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RESIDENTIAL PROPERTY CLASSIFICATION'S BREACKDOWN
OF THE PRIMARY MARKET IN KYIV

Existence of a generally accepted classification is one of the indicators of the market civility and development. Attribution of an object to a certain class is applied in many markets as a tool of its positioning, which helps consumers orientate themselves among multifarious proposals and conduces to reach a more logical pricing. At the present time, the real estate market is undergoing the phase of changing priorities and revaluation of preferences. Under exacerbated competition for a customer, the developers are imposed to exercise a more meticulous selection of the sites for construction and elaboration of concepts, the issues that usually were put on the back burner in the period of growth. Classification and positioning of the objects is one of those issues.

This problem was investigation by Ukrainian and foreigners scientists (Richard B. Peizer, Anna Frey, Garry Eldred, E. Tarasevich, I. Mazur, M. Fedotova and others). For instance, Mariya Fedotova, specialized in residential property classification, admitted "… particular value of using classification method in residential property development conditioned of necessity choosing the best object positioning in the market…"[2, p.36].

Unfortunately, at this moment the Ukrainian real estate market is in the stage of formation, and its participants are not yet prepared for respecting a uniform classification of their projects. Lack of a distinct classification and orientation toward the profit-maximization so far allow some developers, "forgetful" about objectivity, to attribute an elite status to their residential complexes. So, the main goal of this article – creation useful and expedient classification of new-built residential property and selection maim criterions of each classes.

Complexity of the residential property classification is also connected to the such factor as a high mobility of the market. In the conditions of a changing market situation, increase in requirements set forward by purchasers, as well as under a growing competition among developers, the changes are taking place both in the characteristics of the residential real estate attributed to different classes and in the assessment of significance of selected parameters of the residential properties.

There are many examples of this sort. Among them, overrunning of the elite objects outside the boundaries earlier "narrowing" the elite market to Pecherski Lypky and Shevchenkivsky District adjacent to the downtown area, and weakening in the elite segment of such parameter as the club status of the houses, and a significant increase in the requirements concerning secondary parameters of the houses (engineering infrastructure, public spaces furnishing, etc.). All there changes are connected with objective factors – deficit of free sites in the downtown area, which makes developers shift to the boundaries of Pecherski and Shevchenkivsky Districts; increase in the land value, in which case the large objects become significantly more effective than club houses; improved experience and awareness of purchasers. These are the very factors that provoke reorganization of the residential realty market.

In the course of time, the market participants adapt themselves to the new market realities, and the issues once new and incompatible with the market rules become norms in the course of adaptation. With this, the "set of rules", classification of objects in the first place, becomes morally obsolete. This is precisely why it is extremely difficult to set any uniform framework of constraints and obtain a universal classification.

As of today, the classification elaborated by the key operators in the Ukrainian market, who are members of Ukrainian Construction Association, is the most widespread in Ukraine. In accordance with the above classification, the residential properties are broken down in five classes: social, economy, business, premium and de-luxe.

This number of singled out segments with the often overlapping characteristics of the objects complicates comprehension of the market, especially from the standpoint of purchasers who simply cannot discern a fine line between and among all those sub-groups.

With the purpose of generalization and structuring of the market-related information, the Author deems reasonable to single out only three basic classes of the new constructions. They are: economy class, business class, and elite class.

Obviously, the complex market of new constructions in Kyiv, which includes a significant number of objects with different characteristics, can be described by means of three categories with a sufficiently high degree of generalization. Under a detailed study of selected new constructions, even with similar main characteristics (location, area, etc.), it is possible to find a substantial difference in their specific parameters (parking, height of ceilings, etc.). To identify these distinctions, when it concerns specific objects, they apply the system of interim categories (when a main category is supplemented with "+" or "-" signs: economy+, business-, business+). In the

elite segment of the residential realty, they specify the categories in compliance with the classification supported by Ukrainian Construction Association, namely: premium and de-luxe classes.

Attribution of an object to a certain class is performed on the ground of evaluation of its parameters. Despite lack of a uniform approach among the market players to the classification, a set of main characteristics influencing on the object's positioning in the market does not radically change. As a rule, the main parameters of classification include the factors considered by purchasers as significant. Among these characteristics, there are the following: location of the object, architectural and constructional parameters of the house, engineering systems, apartment layout, parking area, provision of amenities, etc.

The largest number of requirements are made to the elite class. The elite class of residential properties implies the best and the most expensive proposals in the city, and it concerns not only the house itself, but also characteristics of apartments. The class of the house if determined by a set of criteria. However, the main characteristics allowing to attribute the house to the elite class are as follows: favorable location (prestigious neighborhood units in the downtown of Kyiv), a unique architectural look of the structure, high quality of materials and engineering-technical outfit of the house (finishing agents, elevators, air conditioning systems, water purification systems of the European make); availability of large-sized apartments (60+ sq m.); high level of security; underground parking facility (at least 2 sq m. per apartment).

When attributing a house to the elite class, special attention is paid to the level of security. High level of security in the elite houses is achieved if a great number of criteria are met. First, availability of an enclosed area to which only the residents of the house can have an access. If there are office-type and other non-residential facilities on the lowest floors of the house, the access to them is arranged so that the territory of the house (entrances from outdoors and the fences/enclosures) are not crossed. Second, the territory of the house is guarded by professional security officers at the checkpoints and by video surveillance.

As for the infrastructure and servicing, when the market of elite residential realty started to actively develop, one of the first items in the list of purchasers' requirements was related to availability of the internal infrastructure. In connection with this, the developers did their best to furnish as many services as possible: cafés, barrooms, beauty shops, dry-cleaner's, gyms, swimming pools, fitness centers, cigar-rooms, refrigerators for fur-coats, car-washing facilities, etc. At the present time, availability and composition of the infrastructure depends on the concept of the house, but the general trend of the latest years reveals an intention to minimize the set of infrastructure-related objects. One of the reasons of this trend is related with an increase in the infrastructure maintenance costs normally levied upon the residents. The availability of internal infrastructure in the elite houses is not a significant requirement at the present time. However, as before, the servicing of residents is to be top-notch, including even a room-service (ordering tickets, meals, taxi from the reception desk).

Business class is the most common in the market, its portion amounting to nearly 60% of the residential realty. This class occupies a middle position between the elite and economy classes. The category of business class covers very multifarious residential realty: the houses unable to reach the elite class by certain characteristics and those exceeding the economy class by quality.

Lower requirements are set forward concerning the architectural look of the houses than in case of the elite class. However, the competition in this segment induces developers to implement spectacular up-to-date architectural projects.

Like in the elite class, availability of the infrastructure is not a compulsory criterion, however, the large business class complexes often include the objects of sports, health and entertainment infrastructure.

Most of the business class houses have their enclosed and guarded territory, however, this is not a critical issue. Of a greater significance is the availability of residential amenities, sports grounds, promenade areas, etc. It is worth mentioning that the business class segment includes both separate buildings and blocks of buildings of high quality united by a uniform conception. The blocks of buildings are mostly raised on larger areas in the districts less suffering from land area deficit compared to the downtown area.

The least amount of requirements are set forward to the economy class residential realty. There are no constraints in terms of location. Mostly the economy class buildings are raised in distant district of the capital city.

By the material of construction, the buildings of this class can be broken down into one-piece houses which by some characteristics do not meet the business class requirements, and panel houses.

The economy class allows availability of small apartments, area 30+ sq. m., interior partitions can be allowed.

The requirements to security increase with the class of the house. While an enclosed internal area is compulsory for elite class and only desirable for business class, it does not matter for the economy class. Most of the houses attributed to the economy class do not have any internal territory. Besides the economy class allows for availability of social apartments.

One more distinguishing feature of this class is that availability of a parking area is not a compulsory requirement either.

Presently, the projects of different classes (elite, business, economy) are being sold in the residential primary market in Kyiv. During the past two years, a significant change in the realty primary market in Kyiv took place in terms of the classes of residential properties. Taking a note of changes in the demand breakdown, the developers were imposed to react on the changed market situation when choosing the most promising projects in the crisis period.

The most unfavorable conditions were formed in the market for economy class residential properties. The purchasers with savings have reoriented themselves to the re-sale segment, which resulted in a decline of demand in the primary market and freezing of the residential complexes under construction. The freezing of the residential complexes under construction enhances mistrust among the purchasers toward the primary market and provoked an increase in the number of requests in the re-sale segment. As a result, by 2010 the specific weight of economy class residential properties dwindled to 45.3%, cf. 65% as of 2Q'08 [1].

The business class segment proved to be in a more favorable situation: most of the objects were at the completion stage of construction, which, coupled with the developers' marketing policy, resulted in localization of the purchasers' activity in this segment during 2009. An increase in the number of completed objects coupled with a decrease in prices brought about an increase in the portion of the business class segment in the total supply of apartments in the primary market – up to 51.2%, cf. 31% in 2Q'08 [1].

In the elite segment reorientation of developers from the large-scale projects to development of the club-houses became one the main trends of market development in the period of crisis. The new supply entering the market averaged 10 apartments per object. In the outcome, due to a small number of apartments in the new-built objects, the portion of elite class segment in the supply of apartments shrank to 3.5%, cf. 4% in 2Q'08 [1].

Location of the objects is one of the key factors determining the class of the residential properties. The districts located ultimately close to the center of the city remain the most elite and expensive ones. The largest number of elite and business class projects are sold in Pechersky, Shevchenkovsky, and Podolsky Districts. Solomensky, Obolonsky, and Shevchenkovsky Districts remain among the most demanded for construction of business class residential realty. The economy class residential properties are mostly raised in Goloseyevsky, Sviatoshinsky, Darnitsy, and Desniansky Districts.
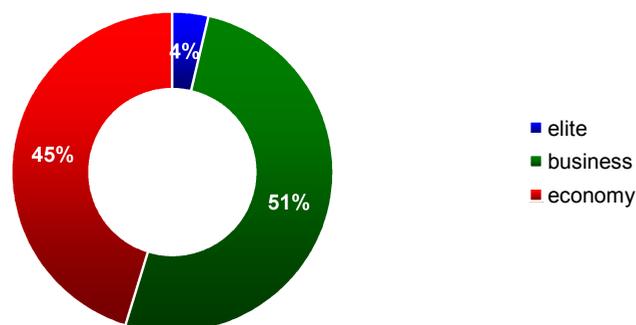

Fig. 1. Kyiv Residential Market Structure by Classes, % of total number of apartments

The classification is used by developers as a base for choosing a right strategy of the object positioning. The main principle of the optimal positioning is reaching a balance between location of the object and its qualitative characteristics, i.e. creation of a products which is to be ultimately demanded in this particular location. This very product will gain the developer the highest possible financial and image-related dividends.

Literature

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