REAL ESTATE FINANCING THROUGH THE FINANCIAL LEASING

FINANŢAREA IMOBILIARĂ PRIN LEASING FINANCIAR

ERZSÉBET SUHÁNYI[1,2], L. SUHÁNYI[2]

[1] ***Tomori Pál College, Kalocsa, Hungary, suhanyi.erzsebet@tpfk.hu***
[2] ***Faculty of Management, University of Prešov, Slovak Republic***

Abstract*: Financial leasing is characterized by longevity of the lease. The lease period includes a substantial part of the life of the leased property and essentially it ends when transferred to the ownership of the lessee. The lessor delegates risks to the lessee. On the present increases its use also in financing the purchase of real estate. The aim of this paper is to provide an overview of the financial leasing on the real estate market. After characterizing the financial leasing of real estate, there is analyzed the development of the leasing market, the leasing business of movable and immovable property from 2006 to 2011 in the Slovak Republic and in 2009 and 2010 also in its immediate neighbouring countries, in Austria and Czech Republic. Then, it is compared the funding of acquired real estate through financial leasing and through loans.*

Key words: *real estate, leasing market, financial leasing of real estate*

INTRODUCTION

The real estate financing through the leasing is more accessible than to acquire it through a loan, partly because of smaller guarantees needed to finance the purchase of property, as well as because of smaller number of documents necessary to conclude the lease agreement. By the formation of leasing companies and leasing market was created the opportunity to perform a very dynamic development in almost all industries as they become available to acquire the latest technology without the necessity of having equity capital, and even under relatively favourable tax conditions.

Leasing companies in Slovakia gradually acquire the courage to deal with real estate. It´s also gradually expanding the range of properties whose purchase can be addressed through the leasing. On the present, this way of

financing the property purchases is practised only by big companies, which are interested in industrial buildings and warehouses, but the attention is put gradually also on other types of buildings such as shopping malls. It is only a matter of time when the lease will cover also the residential building sets, or when this method of financing real estate becomes available for small businesses, or for ordinary citizens.

The convenience of the financial leasing of real estate increased by shortening the depreciation period and by abolishing the double tax on real estate transfer. Through the financial leasing is allowed to depreciate more rapidly to zero residual value at the time of the lease 12 years, except for a land which is not depreciated.

MATERIAL AND METHODS - NATURE OF THE FINANCIAL LEASING OF REAL ESTATE

The financial leasing is defined in the Slovak legislation as lease with the option to purchase the leased object. From a legal perspective it is triangular relationship between:

- supplier – ergo vendor,
- buyer, owner and lessor at the same time – which is the leasing company,
- user – it means the lessee, who has a contractual right of purchase of the goods at carrying value.

It works in the way that the leasing company buys goods which the customer has chosen, and then it is rented to him. Unlike traditional loan, where the buyer becomes the owner of the goods at the beginning of the loan, within the leasing the only user of the goods is the lessee until the redemption of the goods to the leasing company.

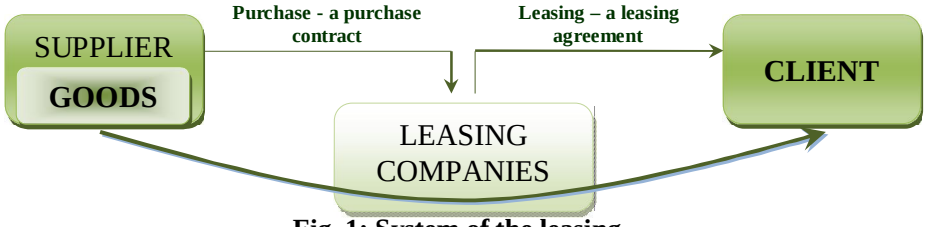


Fig. 1: System of the leasing
Source: self elaboration

This form of purchase of such real property is interesting for those who don´t want or for some reason cannot pay the full amount of real estate and it is convenient for them that they are not listed as owners of the property. Moreover, in contrast to the most bank loans, leasing allows you to cover up to 100% of the cost.

Leased real estate can be:

- office buildings,
- mixed-use buildings,
- business premises,
- storage areas,
- production halls,
- industrial buildings,
- other buildings with industrial, commercial and office nature,
- non-residential premises,
- co-ownership shares in the common parts and facilities of the house, including co-ownership share of the land,
- building land,
- land with a view to building sites (registered prospectively in the planning scheme).

Real estate can be financed in several ways:

- to sale and lease back the real estate, or set of real estate (real estate refinancing, which is owned by client/applicant),
- to purchase an existing real estate or set of real estate selected by the client and then making it into long-term use,
- to purchase real estate under construction or set of real estate, complete it and then making it into long-term use,
- to finance the construction of real estate or set of real estate, based on the project submitted by the client and after completing making it into long-term use.

MATERIAL AND METHODS – THE DEVELOPMENT OF REAL ESTATE LEASING MARKET

The European market is not monolithic and in country are preferred different types of properties. In Norway, Turkey and the UK are leased only industrial buildings, while in neighbouring country Austria the industrial buildings represent only 4%. Recreational facilities are leased the most in Spain, where they make up one fifth of the financial leasing of real estate. Offices dominate in Switzerland with nearly two-thirds of the real estate leasing.

Growth in real estate leasing since 2005 has slowed down. A significant decline in the sector was noticed in 2009, where the volume of contracts decreased by 31% compared to 2008, in contrast to a decline of 21.6% in 2008 compared to 2007. The largest volume of real estate leasing was accounted for industrial buildings (nearly 35%), but in 2009 new volumes actually declined by 36.5%.

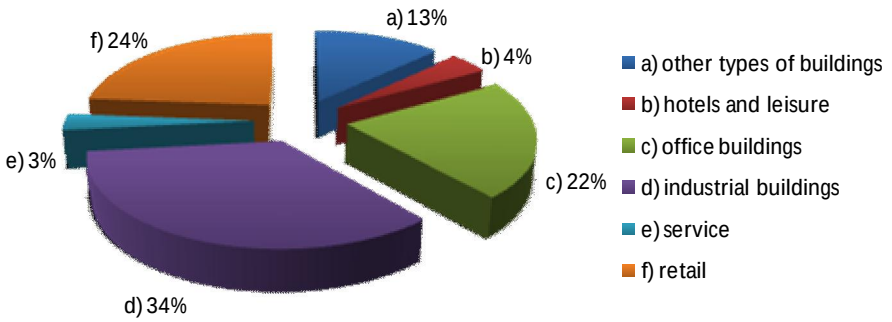


Fig 2: The structure of the leasing business in Europe in 2009
Source: self elaboration based on Leaseuropa

The real estate leasing contracts provided in 2009 for a period of 8 to 16 years were made in the amount of 43.8% of new volumes. The contracts made for a period of 16 to 20 years represented the largest part, 46.1% of the total volume (24.5 billion Euros).

In the year 2010 was noticed a growth of new leasing businesses in Europe by 4.9% compared to 2009, and in all segments of the assets. Real

estate leasing has increased from 2009 by 18.3%, increase in leasing of vehicles was 5.9% and of equipment 2.1%. The growth rate of the lease was mainly in Western Europe and Scandinavia.

Real estate leasing market in Slovakia has a great potential over the last years, although currently is one of the countries with the lowest proportion, as Finland, Romania, Sweden and United Kingdom. The volumes of transactions reported in the table represent the cost of financed assets in the Slovak Republic in millions of Euro, excluding VAT.

The inter-annual growth of businesses in 2011 in financing real estate was 26%, their new volume during the last 12 months of the last year was 153 millions of Euro. This volume growth was driven mainly by the financial leasing of existing older buildings in the sector of supermarkets and other retail buildings.

Table 1

The total volume of new businesses

Type of property	The volume in mil. €						Change 2010/11	Change 2010/09	Change 2009/08	Change 2008/07	Change 2007/06
	year 2011	year 2010	year 2009	year 2008	year 2007	year 2006					
The total volume of businesses	1 848	1 615	1 511	2 762	2 594	2 406	+14,43	+6,9	-45,3	+6,5	+7,8
of which:											
- movable assets	1 695	1 494	1 422	2 625	2 471	2 294	+13,45	+5,1	-45,8	+6,2	+7,7
- immovable real estates	153	121	89	137	123	112	+26,45	+40,0	-35,0	+11,5	+9,8

Source: self elaboration based on ALS SR

The year 2009 was substantially affected by the impact of the financial and economic crisis on the economy of the Slovak Republic. In 2010 was the growth of businesses again favourable. The data in the Table 2 provides an overview of the total business of leasing of movable and immovable property in 2009, 2010 and 2011 in the Slovak Republic and its nearest neighbours, in Austria and the Czech Republic.

Table 2

The volume of new leasing transactions for the years 2009 to 2011

Country	New businesses in the year 2011 in mil. €		New businesses in the year 2010 in mil. €		New businesses in the year 2009 in mil. €	
	Movable assets	Immovable real estates	Movable assets	Immovable real estates	Movable assets	Immovable real estates
SR – Association of Leasing Companies in	1 695	153	1 494,00	121,00	1 422,00	89,00

SR (ALS SR)						
AT – Association of Austrian Leasing Companies (VOL)	n/a	n/a	4 885,36	1 254,54	4 599,72	1 061,48
CR – Czech Leasing and Financing Association (ČLFA)	n/a	n/a	2 882,81	84,72	2 550,41	121,43
Along with other European countries (30)	n/a	n/a	194 424,15	29 529,83	184 842,97	24 509,42

Source: self elaboration based on Leaseuropa

In our market can be seen the following four types of leasing companies:

- *The first group* consists of subsidiaries of banks that have no funding problems, as the founding banks facilitate them the access to credit. This group includes for example VÚB Lízing, Tatra Lízing, ČSOB Lízing.
- *The second group* includes companies directly linked to the manufacturers or suppliers; they promote sales of the producer´s products. These include for example Volkswagen Financial Services, Daimler Chrysler, etc.
- *The third group* consists of so-called independent leasing companies unrelated directly to the bank or the manufacturer.
- Currently, the market is completed by *the fourth group* of small, regional, mostly niche leasing companies able to meet specific customer requirements with strict contact with the local business community.

Table 3

The order of the largest leasing companies in Slovakia according to the type of object for 1st – 4th quarter of 2011 (in acquisition costs excluding VAT)

No.	Company Name	Volume in thousands of €
1.	UniCredit Leasing Slovakia	42 175
2.	Tatra-Leasing	29 450
3.	BAWAG Leasing & Fleet	27 317
4.	VÚB Leasing	22 394
5.	S Slovensko	14 562
6.	Oberbank Leasing	10 052
7.	ČSOB Leasing	6 280
8.	BKS-Leasing	952

Source: self elaboration based on ALS SR

As the leasing company, as the owner of the property, carries less risk, cost of leasing can be comparable to a loan. So the lessee is not paying more money for the advantage of faster depreciation, than in the case of loan.

Table 4

Comparison of financial leasing and bank loans

	Loan in €	**Financial leasing in €**
Acquisition cost of the real estate	350 000	350 000
Total interests	116 128	116 128
Total instalments	466 128	466 128
Depreciation during 12 years	210 000	350 000
Tax savings over 12 years	39 900	66 500
Savings	-	**26 600**
Note.: The example is based on the same interest rate of 5% pa for loan and lease		

Source: self elaboration

Despite the good prospects there is no reason to expect dramatic growth in business volume in this segment. Leasing companies will not finance each building; the suitable projects should be counted in tens to hundreds. The biggest players are still avoiding recreational facilities, within financing of public buildings they are facing a strong competitor that is the Dexia Bank.

CONCLUSIONS

The statistical data clearly shows that Slovakia has great potential for real estate leasing and compared to neighbouring countries, such as Austria and Czech Republic, the Slovak market is almost in its infancy (see Table 2). Our opinion is that on the Slovak market there is very few information on the subject, as well as in the banking houses. On the financing possibilities are usually informed only the business entities. For individual entities – non-entrepreneurs can be also provided leasing contracts of properties, such as apartments, houses, recreational facilities, etc., but real estate financing for private purposes is without the possibility of tax depreciation. When financing the housing in the Slovak market there are dominating the mortgage loans, in which the client becomes

immediately the owner of the property, this is a quite significant psychological factor in Slovakia.

The aim of the leasing companies should be to help to start a real estate leasing in the Slovak financial markets and to offer to the potential clients some enhanced supporting services. As it is clear from all available information, the biggest problem of the financial leasing of real estate in Slovakia is its promotion and availability of information on the products in the financial market.

As a stabilizing element in the development of leasing is the invariance of legislative terms, since leasing depreciation remains unchanged and continues to be maintained.

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