CHALLENGES IN THE DEVELOPMENT OF RESIDENTIAL CONSTRUCTION PROJECTS

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Abstract: In a period when urban development and the demand for residential infrastructure are steadily increasing, financial planning has gained strategic importance in the construction sector. The implementation of residential construction projects requires not only clear architectural and technical concepts, but also a well-structured financial approach that enables resource management, cost control, and meeting deadlines. In the absence of accurate and comprehensive planning, many projects face challenges such as budget overruns, delays in execution, unclear changes during implementation, or, in more serious cases, complete interruption of the project.
The growth of the population and the expansion of residential areas have created an urgent need for well-planned projects that not only meet current demands but also remain sustainable in the future. In this context, the importance of financial planning is not merely a technical requirement, but a prerequisite for sustainable urban development and the successful management of both public and private investments.
International best practices recommend transparency, regular financial reporting, and independent audits to avoid errors and fraud.
Keywords: projects, investments, monitoring, planning, reporting, construction

1. INTRODUCTION

STAGES OF DEVELOPMENT IN A CONSTRUCTION PROJECT

The process of financial planning in construction includes a series of structured and interconnected steps aimed at ensuring financial sustainability and the successful completion of the project. These steps are not merely formalities, but essential elements that establish the foundation for effective resource management and the reduction of uncertainties that typically characterize the construction sector.
The first and most important step is determining the amount of capital required to execute the project from the design phase to completion. This process involves a detailed analysis of the needs for construction materials, labor force, equipment, and administrative expenses. Accurate identification of financial requirements prevents shortages during critical stages of the project and creates the basis for realistic planning (Brigham, E. F., & Ehrhardt, M. C., 2017).
After identifying the financial needs, the next step is to determine the sources of funding. Here we distinguish between internal sources (company capital, financial reserves, retained earnings) and external sources (bank loans, bond issuance, private investors, or support from public funds).
Budgeting is the process of allocating resources to major cost categories. A detailed budget includes direct expenses (materials, labor, machinery) and indirect expenses (administration, taxes, insurance). In residential construction projects, accurate budgeting has a direct impact on the final selling price of housing units and on the project's competitiveness in the market. According to the World Bank (2023), realistic budgeting is a key factor in transforming urban development toward sustainability and financial efficiency. This step also includes forecasting future revenues and expenditures based on market data and past practices. Forecasts help identify critical points, such as potential additional costs or changes in material prices. In many cases, the use of financial models and digital technologies (e.g., BIM – Building Information Modeling) increases the accuracy of projections and allows faster adaptation to unforeseen situations (Pinto, 2019).
The final yet ongoing phase is the control and monitoring of financial implementation. This process helps identify deviations from the initial plan and enables the undertaking of corrective actions. Regular monitoring ensures that the project does not exceed the approved budget and is completed within the predetermined timeframe. In international practice, one of the most widely used tools is Earned Value Analysis, which integrates time and cost data to measure project performance (Hillier, D., Ross, S., Westerfield, R., Jaffe, J., & Jordan, B., 2021).

2. BUDGETING RESIDENTIAL CONSTRUCTION PROJECTS

Cost estimation is the initial—and one of the most critical—steps in the financial planning process. It involves identifying and analyzing expenses related to construction materials, labor, equipment, logistics, and other auxiliary services. An accurate cost estimate establishes the foundation for budgeting and sustainable financial management (Brigham, E. F., & Ehrhardt, M. C., 2017).

In practice, the lack of a detailed cost estimation often results in cost overruns and time delays. Studies by Flyvbjerg, Skamris Holm, & Buhl (2013) show that public and construction projects frequently underestimate costs, creating financial uncertainty and leading to project failure. In Kosovo, the *Assessment of Social Housing and Housing Construction in Kosovo 2018–2023* conducted by the OSCE (2024) has identified multiple cases in which social housing projects faced delays and increased costs due to inefficient financial planning.

Budgeting is the process of allocating financial resources in accordance with cost items and project priorities. A well-structured budget helps in risk management and prevents resource misallocation (Hillier, D., Ross, S., Westerfield, R., Jaffe, J., & Jordan, B., 2021). In the context of residential construction projects, budgeting is not merely a financial document but a management tool linked to construction quality, project duration, and the competitive capacity of the development.

Pinto emphasizes that a budget designed based on risk analysis significantly increases the likelihood of success, especially in complex projects (Pinto, 2019). A concrete example is Veseli's study on residential construction companies in Kosovo, which highlights the importance of strategic budgeting as a key factor in ensuring project completion without financial deviations (Veseli, 2020).

The construction sector is one of the most sensitive to economic and financial uncertainties. Due to the capital-intensive nature of projects, the involvement of multiple stakeholders, and strong dependence on market variables, construction faces a wide range of risks that can severely impair project implementation.

3. CHALLENGES IN CONSTRUCTION PROJECTS

The construction sector is also exposed to significant legal and contractual risks. Disputes between parties, delays in building permit procedures, or changes in legislation can lead to additional costs and financial losses. Pinto highlights that inefficient contracting is among the key factors that increase financial uncertainty and undermine relationships between investors and contractors (Pinto, 2019).

In the case of Kosovo, reports by the OSCE (Municipalities Work to Improve Social Housing Programmes, 2017; OSCE, 2024) document that bureaucratic procedures and the lack of legal transparency remain some of the biggest challenges for the development of social and municipal construction projects.

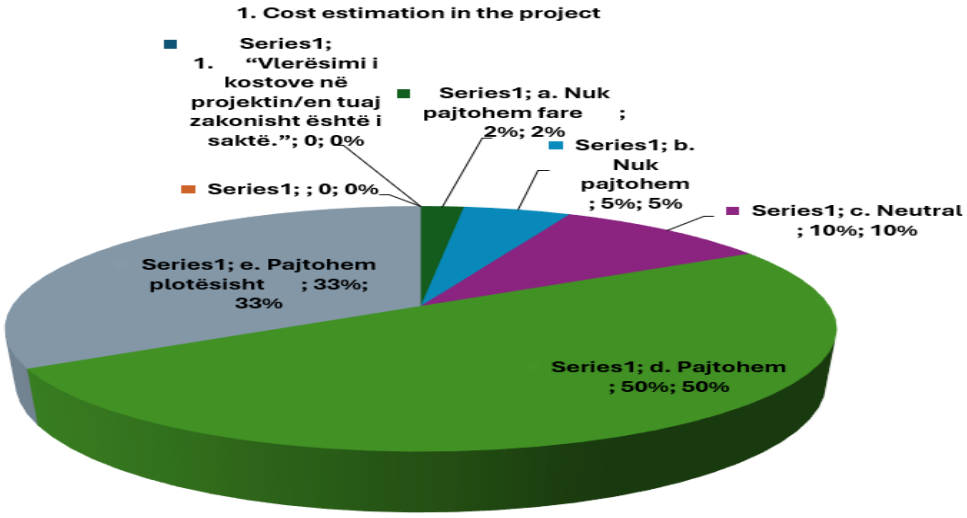
As residential construction projects grow in number, municipalities face increasing infrastructural and urban-planning challenges. In some cases, new developments have been built on agricultural land, reducing green spaces and increasing the need for sustainable urban planning. Additionally, OSCE reports (OSCE, *Municipal Profile – FushëKosovë / Kosovo Polje*, 2013) emphasize the lack of harmonization between urban planning strategies and their practical implementation on the ground, particularly within high-density residential developments.

These challenges reveal the complex nature of construction project management and the necessity for improved coordination, transparent regulation, and long-term urban planning to ensure sustainable development.

4. EVALUATION OF THE CONSTRUCTION PROJECT

The cost assessment (based on the Likert scale) in construction projects is generally accurate and is presented in Figure 1.

Figure 1. Cost Assessment in the Project



Source: Author's own elaboration

The results show a clearly positive trend regarding the accuracy of cost estimation in construction projects.
- The majority of respondents (83%) are satisfied, expressing agreement (50%) or strong agreement (33%) that cost estimation is accurate. This indicates that financial planning practices generally function effectively.
- A small portion (7%) disagree, suggesting that there are cases where forecasts do not match reality—possibly due to external factors such as price fluctuations, client requirements, or delays.
- 10% are neutral, which implies that these respondents may have mixed experiences: some projects had accurate estimates, while others did not.

In conclusion, the overall trend is positive, but there remains room for improvement—particularly in making more precise forecasts and better controlling external variables that influence project costs.

5. THE ROLE OF PROJECT PLANNING

Financial planning typically begins with a detailed analysis of construction costs, including materials, labor, and indirect expenses. Managers divide the project into phases and allocate a specific budget for each phase to prevent cost overruns. Architects contribute by providing clear forecasts on design requirements and materials. From the investor's perspective, it is essential to ensure that funding is secured before construction begins.

A good practice is the use of project management software that enables real-time tracking of expenses and progress. Likewise, regular communication between architects, engineers, and financiers is crucial. One aspect that would benefit from improvement is reducing bureaucracy and accelerating building-permit procedures, as these often cause unnecessary barriers.

Cost overruns frequently occur due to incomplete initial forecasts. Another common reason is execution delays, which generate additional expenses for labor and machinery. Moreover, material supply is sometimes dependent on imports, and market fluctuations can lead to extra costs. To address these issues, risk-analysis methods should be applied, evaluating both the probability and financial impact of each risk. Risk management can be strengthened by diversifying suppliers, negotiating fixed prices, and maintaining an emergency credit line. Experience has shown that this approach minimizes major risks that can affect a project. The most common causes of overruns are client-initiated design changes after construction begins, material-price inflation especially for imported goods and delayed payments from investors, which generate additional operational costs.

Financial planning also starts with market analysis and revenue forecasting. For each project, a detailed budget is prepared and divided into time-phased segments to control expenditures. Financial software is used to track actual costs compared to planned values, as deviations often arise from design changes during construction. Additionally, the failure to anticipate material-price fluctuations is a major contributing factor. Planning is carried out by creating a financial framework that covers all project stages. Initially, the total budget is determined and allocated according to key expense categories. Monthly comparisons between the planned budget and actual implementation are conducted to identify deviations.

Weekly progress monitoring has proven to be highly effective. Internal financial reports circulated among all managers help maintain transparency. One aspect that should be improved is strengthening control over subcontractors, who often generate unforeseen expenses.

6. CONCLUSION

The preliminary analysis shows a strong level of alignment among key stakeholders in the construction industry regarding approaches to financial project management. Stakeholders commonly view financial planning as a structured and systematic process that depends on preparing a detailed budget, allocating funds across project phases, and maintaining continuous monitoring—activities that typically involve close collaboration with architects and technical departments. The causes of cost overruns appear largely consistent across the sector, with the most significant contributors being rising material prices, client-initiated design or scope changes, and delays stemming from bureaucratic procedures or supply-chain disruptions.

Stakeholders also highlight diverse strategies for improving financial performance, ranging from reducing administrative burdens to integrating artificial intelligence into financial analysis, reflecting a tendency toward individualized process-enhancement solutions. Although examples of project failures differ from one case to another, they generally relate to external market factors or gaps in managerial practice, such as price volatility, incomplete documentation, frequent revisions requested by clients, rigid contract structures, or issues arising from project partners.

Despite these challenges, core financial planning practices within the sector appear well established. Respondents report satisfactory levels of cost-estimation accuracy, regular updates of budget projections, and consistent monthly monitoring of cash flows. Coordination between financial and technical teams is widely recognized as effective and is strongly associated with better budget control and more rapid decision-making during project execution.

Moreover, early financial planning—comprising cost estimation, phased budgeting, cash-flow scheduling, and clear coordination protocols—emerges as a major factor in reducing project risks and ensuring greater adherence to deadlines. Conversely, the absence of a detailed financial plan significantly heightens the likelihood of cost overruns and delays, especially in contexts marked by fluctuating prices and procedural uncertainty.

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