field refer to (http://www.structuralconsult.ro/accesare-fonduri-europene.php/05.08.2014):

- rehabilitation of the disadvantaged urban areas, including the building of motorways, pavements, buildings construction, construction of infrastructure for houses and services;
- investments in the social infrastructure, for example: centres for the protection of the children, facilities and sports and entertainment centres;
- European funds allow the achievement of integrated projects with the purpose of complex rehabilitation of the disadvantaged urban area, the use of project and objective combination, including complementary projects such as the solving of the ecological obligations older and for the reduction of the energetic consumption, etc.

The opportunities considered by the European funds for the financing of the investments in the real estate infrastructure of the SMEs refer mainly to the development of the infrastructure and the administration services within the business development area, for example: modernization, restoring of buildings.

Usually the steps that must be followed by the solicitors of accessing of non refundable European funds for the financing of the real estate investments are:

- assessment of the legal situations of the land or the construction that the building will be placed on or the investment made of;
- the contracting of both a consultant and an experienced engineer in the accessing and implementation of European funds projects in order to define the investment structure from the financial and technical point of view;
- the so-called implementation of the investment from the writing of the financing documentation from the technical and financial point of view until its finalization.

6. Conclusions

Considering the information presented in this paper, we can conclude the following:

- The investment decision is influenced significantly by the financing decision;
- The development of a long term company will imply turning to financial resources;
- The central objective of a company is the one of obtaining maximum performance for the invested capitals;
- On the moment of choosing a financing structure, the managers must calculate a series of factors;
- We recommend that, in an investment activity, the entities start by mobilising their own sources (self-financing) and then turn to external resources;
- in our opinion, the management of Romanian companies is not interested in obtaining investments in intangible assets because the capital market investors do not consider the performance of the companies from this perspective;

In our opinion, the elements that will be considered when the financing decision of an investment project is taken are:
The determination of the value / cost of real estate investment will be achieved by taking into account the following aspects:

- the replacement cost, represented by the duplication value of the existing investment at the moment of analysis, from which we deduct the depreciation of the real estate investment and adding the value of the land of the construction;
- the market value, namely the price paid for other investors for similar real estate;
- the value given by the incomes obtained after the exploitation of the real estate investment.

In the financial practice, there are numerous cases of investment projects that, although are characterized by relatively long recovery terms, generate update value clearly superior to other projects with a more reduced recovery term, thus contributing to the maximization of the company value.

Acknowledgment
The author, Silviu Chiriac Cornel Virgil, would like to specify that this paper has been financially supported within the project entitled „SOCERT. Knowledge society, dynamism through research”, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. Investing in people!

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