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COUNTRY PROFILES
ON
THE HOUSING SECTOR

RUSSIAN FEDERATION



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FOREWORD

The country profiles on the housing sector are intended to assist the Governments of countries with economies in transition in improving the performance of their housing sector while promoting sustainable development. They analyse trends and policy developments, and make an overall assessment of the political, economic and social framework of the sector in the process of reform. This work was initiated by the United Nations Economic Commission for Europe's Committee on Human Settlements in the early 1990s in response to requests from its member States.

The studies are carried out by international teams of experts in cooperation with governmental bodies, non-governmental organizations, local authorities and the private sector. Through a process of broad consultations, the experts carry out a comprehensive analysis of the housing sector, and draw conclusions and make recommendations to help policy makers develop strategies and programmes.

This country profile on the Housing Sector of the Russian Federation is the ninth in the series published by the UNECE Committee on Human Settlements. At the same time it reflects a change of direction in the Committee's policy work within the country profile programme. With economic and social transition well advanced and new framework conditions for the housing sector in place in many of the countries in transition, the Committee wishes to focus on specific problems within the housing sector that are of particular concern to the countries under review. In addition to a brief analysis of the framework conditions, this profile therefore includes an in-depth analysis of the most pressing concerns within the Russian Federation's housing sector, in particular the management of the existing housing stock and social housing. I would like to thank the experts who contributed to the preparation of the country profile as well as the institutions that provided funding. I hope that this country profile will prove useful to all those with an interest in the Russian Federation's housing sector – policy makers and legislators, government officials, academics, NGOs and other national stakeholders, as well as international organizations, including lender and donor organizations, technical assistance agencies, or private sector investors.



Brigita Schmögnerová
Executive Secretary

PREFACE

The Country Profile on the Housing Sector of the Russian Federation started with a preparatory mission by the secretariat in April 2003. This was followed by a research mission of the international expert team in June 2003. The project's expenses were covered by extrabudgetary funds provided by the Governments of the Czech Republic, Finland, the Netherlands, Norway and the United Kingdom. The successful conclusion of the project would not have been possible without this generous support.

The previous studies in this series were on: Bulgaria, published in 1996; Poland, published in 1998 (ECE/HBP/107); Slovakia, published in 1999 (ECE/HBP/111); Lithuania, published in 2000 (ECE/HBP/117); Romania, published in 2001 (ECE/HBP/124); the Republic of Moldova, published in 2002 (ECE/HBP/125); Albania, published in 2003 (ECE/HBP/130); and Armenia, published in 2004 (ECE/HBP/132).

Other work carried out by UNECE in the Russian Federation includes a land administration review prepared in 2003 (HBP/2003/7 and Add.1). Three other UNECE projects related to housing may also prove useful to the Russian Federation and other countries in transition: (i) the Guidelines on condominium ownership of housing for countries in transition (ECE/HBP/123); (ii) the Guidelines on housing finance systems for countries in transition (forthcoming); and (iii) the Guidelines on social housing (forthcoming).

This Country Profile as well as the other publications mentioned above are available on the web site of the Committee on Human Settlements at <http://www.unece.org/env/hs/cph/welcome.html>.

The preparation of the Country Profile on the Housing Sector of the Russian Federation was a challenging task for the team of international experts. The size of the country and the complexity of its housing situation meant that the scope of the country profile needed to be clearly defined.

It was clear from the outset that the country profile needed to give an overview of the general framework conditions of the housing sector, but that it could not analyse each aspect of the Russian Federation's housing sector in detail. The challenge was, therefore, twofold:

- (1) To present a basic overview of the overall framework conditions of the Russian Federation's housing stock;
- (2) To identify those aspects that are fundamental to the Russian Federation's housing sector and which are to be analysed in detail.

In addition it was decided that the study would focus on urban housing. No research has been undertaken into rural housing.

During the preparatory mission discussions were held with various policy makers and practitioners within the housing sector, including representatives from different levels of the government as well as the private sector and non-governmental organizations, to identify those aspects that are particularly important to the Russian Federation's housing sector. It was decided that, in addition to describing the framework conditions of the housing sector, the identified aspects should be studied in detail.

This approach is reflected in the structure of the country profile. Part one of the study presents the framework conditions of the housing sector. Chapter I analyses the past decade's socio-economic transition and its impact on housing developments. Chapter II presents the recent developments with regard to housing reform and chapter III gives an overview of the features of the existing housing stock. The institutional structure of the Russian Federation's housing sector on the federal, regional and local level of government is analysed in chapter IV, the legal framework in chapter V and the financial framework in chapter VI.

Those aspects that were found to be particularly important are taken up in part two:

- The management and operation of the housing stock (chapter VII)
- Utilities (chapter VIII)
- Social housing (chapter IX)
- New construction and urban planning (chapter X)
- Land management and real property market development (chapter XI)

All chapters include conclusions and recommendations. The most important are included in the summary of conclusions and recommendations.

The aim of the country profile is to help policy makers and other stakeholders in the housing sector throughout the country. However, due to the large size of the country, it has not been possible to visit and carry out in-depth research in all regions. Field research has therefore been conducted in a selected number of regions. As the housing situation can never be seen independently from the overall economic development of a particular area, the regions were chosen because they represent the country's different socio-economic framework conditions as well as various problems and challenges within the housing stock. And while the team did not visit all the regions of the Russian Federation, it did use information from across the country.

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SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Housing is widely acknowledged as a human right. At the same time, it is a major driving force of the economy and often an individual's biggest asset. The situation within the housing sector is of high significance for a society's social and economic development and there is a need to openly recognize problems within the sector in order to develop and implement feasible policy options.

The importance of addressing problems within the housing sector for the future development of the country has become increasingly recognized by policy makers within the Russian Federation. The President of the Russian Federation, during a speech to the State Duma in December 2003, stressed the importance of tackling the challenges within the housing sector as part of the Government's overall strategy for economic and social development.

The Russian Federation's request to UNECE to have a country profile carried out on its housing sector illustrates the preparedness of the Government to discuss, in depth, the current problems within its housing sector and options for improvement.

This section summarizes the main conclusions and recommendations which result from the country profile. They are presented in more detail in the respective chapters. The conclusions and recommendations aim at uniting the various aspects of a specific issue, combining its institutional, legal and financial aspects, for instance. They therefore do not necessarily follow the structure of the overall outline of the profile. It should be noted in particular that the recommendations on the legal framework have been included in the different subject areas, e.g. housing finance, existing stock. The structure of the conclusions and recommendations is as follows:

- (a) Housing reform;
- (b) Institutional framework;
- (c) The existing housing stock: operation, maintenance and utilities;
- (d) Social housing;
- (e) Housing finance;
- (f) Future housing needs: urban planning and new construction;
- (g) Land and real estate markets.

The conclusions and recommendations take a long-term perspective of the Russian Federation's housing sector. They reflect the aim of the study to present an encompassing view of the housing situation and to assist the Government to formulate policies. They should be implemented step by step, prioritizing those issues which need immediate action to tackle the country's housing problems.

A. Housing reform

The structure of the Russian housing sector has undergone major changes during the past decade. Probably the most significant development was the privatization policy, which led to a change in ownership structure by allowing individual tenants to claim ownership over their housing units and by transferring the State housing stock, including the housing stock of former State enterprises, to municipalities. Today private housing comprises nearly 70% of the total housing stock compared to 33% in 1990.

Privatization became the Government's key instrument in establishing market relations throughout the sector. All households, including those living in publicly owned multi-apartment blocks, were affected by this policy, as they were granted the right to privatize the flat that they were occupying free of charge. Crucially, it was assumed that together with this transfer of ownership title, the new owners would take over the management and maintenance of the housing stock.

Privatization has been accompanied by a number of reforms to regulate the new situation in the housing sector. The passage of the Law on the Fundamentals of Federal Housing Policy in December 1992 was the first important step in this context, for the owner-occupied as well as the rental sector. It introduced the possibility of establishing homeowners' associations, clarified property rights, strengthened the possibilities for mortgage lending, introduced housing allowances, established the foundations for a programme to increase rents, provided for improved maintenance of State housing by introducing competitive procurement procedures and reduced tenant rights by permitting eviction from municipal flats for the non-payment of rent.

This basic legislation was supplemented in the following years by a number of legislative acts and reforms, which served to strengthen and redefine some of the principles laid down in the Law on the Fundamentals of Federal Housing Policy. In particular, they aimed at further advancing the privatization of the remaining public housing stock, refining the legal basis for the establishment of homeowners' associations, boosting the housing market, reforming the housing and municipal services sector and initiating reforms in the social allowance system.

This legislative activity demonstrates that, throughout the transition, the Government became increasingly aware that the mere establishment of market relations was not sufficient to address the problems within the housing sector and that legislation was needed to address all issues connected with the privatization policy, including the concerns of socially weak households, in particular poor owners, as well as the division of responsibilities between public and private sector entities and the different public sector institutions. Furthermore, the Government recognized that there was a need for an encompassing framework, which would integrate the different legal acts and clarify their interrelations.

The establishment of the federal targeted programme "Dwelling for 2002-2010", including its two subprogrammes on reforming and upgrading housing and utilities and on relocating residents from slums and derelict dwellings, was an important development in this regard, as it constituted an attempt to provide an overall policy framework which went beyond the establishment of single legal acts on specific issues.

The current preparations for the establishment of a new housing code are a further step towards solving the housing problems in an integrated way. The new housing code will aim at systemizing the norms which govern the relationships in the housing sphere, in accordance with the Constitution, the Civil Code and other federal laws. This includes the delimitation of housing responsibilities between the Federation, the "subject of the Federation" and local governments, and the establishment of how housing legislation and other legal acts relate to one another in practice. It is also expected that the housing code will also address unresolved issues regarding the future of free privatization of housing, the targeting of social welfare payments covering housing and utility charges, the termination of owner's rights under specific circumstances (e.g. non-repayment of a mortgage) and the legal protection of tenants, including family members.

Recommendations – HOUSING REFORM

1. Housing needs to be a political priority due to the scale of the present problems and the social and economic significance of the housing sector. Problems within the sector therefore need to be addressed in an integrated and all-encompassing way, by taking into account socio-economic considerations as well as legal, institutional and financial framework conditions.
2. A solid legal basis is an essential part of such an approach and a precondition for addressing the current problems in the housing sector. The current legal framework suffers, in particular, from incompatibilities between individual pieces of legislation. The development of the new housing code constitutes a unique opportunity for resolving these conflicts between laws and to provide a solid and comprehensive legal basis, by:
 - (a) Establishing the legal framework for all housing policies and programmes. This includes the federal programme for 2002-2010 and its subprogrammes;
 - (b) Abolishing any contradictions between legal acts, in particular the Constitution and the Housing

Code and specialized legislation;

(c) Addressing current weaknesses in the legal system as spelled out in chapter V.

3. Housing policies cannot, however, stop with the development of the legal framework but have to be effectively and efficiently implemented. To this end, a functioning institutional framework needs to be in place to resolve the current divisions and uncertainties regarding institutional responsibilities (see sect. B).

4. In the implementation of policies and programmes priority should be given to:

(a) Clarifying the effective ownership of the housing stock;

(b) Facilitating the establishment of functioning management and maintenance systems for the housing stock, in particular the multi-unit buildings (see sect. C below);

(c) Developing a system of housing support for socially weak households (see sect. D);

(d) Creating a framework for a functioning housing market (see sects. E, G);

(e) Raising the necessary public financing (see sect. E).

5. Implementation of the long-term housing programmes, such as the federal programme for 2002-2010 and its subprogrammes, should be strengthened. Attention should in particular be paid to meeting the deadlines.

6. Beyond the housing sector itself, housing policies should be integrated into the overall development plan of the Russian Federation, taking in particular into account policies on social affairs, on migration and on the integration of disadvantaged population groups.

B. Institutional framework

A functioning institutional framework is a prerequisite for the effective development and implementation of housing policies. The institutional framework of Russia's housing sector needs to be further developed in order to effectively address the country's housing challenges. To achieve this, the roles, responsibilities and relationships of the different actors involved in the housing sector need to be clearly defined.

Today there is no single housing ministry or parliamentary committee at federal level. Yet, clear and transparent sectoral administration within and between all levels of government is necessary. Clarity in roles and responsibilities is vital for the implementation of any housing reform.

Housing policies cannot be implemented merely at the federal level. Most policy implementation will in fact take place at the local level. Decentralization of powers to the level of the "subjects of the Federation"¹ and the local level is therefore necessary. Today, there is a gap between policy-making at the federal level and its implementation at the local level, which is demonstrated by the mismatch between the responsibilities assigned to the local level and the local financial and human resource capacities.

Gosstroy has little practical opportunity for advising the "subjects of the Federation" and local authorities on the implementation of federal policy or to monitor results. The existing system of State Housing Inspection, with housing inspectorates monitoring the quality of housing construction and municipal services in 82 "subjects of the Federation", and the establishment in 2001, at the initiative of Gosstroy, of the Central Coordinating Council of State Housing Inspections, is a step in the right direction. However, the inspectorates have a purely monitoring function, no advisory role. In addition, only about half of them are administratively truly independent units, while the remaining are still part of the local housing management structures.

¹ The "Subjects of the Federation" include 49 oblasts, 21 republics, 10 autonomous okrugs, 6 krais, 2 federal cities (Moscow and St Petersburg) and 1 autonomous oblast.

Increased coordination between the different levels of government is important to ensure the implementation of federal housing policies across the country and to provide the federal Government with information on and feedback from the local level. Similarly, regular input from all other stakeholders within the housing sector, such as housing associations or private banks, in the Government's housing policies and programmes is crucial for ensuring a well-informed and balanced approach to the country's housing problems. The Governmental Commission on Housing Policy, established in January 2001, with government representatives from all levels, non-governmental organizations, academics and representatives of the private sector, could develop into an important tool for the establishment of broad and effective cooperation (see recommendations).

Recommendations – INSTITUTIONAL FRAMEWORK

Federal level

1. The roles and responsibilities within the housing sector at the federal level, both in relationship to the parliamentary committees as well as the institutions of the federal Government, need to be clearly defined. This would involve:

- (a) Assigning responsibilities related to housing policy clearly to one parliamentary committee;
- (b) Consolidating responsibilities for housing policy at the federal Government level. All responsibilities for housing policies should be concentrated within one government institution.

2. Roles and responsibilities at each level of government should be clarified. The main responsibilities at the Federal Government level should entail:

- (a) Developing a comprehensive federal housing policy framework;
- (b) Establishing the necessary legal and financial framework conditions for the federal housing policy;
- (c) Defining the roles of all major stakeholders in the implementation of the housing policy;
- (d) Developing a social support system and ensuring its funding. This includes ensuring that municipalities have sufficient sources of revenue to fulfil the social obligations assigned to them;
- (e) Monitoring and analysing the implementation of the federal policy.

3. Communication and coordination between the federal level, the “subjects of the Federation” and municipalities need to be improved. The Governmental Commission on Housing Policy could have an important role here in assisting the federal Government in receiving information and feedback from the housing authorities at the different levels of government as well as other stakeholders within the housing sector (see paras. 10 to 13). Additionally, the system of the housing inspectorates should be strengthened to increase the federal Government's monitoring capacity.

Level of the “subjects of the Federation” (regional level)

4. The main responsibilities at the level of the “subjects of the Federation” should include:

- (a) Developing regional housing programmes within the framework of national policy;
- (b) Monitoring the implementation of housing policy at the municipal level;
- (c) Developing regional policy tools, in particular funding mechanisms (see sect. E);
- (d) Reporting to the federal level on regional housing policies and their implementation.

5. Within the regional administration efficient cooperation between the different departments/ committees/ ministries in charge of housing should be established.

Municipal level

6. Municipalities are the principal responsible bodies for implementing housing policy. Their main responsibilities should include:

- (a) Developing municipal housing programmes in accordance with federal and regional policies and guidelines;

- (b) Implementing programmes for social housing support using federal, regional and local funds (see sect. D);
- (c) Land-use and urban development planning (see sect. G);
- (d) Developing action plans for upgrading and regenerating the local housing stock (see sect. C);
- (e) Ensuring the efficient management, operation, repair and renovation of the municipally owned housing stock in cooperation with the private sector (see sect. C).

7. For the municipalities to execute their tasks effectively, their resource base would need to be strengthened. It is therefore recommended that the Government should:

- (a) Extend proper federal funding for municipalities and regulate its disbursement to clearly identified federal targets (e.g. certain social housing benefits);
- (b) Provide municipalities with sources of budgetary funding, most importantly the real property tax;
- (c) Encourage municipalities to generate additional funds locally.

8. To enable municipalities to carry out their tasks more efficiently, the following is recommended:

- (a) Halt the arbitrary and implicit subsidization of municipal authorities and municipal enterprises. Subsidies should be redirected on the basis of social need and the system of subsidization made both explicit and accountable (see sect. D);
- (b) Encourage the establishment of contractual bases for the work of municipal housing enterprises. Contractual relationships need to be established between the municipal authorities, the suppliers of housing and utilities, and the consumers;
- (c) Encourage municipalities in establishing a transparent procedure of regulation in order to promote a competitive market for services (see sect. C);
- (d) Introduce a system of financial auditing in municipal organizations.

9. Implementation of housing sector reforms will require extensive capacity-building at all levels of government, in particular the municipal level:

- (a) Municipalities should be trained in strategic planning, project management, participatory approaches, fund-raising and budgeting as well as the contracting-out of public services, including tendering, quality and price evaluation, etc.;
- (b) Training should be made available to municipal housing managers so that they are better able to deal with the new situation in the housing stock, where a large part of the stock is privatized. In particular they need to become familiar with the procedures of establishing and running homeowners' associations in order for them to be able to render the necessary support as stipulated by legislation (see sect. C);
- (c) These measures should, where possible, be taken in close cooperation with community-based organizations.

Governmental Commission on Housing Policy

10. To increase communication and coordination between the different levels of government as well as with private, international and non-governmental organizations, it is recommended to strengthen and adapt the role of the Governmental Commission on Housing Policy.

11. The Commission, comprised of policy makers from all levels of government as well as all other major housing stakeholders, such as housing associations or banks, should clearly serve the federal housing policy. It should have focal points within each "subject of the Federation" to facilitate the flow of information between the different government levels. It does not need to be a formal body; however, it should meet in regularly and be supported by a small, administrative unit.

12. The main aim of the Commission should be to strengthen the federal Government's implementing power by providing it with:

- (a) Upward feedback from the "subjects of the Federation" and municipalities on problems and concerns with housing policy implementation;
- (b) Feedback from all other relevant stakeholders in the housing sector;
- (c) A network for advising the "subjects of the Federation" and municipalities on housing policy

implementation.

13. Along these lines, the main tasks of the Commission would be to:

- (a) Establish a dialogue on housing issues among all major stakeholders in the housing sector;
- (b) Assist the Government in conducting data collection, analyses and research into the housing conditions throughout the country;
- (c) Make findings on housing conditions widely available;
- (d) Assist the “subjects of the Federation” in developing their housing programmes within the federal housing policy framework through the dissemination of good practice advice to the “subjects of the Federation” and municipalities;
- (e) Provide feedback to federal policy makers on the feasibility of implementing national housing policy on the local level.

C. The existing housing stock: operation, maintenance and utilities

Ownership, management and maintenance

Tackling the problems within the existing stock is the most obvious and most pressing challenge, as its condition is worsening daily due to the near absence of maintenance, renovation and reconstruction. Given the age structure of the housing stock, it is expected that within the coming 10-15 years the need for repair and reconstruction will reach an alarming level.

Even if it is possible in a reasonably short time to bring the rate of new construction of housing to its 1990 level, this would still only mean a 2% increase in the housing per year. The existing housing stock will therefore constitute the bulk of Russian housing for many years to come and it will be vital to future housing standards and to the quality of life of the Russian people how the maintenance, repair, renovation and upgrading needs of the existing housing stock are dealt with.

At the heart of the problem of the continuous decay of the stock are the current uncertainties with regard to its ownership and the lack of functioning management and maintenance systems. The management and maintenance of the multi-unit stock – the publicly owned as well as the privatized and partly privatized buildings - are still carried out largely by the municipally owned management and maintenance companies (*zheks*), but without adequate funding. The *zheks* operate in a largely monopolistic environment, where fees and services provision do not correspond to the actual needs. With State subsidies slashed, current fees levied from the inhabitants for municipal maintenance services are too low to cover even day-to-day maintenance. The quality of services suffers and this makes the residents even less willing to pay the bills.

The rapid, free-of-charge privatization of apartments in many ways lies at the heart of the fundamental problems and challenge in the Russian Federation’s housing sector, as privatization was not accompanied by the creation of adequate framework conditions for the new situation, nor by a systematic analysis of the variety of organizational forms for the management and maintenance of the housing stock.

Such organizational forms may include:

1. Owner-occupied housing including indirect ownership:
 - Housing cooperatives;
 - Owner-occupied flats in multi-unit buildings (condominiums) organized as homeowners’ associations;
 - Owner-occupied flats in multi-unit buildings organized as joint-stock companies;
 - Owner-occupied, single-family houses.
2. Housing for rent:
 - Municipally owned rental housing for social purposes;

- Housing Cooperatives for rent;
- Not-for-profit housing associations operating rental, often low-cost housing;
- Privately owned multi-flat buildings operated as rental housing at market rents.

The legal framework for these different organizational structures is largely absent. During the privatization process little or no attention was paid to how the new private owners would manage and maintain their property. The underlying assumption was that they would be willing and able to take on the full organizational, economic and financial responsibilities without any external assistance.

It is now increasingly recognized that this is not realistic. Households that privatized their apartments were often not even aware of the rights and obligations involved. Their choices were usually not made on the basis of comprehensive information on the financial implications of ownership and on their ability to meet these without unacceptable personal hardship. As a result, many households in the privatized multi-apartment buildings are today not in a position to cover even recurrent management and maintenance costs, let alone investments in repair. This applies in particular to the large number of low-income households – often referred to as “poor owners”. Additionally, even today there is a lack of knowledge and understanding of the rights and responsibilities that private ownership in multi-apartment housing entails.

The problem is compounded by the fact that the ownership structure of the privatized or partly privatized multi-unit buildings is far from clear. Effective privatization has been completed only as far as the individual flats are concerned. However, no clear responsibilities have been assigned for the common parts of the building, which, consequently are “ownerless”. This impedes effective management and maintenance of the multi-unit housing stock. No effective management structures have been set up for the bulk of the newly privatized stock.

There have in recent years been attempts to establish homeowners’ associations as a means to address the management problems in the multi-unit housing stock. Their formation is not very widespread - only about 1% of the multi-unit stock is formally registered under homeowners’ associations. There is a lack of assistance in their formation from the local authorities. Where they are formed, they often cover a number of apartment buildings containing many housing units, which makes them difficult to manage.

The organization of maintenance and management of the multi-unit stock through homeowners’ associations suffers from: (i) the enormous backlog in major repairs; (ii) the occupants’ lack of money to overcome it; (iii) the absence of a system to collect and save money for future repairs as well as the lack of workable legal structures to take out loans for such purposes; (iv) the absence of a system to force reluctant members of the condominium to join in the sharing of costs or to leave the housing entity. The need to have signatures from all occupants can stop all repair efforts.

The system of homeowners’ associations therefore needs a number of adjustments. All legal, regulatory and bureaucratic bottlenecks with regard to their effective establishment and operation need to be removed (see recommendations). At the same time it needs to be kept in mind that homeowners’ associations are not the only possible management form for the multi-unit stock, and legal and administrative provisions for a variety of tenure forms should be put in place.

Removing the current administrative and legal bottlenecks can go a long way in addressing the problems in the management of the existing stock, however, it would be unrealistic to assume that the new homeowners can solve all problems on their own.

There is a need for targeted funds to save valuable parts of the housing stock (see sect. E); the forms and modalities have to be defined as soon as possible. Considering the rapid deterioration of the stock, investments in maintenance and renovation will not only be necessary but also efficient, since otherwise the stock is likely to decay beyond repair, which would require enormous new capital investments and be far more expensive than addressing today’s maintenance and repair needs.

New homeowners also need strong guidance with regard to their rights and responsibilities towards their individual, but also commonly held, property. The government, in cooperation with other actors in the housing sector, in particular the non-governmental organizations, has a strong role to play here. Municipalities, with federal and regional assistance, need to be charged with a greater responsibility for the commonly owned parts of buildings where, for social reasons, it is clear that owners are not able to carry the financial burden of effective management. This, however, needs to be done in the framework of a transparent social support system and in an efficient and competitive environment, not in one where service provision is dominated by municipally owned enterprises that have little incentive to improve their efficiency.

Recommendations – EXISTING HOUSING STOCK

Ownership, management and maintenance

1. The worsening condition of the housing stock, in particular the huge maintenance and repair backlog, is one of the most, if not the most, pressing issue in the Russian housing sector and needs to be addressed urgently. In this context it is recommended that:

(a) The Government should develop a concise programme addressing the maintenance and repair needs of the stock, regardless of tenure form. This should particularly entail legislation and regulations to make sure that the common structures and spaces of multi-apartment buildings are adequately taken care of;

(b) The municipalities should be provided with clear responsibilities for assessing the repair and renovation needs of the local housing stock and for preparing local programmes with clear priorities for addressing these needs. These programmes should take into account the possibilities for mobilizing resources from the public as well as the private sector, including from homeowners;

(c) To this end, a system of regular compilation of housing statistics, including quantity and quality indicators, should be created in the municipalities. These could be used to compile regional and federal information. The information should be made available to all policy makers within the sector regularly.

2. To manage and maintain the existing stock effectively, current insecurities concerning ownership and responsibilities need to be addressed. Clarifying the situation within the housing sector in general, and the multi-apartment buildings in particular, will entail:

(a) Imposing a moratorium on the free-of-charge privatization of housing;

(b) Completing the transfer of ownership of public housing to the local level;

(c) Clearly defining, in multi-unit apartment blocks, the ownership and responsibilities for the building as a whole, the individual flats and the common spaces;

(d) Implementing the provisions of the Land Code that land under multi-unit apartment blocks may be owned by flat owners;

(e) Clearly laying down the legal obligations which are attached to individual and collectively held property.

Full use should be made of international experience of major privatization processes, such as that carried out in the United Kingdom, in particular with regard to the public information about owners' and tenants' rights.

3. It needs to be recognized that there is a variety of forms for housing occupation and functioning legal and management frameworks need to be established for all of them.

4. The current management vacuum with regard to multi-unit buildings needs to be addressed.

5. For the multi-unit buildings where most flats are publicly owned, municipalities should:

(a) Assume effective management responsibility for this stock;

(b) Concentrate on this management responsibility and contract out all operational tasks through public tendering on the basis of clearly defined quality criteria;

(c) Be encouraged to make use of their right to revise rental charges (nayem) for publicly owned

buildings. Rents should be put at realistic levels to cover the cost of maintenance and recurrent repairs. At the same time they need to be complemented with a housing assistance system to help those households who would otherwise not be able to pay these rents.

6. For the multi-unit stock where all or most flats are privatized, effective management systems need to be developed and promoted. Whatever the legal structure ultimately decided upon for an individual building (be it a condominium managed through a homeowners' association or a cooperative), it is essential that for each building an organizational entity is responsible for the entire building, including its common parts.

7. Homeowners' associations are one possible form of organization of the privatized or partly privatized multi-unit stock. The current administrative and legal bottlenecks with regard to these associations need to be addressed:

(a) To this end, homeowners' associations, as a rule, should be formed for one building only. The number of flats within one association should remain manageable;

(b) Where homeowners' associations are established in buildings held in both public and private hands, municipalities should assume the role and responsibilities of owner for the public apartments;

(c) Mechanisms need to be implemented to ensure that homeowners' associations can effectively use the land under the condominiums. This involves:

(i) Resolving the current problems with the registration of condominiums as a form of collective ownership. The implementation of the right to register condominiums, which exists in federal legislation, needs to be strengthened. Registration should not be at the discretion of local registering bodies;

(ii) This requires a reliable cadastre system (see sect. G);

(iii) Homeowners' associations should be entitled and able to use the land owned by them as collateral for loans, which could be used for repairs.

(d) To encourage condominium associations to carry out long-term repairs, the principle of matched funding could be applied, with the local authority providing public funding on condition that a reasonable amount would also be made available by the condominium owners;

(e) To ensure the effective functioning of homeowners' associations, which includes the active participation in meetings and the payment of fees for maintenance and management, the following is recommended:

(i) Majority decisions taken by the association should be binding on its members. All members should have the possibility to vote. However, deliberate absence from meetings or failure to sign by proxy on a particular issue should not stop majority decisions;

(ii) For an effective day-to-day functioning, there should be an elected body, e.g. a management board, responsible to the general assembly of homeowners, but holding sufficient decision-making powers in between the assembly meetings. There could be a limit to its rights to decide on, for example, the use of funds;

(iii) Legal provisions should be established to take action against those who fail to pay their membership fees;

(iv) A system of targeted social security payments should support those members of condominiums who otherwise would be unable to meet their obligations. This system should be strictly means-tested (see sect. D);

(v) A functioning system of building insurance should be established;

(vi) The tax exemptions for the non-profit activities of homeowners' associations, which are provided for in federal legislation should be applied;

(f) In developing policies on homeowners' associations, full use should be made of the Guidelines on Condominium Ownership of Housing for Countries in Transition (ECE/HBP/123) prepared by the UNECE Committee on Human Settlements.

8. Local governments need to be encouraged to train their staff in the rules and regulations as well as the functioning of the different management systems for the multi-unit stock.

9. Equally, homeowners, in particular in the multi-unit stock, need to be made aware of their rights and responsibilities. Apartment owners will need practical guidance on all operations in relation to the management system chosen for their building.

10. The creation of private housing maintenance companies needs to be encouraged to stimulate competition with the public maintenance entities. Pilot projects should be started to move towards a situation of free competition between public and private maintenance companies. A number of districts in Moscow have run such pilot schemes and they could serve as an example (for more information, please refer to the report of the UNECE workshop on management of the housing stock, Moscow, November 2003, HBP/2004/4).

Utilities

The problems within the utility sector are very similar and related to the problems in housing management and maintenance described above. In fact, one of the main features of the Russian Federation's housing sector management is that the housing sector and the utility sector are closely intertwined. Charges for rent, maintenance and public utilities are usually combined in one bill and the household's understanding of pure rent is generally weak. In fact, utility charges are routinely confused with rents and housing maintenance charges.

This confusion also stems from the fact that the problems within the utility sector have overshadowed the Russian Federation's housing sector in recent years. The public utilities suffer from a poor quality of service and a constant decay of the technical infrastructure. The services are usually provided by municipally owned companies at tariffs below cost-recovery levels. Neglect in maintenance of the infrastructure and regular breakdowns and accidents have been the consequence. This has brought the utilities to the forefront of public awareness and political attention. The situation is now being described as disastrous.

As a response to the worsening situation, the Government has initiated a subprogramme for 2002-2010 to reform and upgrade the housing and utilities sector. It contains a detailed action plan calling, for instance, for fully cost-recovery tariffs, for reforming and privatizing utility companies and for introducing a system of support to the socially disadvantaged to enable them to meet their utility bills. The steps proposed in the subprogramme form an acceptable basis for reform. However, the greatest challenge lies in its implementation. The proposed timeframe has so far not been met and it is unlikely that it can be adhered to in the future, owing to the low financial and human resource capacities within the municipalities, which are meant to play the leading role in this reform. Other shortcomings are the lack of public information and awareness raising.

The quantity and quality of the services are not monitored. Although legislation often refers to standards to be followed, in fact there are no objective standards and not all the municipalities are aware of the necessity to develop adequate standards for the services. Another problem is the extremely fragmented process of setting tariffs, which is divided between all levels of government. The authorities that set tariffs often review only the circumstances of the tariff in question without taking into account the overall situation in the housing and utility sector.

Recommendations – Utilities

1. The Government needs to urgently address the pressing heavy repairs of the deteriorating utility infrastructure. In doing so it should:
 - (a) Generate funds, from all possible sources, for repair and reconstruction;
 - (b) Further pursue the principle of cost-recovery user fees, which would take into account the long-term maintenance requirements of the utility infrastructure.
2. The quality of the services needs to be improved:

- (a) The Federation should draw up general definitions and major quality criteria for the services;
 - (b) Municipal entities should have the obligation to tailor these criteria to local circumstances under the supervision of the local housing inspectorates (see sect. B);
 - (c) Reasonable and reliable methods for metering should become obligatory to enable an assessment of the efficiency of services;
 - (d) Production losses incurred in the current provision of services need to be the responsibility of the respective utility provider;
 - (e) The housing inspectorates have to become the major institutional instrument for representing the public interest when controlling the adequacy of services.
3. The tariff-setting procedures need to be improved and streamlined:
- (a) Institutional responsibilities for tariff-setting policies need to be clarified;
 - (b) Policies aiming at full cost recovery need to be accompanied by corresponding quality and quantity control mechanisms (see above);
 - (c) Policies need to be complemented by a system of social security assistance to those households that are not able to pay tariffs at cost-recovery levels.
4. There needs to be increased transparency in the link between the services provided and the fees paid by households. The households should be clearly informed about the tariff structure as well as quality criteria for each utility. The contractual relations between the utility providers and the management companies and between the management companies and the households should be transparent.
5. To increase the effectiveness of service provision, a number of conditions should be fulfilled:
- (a) Service providers need to operate on the basis of market-oriented principles, independent of the nature of their ownership (public or private);
 - (b) The establishment of private service providers, in addition to the municipal provider, should be encouraged to promote competition;
 - (c) Service providers are to be released fully from any obligation to provide social and charity benefits to their customers. Their responsibility should be solely to provide services according to established qualitative norms;
 - (d) However, a social security system needs to be established (see para. 3).

D. Social housing

The preceding analysis has shown that effective reforms within the housing sector cannot be implemented without addressing those population groups that are not able to meet their basic housing needs unaided. In every society there is a need for housing assistance. There are and always will be vulnerable groups of people who need public assistance to solve their housing problems. The dissolution of traditional support systems in the Russian Federation has resulted in a considerable number of households that are not able to meet their housing needs in the new situation. The privatization policies have given rise to the widespread phenomenon of “poor owners”, i.e. owners whose income is too low to allow them to invest sufficiently in the maintenance of their housing units or even to pay utility bills. The consequence is the widespread and rapid decay of the housing stock (see sect. C).

There is no explicit policy in place in the Russian Federation to address the housing needs of the socially disadvantaged. There is a system of “privileges and mandates,” but it is rarely directed towards the most needy. Few municipalities today are able to address the housing needs of the needy, either in financial terms or in terms of human resource capacity. If they are to fulfil their responsibilities effectively in the future, increased federal assistance will be necessary. In addition, municipalities will need to review their organizational structures and skills base to meet this significant and socially critical challenge.

The significance of social housing policy goes beyond the mere provision of housing. Social housing policies have to be seen as the crossing point of various economic, social and urban development policies and they

are an important instrument for facilitating social inclusion and promoting economic development. They should therefore become a key element in the Government's housing policies.

Recommendations – SOCIAL HOUSING

1. The Russian Federation needs to develop a long-term and consistent vision for social housing.
2. In this context, responsibilities for housing assistance within the government structure need to be clarified:
 - (a) Given its importance for society as a whole, the overall responsibility for setting the framework for policies and financing of the evolving social security system should be federal;
 - (b) The main implementing responsibility should be municipal. The federal Government needs to help the municipalities carry out their tasks. In particular the Federation needs to make sure that social responsibilities delegated to municipalities are matched by adequate funding, either through the generation of local funds or through budget transfers or, preferably, both.
3. The Government needs to specify which social groups have priority for social housing assistance in order to address them directly. To achieve this the following is recommended:
 - (a) The Government should adopt as a guiding principle the policy of ending implicit housing subsidies and replacing these with means-tested social security payments;
 - (b) The principle of means-testing should be adopted as the key allocation criterion for general-needs social housing;
 - (c) The present system of federal mandates should be integrated with the waiting list priorities of the municipalities according to the principle of means-testing.
4. Similarly, the Government needs to make clear what forms of housing are most appropriate for social housing:
 - (a) The Government should encourage municipalities to obtain a clear overview of the long-term functionality of the existing public housing, recognizing in particular that for the elderly or people with special needs current building designs are unlikely to be appropriate over time;
 - (b) Based on this information, the Government should encourage municipalities to create a social housing stock.
5. To build up a social rental housing stock, use should first be made of the existing publicly owned housing stock by:
 - (a) Encouraging municipalities to stop subsidizing (through low rents and utility fees) all households living in the municipal housing stock regardless of their income. Subsidies should be exclusively and explicitly targeted towards the needy (see sect. C);
 - (b) Local governments should give future subsidies according to the principle of means testing (see above). Subsidies should be reduced as incomes rise;
 - (c) Tenants in the municipal housing stock who can afford to pay cost-recovery rents should be expected to do so without any subsidy. This will increase municipal revenues, which could be invested in maintenance and new social housing.
6. Local governments should be encouraged to invest in new social housing through pilot projects targeted to special population groups such as young families, single parents and the elderly. For pilot projects the financial resource requirements are limited and, if successful, those projects might be copied by other local governments. In implementing pilot projects the following should be taken into account:
 - (a) The buildings should be designed in such a way that they are adequate and affordable for the targeted population groups;
 - (b) If the targeted groups are, for example, the elderly or families with young children, the appropriate provisions, such as lifts, which are easy to access, should be made available;
 - (c) The social housing stock should not be geographically concentrated in order to avoid socially segregated areas.

7. In the development of policies to assist the socially weak in accessing housing, the Government should make full use of the work carried out by the UNECE Committee on Human Settlements in the framework of its social housing project.

E. Housing finance

Public financing for housing has decreased dramatically and is currently clearly insufficient. The total amount spent on capital investment and maintenance and repair in the housing sector during the past decade has been far too low to prevent the housing stock from decaying. Although the provision of housing finance by individuals has risen in recent years, it is not yet high enough to compensate for the sharp decline in public spending.

The Government needs to actively seek out funding options to prevent the stock from decaying further. Potential sources of public funding are, for instance, the current system of tariffs and subsidies. Restructuring these systems by introducing cost-recovery tariffs and an effective and explicit social security system, strictly based on social need, is likely to free up public funds (see sect. D). Rents from the public rental stock should also contribute to public funds. They should be realistic and, ideally, cover the cost of housing management, routine repairs and maintenance, as well as include a contribution to a sinking fund that can be built up over the years to finance major capital repairs. Further funding options are the property tax (see sect. B) and housing development funds (see below).

Parallel to generating public funds, the Government needs to create enabling conditions to help the development of private sources for housing finance. Today, private investment in housing is severely hampered by the lack of access to adequate funding. Financing from the official banking system is hard to obtain and normally requires personal connections. A functioning property finance system is a precondition for private investment in housing and housing infrastructure. The Government will need to remove the barriers to the development of a property finance system if it wishes to enable its citizens to improve their housing situation. This includes the promotion of a reliable cadastral and registration system, as a precondition for secure property rights.

Recommendations – HOUSING FINANCE

1. The public sector (federal, regional and municipal) needs to generate funds for its housing policy. The following steps should be considered:

(a) At all three levels of government, resources generated by the selling or leasing of real estate rights and by the property tax should be put in special funds for housing support (“housing development funds”);

(b) On the federal level, additional resources should be made available;

(c) These funds should be used for financing the implementation of the housing policy. As a rule, they should not, however, influence market competition.

2. A clear structure for the institutions involved in housing/ real estate financing has to be developed. The following actions should be taken:

(a) Introducing laws regulating the activities of specialized housing finance institutions, such as savings banks or mortgage banks, and financing through mortgage-backed securities;

(b) The existing regional agencies may be transformed into mortgage or saving banks with the help of the housing development funds and in cooperation with commercial banks. In the long run they should be privatized.

3. To stimulate lending in the housing market, a housing subsidy policy with clear tasks for all levels of government should be developed. This involves:

(a) Housing subsidies targeted towards relevant groups (e.g. young families, middle-class households with a stable income but no possibilities for taking out loans on the open market);

(b) Direct subsidies (for example, credit guarantees for lenders) and indirect subsidies (e.g. interest subsidies for mortgage bonds). Through indirect subsidies two goals may be achieved: mortgage loans will be cheaper for borrowers and a secure capital market instrument (covered bond) will be developed;

(c) Subsidies that bring about cooperation between universal and specialized banks. If mortgage lending remains exclusively with the universal bank, funded through deposits, the advantages of a real estate finance system with different institutions cannot be achieved. The development in other countries in transition shows that the State has to give incentives to initiate this kind of cooperation;

(d) Government subsidies that do not influence market competition;

(e) Subsidies that aim at stimulating lending activities. They might therefore not always be targeted towards the most needy. A separate social security system needs to be in place to ensure that the housing needs of vulnerable households are met (see sect. D).

4. Mortgage lending needs to be promoted. To achieve this, the current risks stemming from the uncertain economic development and the incomplete legal environment need to be removed. This would entail:

(a) Promoting mortgages as a form of credit security;

(b) Making foreclosure procedures less time-consuming;

(c) Improving the procedures for implementing the new Law on Bankruptcy, which gives priority to creditors secured by a mortgage;

(d) Revising current legislation on evictions. Eviction on the basis of non-payment of a mortgage, also in the cases where family rights are registered on the property, needs to be possible. However, any legal regulation on eviction along these lines needs to be supplemented by provision for social assistance;

(e) Procedures regarding the land and real property register (uniform state register) need to be improved. Registrations will need to be accelerated and the register (through a State guarantee) has to be held liable for incorrect registration in order to increase public trust in it. A functioning mortgaging system requires the reliable registration of title;

(f) The current administrative procedures for registering a mortgage transaction need to be improved, with regard to both the considerable notary fee (1.5% of the value of the transaction) and the time for issuing title certification by the Land Registry.

F. Future housing needs: urban planning and new construction

Given the state of the stock, new construction will become increasingly important to replace the obsolete housing stock and to raise its general standard. Yet, policies for new construction must be linked to overall strategies for renovating and replacing the existing stock.

New housing construction has decreased significantly; in 2001 it was only about 40% of the volume of 1990. New building is concentrated in big metropolises and mainly serves the needs of the wealthy. There is therefore a risk of polarization of the housing market. It is important to draw more attention to the new housing for the growing middle classes, which will increasingly be able to finance their own housing investments.

The economic and social sustainability of the building stock largely depends on its building and design quality. There is a clear need for better quality and further diversification of architectural plans to satisfy the needs of a diversifying clientele in the different regions of the Federation. The Russian construction industry is still dominated by the construction of multi-storey blocks of flats built from brick or concrete. The development of compact built-up areas with low-rise buildings takes place only on a very small scale. There is an acute shortage of small or medium-sized companies capable of carrying-out small-scale construction work within the existing built-up areas. The lack of secure financing systems as well as the complicated and time-consuming procedures for getting building permits prevent new companies from entering the construction market. Large construction companies, which prefer to take up large-scale housing projects rather than small-scale developments, therefore still dominate the Russian construction market. An additional characteristic of recent housing construction is the high-rise residential building, sometimes of more than 40 stories. This kind of construction is most often executed without the necessary experience in

design and construction technology and without adequate building regulations or satisfactory procedures for project documentation. It also disregards safety requirements.

For new construction to grow in a sustainable but controlled manner, building activities need to become an integral part of urban development plans. The Russian Federation's urban planning system will, however, still have to undergo a number of changes to make it an effective tool for urban development, in response to the needs of its inhabitants. Although the planning process is developing towards a more participatory approach, where apart from professional planners many other actors influence the contents of the plan, their role in the planning procedure is still not clearly defined. Moreover, there are several different planning documents which provide a legal basis for location decisions, but they overlap and their contents and relationships are not clearly defined.

The environmental impact and energy efficiency of new construction are a major concern for the future. Due to its significant environmental impact, the construction sector is now increasingly quoted as the "40% industry"; 40% of all energy and material resources are used to build and operate buildings, 40% of carbon dioxide releases come from building construction and operation, and 40% of all waste results from building and demolition activities (UNEP, 2003). It is therefore important for the Russian Federation to address these issues.

Recommendations –URBAN PLANNING AND NEW CONSTRUCTION

1. Urban planning should be streamlined and the roles of the different planning documents in the planning system clarified. Three types of documents should be distinguished as clearly as possible:
 - (a) Planning policy documents prepared and approved by local governments. These documents serve the coordination of spatial development in the whole municipality and should constitute a binding framework for further, more detailed plans;
 - (b) Urban development plans that constitute the legal basis for issuing planning permissions and building permits;
 - (c) Project documentation prepared and delivered by the developer.
2. The significance and efficiency of urban development plans should be increased by:
 - (a) Seeking input from all institutions involved in approving building permits already in the development of the urban plan. By incorporating their concerns in the urban development plans, the subsequent process of granting individual building permits will be streamlined;
 - (b) Better coordinating procedures for the development of urban plans with the procedures for environmental impact assessment (EIA). Where possible, environmental impact assessments should be made for an entire urban plan obviating the need for separate EIA procedures for every individual building;
 - (c) Integrating transport planning in urban plans by paying particular attention to improving public transport.
3. New construction should be firmly integrated in the urban plans. Urban plans should allow for and encourage new construction to become increasingly diversified in order to respond to the changing demand structure, social needs and natural conditions. This may be achieved by:
 - (a) Promoting the development of technical and organizational skills in those areas where such skills are lacking, in particular in renovation, repairs, interior work, reconstruction and extension of existing buildings;
 - (b) Encouraging the development of differentiated building technologies orientated towards the use of local materials and better oriented toward the climate and regional cultural heritage;
 - (c) Providing training and advice in the application of such technologies.
4. The development of small and medium-sized companies to meet the demand for small-scale construction should be encouraged by:
 - (a) Stimulating fair competition within all branches of the construction industry;
 - (b) Facilitating access to training and advice for newly established companies;
 - (c) Providing training to municipal staff who need new organizational skills to deal with numerous

private contractors, in particular during the tendering process (see sect. B).

5. The following measures should be taken to improve the quality of building and housing design:

(a) Encouraging, in line with urban plans, the development of low-rise, high-density housing construction in order to prevent urban sprawl. The advantages of this type of construction should be publicized through, for example, demonstration projects;

(b) Through their urban plans municipalities should encourage developers to pay more attention within housing estates to the access to green areas and services;

(c) Assistance on design and construction standards should be provided for “self-help” housing construction.

6. Urban plans in particular need to address the problems associated with high-rise residential projects:

(a) In general, such projects should be the exception rather than the rule due to the safety and social problems associated with them;

(b) Where such high-rise projects are or have already been implemented, municipalities need to have more responsibility for controlling engineering design and construction and for maintaining such buildings;

(c) The establishment of a regular system of maintenance and safety controls needs to be made mandatory for such buildings.

7. The following steps should be taken to simplify the procedure for obtaining building permits:

(a) Within the municipality there should be one principal authority responsible for granting permits. The builder should be in contact only with that authority and the authority should obtain the necessary approvals from all other relevant institutions;

(b) For minor construction work, the building permit procedure needs to be simplified. A simple notification by the builder to the municipal office, accompanied by a plan describing the work, should be sufficient. The municipality should have a veto within a certain, specified period;

(c) The range of construction work which can be executed without building permit should be extended;

(d) The current system of double licensing, where both professionals and companies need to have a licence, should be abolished in favour of a system of single licensing based on the individual licences of professionals.

G. Land and real estate markets

Policies directed at the housing sector cannot be seen independently from institutional and legal developments within the land and real estate market.

Considerable steps have already been taken to establish a viable framework for the operation of real estate and land market through the recent adoption of laws and regulations. However, the institutional structure of State land management in the Russian Federation remains characterized by ambiguous departmental responsibilities, conflicts of interest among various agencies and a wide distribution of decision-making authority. As a result, decision-making processes require numerous inter-agency consultations. This delays decisions on major economic issues, and creates confusion among public authorities, the private sector and citizens.

The ongoing discussion on how to establish a viable real estate sector in the Russian Federation is focusing on the issue of centralization versus decentralization. Clarification of the actual ownership rights to land on the three levels of administration is urgent. The present situation certainly requires a strong and coordinated federal presence within the sector. At the same time, the major practical actions which directly affect the real estate and housing market are taken at the local level. There is, therefore, a need to streamline the transfer of urban land to municipalities, where land would help ensure effective urban development based on social

needs. Ownership of land is imperative for them to implement economic and development policies for which they are responsible within their jurisdictions.

The disposal of urban land for development and privatization in municipalities is not a competitive, open and transparent process, despite government regulations which lay the framework for competitive land sales. Only by introducing transparent procedures will it be possible to enforce real property rules and to obtain clear documentation on the real value of urban real estate.

In Moscow, St Petersburg and other cities, the most popular form of buying a new dwelling is through shared participation (*dolevoe uchastie*), when a dwelling is acquired at the stage of construction. This type of housing finance is not specified in the Civil Code and the buyer is not protected against the risk of bankruptcy of the main investor or of fraud. This situation destabilizes the housing market and diminishes the level of property right protection of the population. It is, therefore, necessary to establish urgently a legal framework and a system of safeguards against investment risks for participants in shared investment agreements.

Recommendations – LAND AND REAL ESTATE MARKET

1. Improvements in land and real estate markets should continue with a focus on improving existing laws and regulations, instead of creating numerous new laws. Attention should be given to streamlining institutional responsibilities. This entails, in particular, concentrating responsibilities for land and real estate policies at the Government level within one single agency.
2. Federal responsibilities should focus on:
 - (a) Creating satisfactory federal framework conditions for the development of land and real estate markets;
 - (b) Providing overall checks and controls on the implementation of these framework conditions;
 - (c) Functioning as an appeals institution for local decisions;
 - (d) Providing general information and guidelines on institutional structures, procedures and best practices at the local level.
3. The main responsibilities for land policies should lie with the municipalities. In this context, the transfer of ownership of urban land to the regions and municipalities should be streamlined. Municipalities need to develop a comprehensive land policy in support of housing and real estate development. The land policy should include provisions regarding which areas to develop residentially or commercially, which to exclude from privatization and which to use for urban public transport.
4. It should become obligatory by law for urban municipalities to dispose of or privatize real property through open tenders, regardless of whether it is being sold, leased or rented; a possible procedure for such open tenders could be:
 - (a) Urban municipalities report all real property for sale, lease or rent to the regional authority;
 - (b) The regional authority publishes quarterly lists of real properties up for tender in each urban municipality. The lists should very briefly describe each property, the form and conditions of the transaction;
 - (c) The municipality collects, processes and decides on the submitted tenders; the final decision should be taken by a political committee in an open meeting;
 - (d) The municipality publishes each quarter its formal decisions on the tendering process for each object.
5. As a matter of urgency a special law on shared investments in housing construction needs to be developed. It should define the status of the individual investor (physical or legal person).

Uncertainties about the ownership of real estate property should be removed. This implies, in particular, that disputes between federal, regional and municipal governments over ownership of real estate property need to be settled.

Part One. FRAMEWORK FOR THE HOUSING SECTOR DEVELOPMENT

This part aims at giving the reader a basic overview of the current framework conditions of the Russian Federation's housing sector.

Chapter I gives an overview of selected socio-economic aspects that influence housing. *Chapter II* assesses the most important housing reforms that the Government has initiated during the past decade. In addition, the chapter examines how variations within the housing sector of the different regions of the Russian Federation affect housing policy design. *Chapter III* gives an overview of the existing housing stock and reviews the supply and quality of housing, housing needs and tenure structure. *Chapter IV* analyses the institutional framework of the housing sector. It gives an overview of the federal, regional and local institutions involved in housing policy implementation. It also assesses the involvement of civil sector institutions as well as international organizations in housing. *Chapter V* gives an overview of the major legal developments within the housing sector during the past decade and, finally, *chapter VI* analyses the financial framework conditions of the Russian Federation's housing sector. It discusses recent trends in housing finance and assesses current government and private investment in housing. It also analyses existing housing finance instruments and institutions

Chapter I

THE SOCIO-ECONOMIC FRAMEWORK

A. General information

Geographic situation

The Russian Federation is situated in Eastern Europe and Northern Asia, and borders the Arctic Ocean between Europe and the Northern Pacific Ocean. With a total land area of 17,075,400 km², it is the largest country in the world. Its land boundaries total 19,990 km and it shares land borders with Azerbaijan, Belarus, China, the Democratic People's Republic of Korea, Estonia, Finland, Georgia, Kazakhstan, Latvia, Lithuania, Mongolia, Norway, Poland and Ukraine, and maritime boundaries with Japan and the United States.

Political system

The Russian Federation is a federal republic. Its new Constitution was adopted on 12 December 1993. The Constitution created a two-chamber legislature: the lower house or State Duma, with 450 deputies elected by constituencies, and the upper house or Federation Council, with 178 deputies, two from each of the Russian Federation's 89 republics and regions. The head of State is the President, elected for a four-year term.

The country is administratively divided into 49 oblasts, 21 republics, 10 autonomous okrugs, 6 krais, 2 federal cities (Moscow and St Petersburg), and 1 autonomous oblast². The recent creation of seven federal districts headed by presidential representatives is aimed at ensuring that regional legislation complies with federal law and at strengthening the federal authorities' control over the regions.

² In the following these entities will be referred to as *regions*.

B. Economy

Overall economic development

In the aftermath of the Soviet Union's disintegration, the Russian Federation's economy was marked by collapsing output and surging inflation. Twelve years later, the Russian Federation is still actively establishing an effective market economy and beginning to achieve strong economic growth. By the end of 1997, it had made economic progress. Inflation had been brought under control, the rouble had stabilized, and an ambitious privatization programme had transferred thousands of enterprises into private ownership. The financial collapse in August 1998 brought this positive development to an abrupt halt. Annual inflation, which had fallen to a post-Soviet low of 6.4% at the end of June 1998, reached 84.5% by end of that year. However, the feared return to hyperinflation did not materialize, and inflation fell to 36.5% at the end of 1999; in the first quarter of 2003 inflation was at 14.6%.

The sharp devaluation of the rouble in August 1998 delivered a stronger than expected boost to the Russian economy. Gross industrial output, which had fallen continuously since 1990, jumped by 9.4% in 1999, as Russian enterprises took advantage of the gains in competitiveness brought about by devaluation. The rise in international oil prices helped to sustain the recovery in 2000, when industrial output rose by another 12.4% and this underpinned real GDP growth of 10% - the best economic performance in 30 years. Growth slowed in 2001 and 2002, to 5% and 4.3% respectively, and the engine of growth shifted from net exports to domestic demand. The growth rate for 2003 is estimated at 6.2%.³

³ EIU, Country Profile Russian Federation: 2003.

Figure I - Map of Russian Federation



Wages and income

The collapse in the economy following the Soviet Union's disintegration had its effect on wages and, consequently, living standards. According to the official Goskomstat estimates, the ratio of the average monthly wages and other payments to the subsistence level of the working population has decreased from 335% in 1991 to 207% in 2001. Although it is argued that living standards have not been as badly affected as official statistics might suggest – partly due to the notorious underreporting of wages to avoid taxation – there is, however, little doubt that living standards were hit hard by the market reforms.

Wages are by far not the only source of household income. Other sources such as transfers from the State (pensions, unemployment benefits, allowances, etc.) as well as cash and non-cash income from home production and the informal sector, sales/rentals of personal property and dividends made up slightly more than 50% of average household income in 2001.⁴

The structure of household income sources has changed markedly during the past decade with increasingly less income coming from the public sector. In addition to a lesser share of the population working for the public sector, those who do work there find it necessary to complement public sector wages by other sources of income, as public sector wages as a rule are too low to secure a living. Multiple jobs held by one individual is therefore a strong feature of the Russian Federation's labour market.

Compared to other countries in transition, however, the shift to private sector employment has been relatively slow. While in 1992, nearly 95% of wage income reported by households was earned from work for State-owned organizations, this proportion had fallen only to 71% by 2000. The main reason is likely to be the slow growth of small and medium-sized enterprises in

the Russian Federation, which often account for a large share of total employment growth in other industrialized countries.⁵

As household incomes fell in the 1990s, income inequality increased dramatically. The transition has been associated with a large increase in wage differentials – across regions, across industries and sectors, and across types of workers. According to official estimates, the Gini coefficient rose from 0.289 to 0.396 between 1992 and 2001, demonstrating the growing inequality in society. According to Goskomstat the lowest income quintile of the population today earns 5.9%, while the highest income quintile earns 47% (2002). The UNDP common country assessment found that wage inequality as well as its increase during the period of transition is much greater in the Russian Federation than in other countries in transition including Hungary, Poland, the Czech Republic and Slovakia.⁶

Unemployment

Parallel to declining incomes, unemployment increased. Between 1992 and 1998 it rose from 5.2% to 13.3%. It began decreasing only in 1998 and reached 8.8% in 2002, which however is still well above the 1992 level. Although the unemployment rate in the Russian Federation seems large, it is comparable to that of West European countries, such as France and Germany. There are, however, large regional variations in the unemployment rate ranging from 1% in Moscow to 23% in the Ingush Republic. Furthermore, according to a study conducted by UNDP in 2002, there is some evidence that regional variations in unemployment have increased over time.⁷ Unemployment also varies across age groups, with young people facing the highest rates. In November 2000, unemployment was as high as 35.1% among those under the age of 20 and 16.6% for youth aged 20-24 years. The absolute number of unemployed in these two age groups more than doubled between 1992 and 2000.⁸

⁴ According to information from the Russia Longitudinal Monitoring Survey, 2002.

⁵ UNDP, Common Country Assessment: 2002.

⁶ UNDP, Common Country Assessment: 2002.

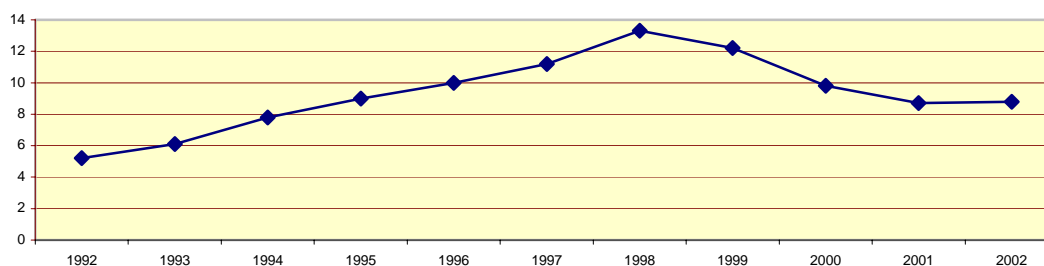
⁷ UNDP, Common Country Assessment: 2002.

⁸ UNDP, Common Country Assessment: 2002.

Table 1. Unemployment

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Unemployment rate (%)	5.2	6.1	7.8	9.0	10.0	11.2	13.3	12.2	9.8	8.7	8.8

Source: UNECE, Economic Survey of Europe 2003, based on the Russian Federation Goskomstat's monthly estimates according to the ILO definition, i.e. including all persons not having employment but actively seeking work.

Figure II. Unemployment

One characteristic of the situation in the Russian Federation is that the persistently unemployed constitute a very large share of the unemployed. According to UNDP, the proportion of unemployed individuals who were unemployed for over a year increased rapidly – from 18.2% in 1993 to 40.3% in 1998 and to 42.3% in 2000.⁹ Persistent unemployment tends to be concentrated in certain geographical regions, especially those that have experienced little economic growth. The lack of regional labour mobility is a problem.¹⁰

Poverty

The economic contraction during much of the transition coupled with declining wages as a result of the sharp drop in the number of public sector jobs and the decline in real public sector wages as well as rising income inequality led to a sharp increase in poverty, with children aged 7-15 and women being affected most.¹¹ However, with economic growth resuming the incidence of poverty is declining. The number of people with incomes below the subsistence level is at its lowest since the early 1990s, according to official Goskomstat data.

⁹ UNDP, Common Country Assessment: 2002.

¹⁰ UNDP, Common Country Assessment: 2002.

¹¹ UNDP, Common Country Assessment: 2002.

Table 2. Population below the subsistence level

	1992	1995	1996	1998	1999	2000	2001	2002	2003
Subsistence minimum level, per capita (roubles)	1,900	264,100	369,400	493.3	907.8	1,210	1,500	1,725	2,121
Population with income less than the minimum subsistence level (million people)	49.7	36.6	32.5	34.2	41.6	42.3	39.9	33.3	25.9
Population with income less than the minimum subsistence level (%)	33.5	24.7	22	23.3	28.4	29.1	27.6	23	18

Source: Russian Statistical Yearbook 2002, Goskomstat.
The socio-economic position of the Russian Federation 2003, Goskomstat

Housing affordability

Research conducted in Russian cities shows that the affordability of housing and services during the past decade has fallen mainly due to the deep economic crises and falling incomes as well as the decreasing volume of State financing of running costs and capital investments in the housing sector.

The programme of phased rent increases and housing allowances, introduced at the beginning of 1994, caused a further decline in housing affordability for most tenant households.

Estimates given by the Russia Longitudinal Monitoring Survey indicate that housing payments rose about 230% in real terms from September 1992 to October 1995 across the country with the average real household income decreasing. However, as of October 1995, the share of rent and utilities still appeared negligible at nearly 6% of total household income and this proportion has hardly changed since. This is much lower than in the countries in transition in Eastern Europe. For example, households in Poland and Hungary typically spend over 20% of their income on housing and utility services.¹²

Table 3. Household expenditure for rent and utilities (percent of total income)

Date	9/92	10/95	10/96	11/98	10/00	10/01
Expenditure	2.8	4.8	5.9	6.0	5.5	6.5

Source: Russian Longitudinal Monitoring Survey, 2002.

¹² The World Bank. Infrastructure and Energy Department: Europe and Central Asia Region. Housing and Communal Services in Russia: Completing the Transition to a Market Economy. Final Report. October 7, 2002.

Although the figures above concern mainly tenant households, affordability for homeowners and tenants is almost the same. The reason is that rent payments are roughly equal to the property tax owners have to pay. Moreover, maintenance and service provision are normally carried out by municipal maintenance enterprises, which tend to charge the same fees to all units of an apartment block, regardless of whether the individual units are rental or owner-occupied.

One particular aspect of affordability is the access to affordable and adequate housing of the socially weak. The retreat of the State from housing provision has resulted in a decrease in the availability of public housing services for the population at large. At the same time privatization has resulted in many new homeowners who are too poor to maintain their property. At present the shift from public service provision to the general public to targeted provision to the socially weak has not been fully accomplished yet and there are still few mechanisms in place to support socially weak households. Housing affordability and accessibility are becoming a growing problem for the socially weak. This will be addressed in detail in chapter IX.

Those households who are relatively well-off still face problems improving their housing conditions due to the near impossibility of obtaining long-term bank credits at reasonable interest rates. Despite the decrease in housing prices after 1998 and the reduction in the ratio of the purchase price for housing to household income, the majority is therefore still not able to actively participate in the housing market.¹³

C. Population/ migration

Total population

According to the census of 2002, the total population of the Russian Federation is 145.2 million. Density fluctuates widely, from 56.1 people per km² in the Central Federal District to 1.1 people per km² in the Far East Federal District. The Russian Federation is a country of cities: 106 million people live in one of its 2940 cities while a little less than 39 million people live in 155,288 human settlements in rural areas.

Demographic trends

Since 1992 the Russian Federation has experienced negative population growth, because the death rate exceeds the birth rate. During the past 10 years the Russian Federation has experienced a population loss of 0.7% to 0.9% per year. The loss has been partly compensated by immigration. Nevertheless, the population declined by approximately 3.1 million people between 1992 and 2003.

The decline in birth rates is a long-term demographic trend which is not confined to the Russian Federation alone but which has affected most industrialized countries. This trend has been strengthened by the economic transition with its sharp decline in incomes and growing uncertainty. However, the most striking factor – which sets the Russian Federation apart from other industrialized countries – is the unusually high and increasing death rate. Particularly worrying is the sharp increase by more than 50% in the death rate among young people aged 15-24 years over the past ten years. Both deaths from natural causes and deaths from preventable causes (accidents, murder, suicide) contribute to this rise.¹⁴ The average life expectancy is 66 years,¹⁵ while it is substantially higher for women (72.9 years) and much lower for men (60.8 years). The average life expectancy in Western countries is around 77 years.

The demographic developments pose a number of challenges. One of these is the considerable predominance of women in the middle and especially in the elderly population groups and the resulting large share of female-headed households. The declining birth rate also contributes to an ageing population. However, this is not as serious a problem yet in the Russian Federation as in many other Western industrialized societies, because it is still in the first stage of the population ageing process with the middle-age group remaining stable while the percentage of the older groups grows and the percentage of children diminishes.¹⁶

¹³ UN-Habitat, *The State of the Russian Cities*: 2002.

¹⁴ UNDP, *Common Country Assessment*: 2002.

¹⁵ World Bank, *Country Brief*: 2001.

¹⁶ UNDP, *Common Country Assessment*: 2002.

Migration

The migratory patterns in the Russian Federation during the past decade saw a reversal in some of the traditional trends. While the rural population has steadily declined in both absolute and relative terms since the beginning of the 20th century, this trend decreased sharply in 1989 and reversed into an urban-to-rural flow in 1992 and 1993. The economic collapse during those early years of transition affected the urban areas the most, while the impact was slightly softer in rural areas due to possibilities for self-sufficiency. While the flow of people from rural to urban areas continued from 1994 onwards, it took place at a reduced pace than in the late 1980s. However, owing to the net immigration of ethnic Russians from other former Soviet republics, the rural population has continued to increase in absolute terms since 1992.¹⁷

Another reversal of earlier trends is the migratory movement from the north-east to the south-west

of the country, which has characterized the past decade. The northern region contains the majority of the nation's natural resources. During the Soviet era the Government regarded the industrial development of the north as strategic priority and, therefore, channelled large subsidies to the region and encouraged large-scale labour inflow. These policies resulted in the north having a relative large population, which would not have developed under normal circumstances, i.e. without the large subsidies. The transition resulted in a sharp reduction in these subsidies, which in turn resulted in some people leaving the north because there are no economic opportunities.

Citizens who relocate from the far north and other areas of equal status are eligible for housing subsidies from the federal budget if they meet certain conditions. The criteria for eligibility and the amount of subsidies are regulated by the federal Law on Housing Subsidies for Citizens Moving from Regions of the Far North and Areas of Equal Status.¹⁸

¹⁷ UNDP, Common Country Assessment: 2002.

¹⁸ Law No. 125-FZ of October 25, 2002.

Chapter II

HOUSING REFORM

This chapter provides an overview of the most important housing reforms that the Government has initiated during the past decade in view of the changing framework conditions of the housing sector (sect. A). In addition, the chapter addresses the question of how variations within the housing sector of the different regions of the Russian Federation affect housing policy design (sect. B).

A. Major steps in the housing sector reform

Housing plays an important role in a country's economy. The housing sector typically accounts for 10-20% of total economic activity and housing investment constitutes 2-8% of GDP. Beyond its economic role housing is also often an individual's biggest asset. With the majority of the population of the Russian Federation having become homeowners with the right to exercise any sort of transaction such as to sell, grant and bequeath, housing has turned into the biggest asset of most households.

The structure of the Russian Federation's housing sector has undergone major changes during the past decade. Probably the biggest development was the privatization policy, which led to a change in ownership structure by allowing individual tenants to claim ownership of their units and by transferring the State housing stock, including the housing stock of former State enterprises, to municipalities. Today private housing makes up 59% of the total housing stock compared to 33% in 1990.¹⁹

Following the first steps in the privatization process the Government endeavoured to establish the legal basis for regulating the new housing situation. The passage of the Law on the Fundamentals of Housing Policy in December 1992 was important in this context, for the rental sector as well as for the owner-occupied sector. It laid the foundations for a programme to increase rents, introduced housing allowances, provided

for improved maintenance of State housing by introducing competitive procurement procedures, reduced tenant rights by permitting eviction from municipal flats to low-quality housing for the non-payment of rent, established condominiums, clarified property rights, and improved possibilities for mortgage lending.²⁰

More legislations and reforms later strengthened and redefined some of the principles laid down in the Law on the Fundamentals of Housing Policy. In particular, they aimed at further advancing the privatization of the housing stock of the State, municipalities and State enterprises, setting the legal basis for the establishment of homeowners' associations, increasing the activity of the housing market, reforming the housing and utility sector, and initiating reforms in social allowances.

This legislative activity is impressive. Yet, the primary goal of housing reform has undoubtedly been to establish market relations throughout the sector, privatization becoming the key instrument in this process. All households in publicly owned multi-apartment blocks became part of the reform, as residents were granted the right to privatize free of charge the flat that they were occupying. Most crucially, it was assumed that together with this transfer of ownership the new owners would take over the management and maintenance of the housing stock.

The implicit aim of housing privatization was, therefore, to shift responsibility for the maintenance of the housing sector to consumers, who, through the provision of legal title, would be given the incentive to invest in their own housing. The presumption was that tenants would form building-level management structures. In accordance with the federal Law on the Fundamentals of Housing Policy, occupants were given the right to participate in the management of the housing stock, a right which was later further developed in the Law on Homeowners' Associations. Due to the limited financial means of the new owners, however, municipal

¹⁹ Institute for Urban Economics, Urban Management Reform in Russia: 2001.

²⁰ Institute for Urban Economics, Urban Management Reform in Russia: 2001.

authorities continued to manage and maintain the housing stock.

In reality, therefore, privatization has not yet led to a widespread change in the management structure of, in particular, the multi-unit apartment buildings. It has not given the owners of units in these buildings real management authority over the building and adjacent grounds.

Today there are only some 4000 homeowners' associations in the Russian Federation covering just about 1% of the total housing stock. In addition, most existing homeowners' associations have been created for newly constructed buildings. Only few associations have been formed for existing buildings. The main reasons for the slow development are, next to deficiencies in the regulatory framework, little public promotion of homeowners' associations for the management of the common property and inadequate support from local administrations.

The multi-unit housing stock therefore effectively remains public housing from the perspective of repairs, maintenance, upgrading and utilities, regardless of the percentage of apartments that are privatized. The municipality is still viewed as the owner of the building and property, and municipal enterprises continue to provide maintenance, repair and rehabilitation – generally at inadequate levels mostly due to the lack of funding.

Competition for housing maintenance services is consequently still low and a functioning market for housing and utility services hardly exists. However, some improvements are visible, such as the slow but steady increase in the number of private companies within the sector. In addition, households' payments towards the costs of housing and utility services increased substantially along with decreases in budget subsidies for these services and the implementation of targeted social support to low-income households.

Having realized the importance of finding solutions to the current problems in the management and maintenance of the existing housing stock, the Government announced in September 2001 the federal programme 'Dwelling' for the years 2002-2010 with two subprogrammes 'Reform and upgrading of the

housing and utilities sector in the Russian Federation for 2002-2010' (government decision of November 2001) and 'Relocating the citizens of the Russian Federation from slums and dwellings in emergency repair' (government decision of January 2002). The federal programme (including its subprogrammes) calls for significant reforms in the housing and utility sector. Its principal goal is to find a complex solution for introducing the principles of sustainability in the housing sector and allowing residents to enjoy affordable, safe and comfortable housing conditions. Four key actions are identified in the federal programme to achieve this goal:

(a) Ensuring the stable and effective provision of housing and utility services which includes the provision of targeted social support to needy residents;

(b) Making housing more affordable through the development of an effectively functioning housing market and appropriate financial instruments as well as providing support to residents with lower incomes to improve their housing conditions;

(c) Increasing the volume of housing construction by taking into account the demand and requirements of residents;

(d) Ensuring that the federal budget is used more effectively to address the needs of disadvantaged population groups.

The two subprogrammes spell out further strategies for the provision of housing and utilities as well as for the rehousing of residents from condemned dwellings. The reforms included in the federal programme and its subprogrammes are to be implemented in phases until 2010. This is likely to constitute a considerable challenge as implementation is already behind.

On a positive note, the measures stipulated in the federal programme include a review of the Russian Federation's current system of support to socially weak households. It is of great importance to have a targeted, means-tested housing allowance programme as an integral part of reforming the housing and utility sector. A rise in tariffs for maintenance and utility services towards cost-covering levels is possible only when provisions are made for that part of the population that is not able to pay. The first steps for a targeted housing support programme have

already been taken through the introduction of the housing allowance programme. However, more will have to be done, as much of the social system operating today still relies heavily on granting social benefits on the basis of privileges for certain population groups, which are often not the most needy.

The current discussions on the carrying-out of the federal programme on housing reforms show how complex and how interlinked with other policy areas the housing sector is. Reforms in the housing sector cannot be designed without considering their social implications nor can they be implemented without corresponding land reform or municipal reforms, for instance in the role of municipalities vis-à-vis federal or regional institutions. Indeed, the need to balance economic and social efficiency emphasizes the place that housing reform occupies in the Russian Federation's overall social and economic development programme.

A crucial factor for the success of housing reforms is the position of the municipal authorities as legislation grants them the authority to determine the administrative structure used to manage municipal housing and utility services, to set the tariffs of municipal enterprises, and to decide on the time and form of carrying out reforms in this sector of the economy. In addition, the administration of land is effectively in the hands of the municipal authorities as they establish land use, rearrange land plots from one use category to another, set rates for land, undertake inventories of land, supervise municipal land use, protect the property rights of landowners and settle disputes.

To encourage municipalities to actively engage in the process of reform, an all-encompassing municipal reform needs to be carried out. The main component of the reform needs to be a provision that balances the obligations of municipal authorities with their financial capacities. State services were transferred to the municipal sector between 1993 and 1998. By 1998 coverage of these services was supposed to be fully effected from the municipal budget, but the municipal budget is not large enough to cover all expenses. Municipal authorities do not receive sufficient subsidies to comply with the tasks entrusted to them by federal legislation and do not

have sufficient capacities to generate their own funds. As a consequence, the new Law on Local Self-Government is crucial to introduce a balance between the sources of financing and budgetary responsibilities between the different levels of public authority. Its implementation must be accompanied by an amendment of budgetary legislation at the municipal level. Such legislation will need to recognize that different municipal authorities will have different abilities to implement the reform and the legal framework will need to be developed accordingly.

It is to a large extent these structural problems related to the mismatch between responsibilities and capabilities at different institutional levels that account for the partial and limited impact of reform today. It is necessary to resolve these structural problems for reforms to be effective in the Russian housing sector. In addressing these problems, the situation of the country as a whole but also the particularities in the different regions will have to be taken into account.

B. A need for a regional, differentiated housing policy?

The Russian Federation has a large population. It includes areas with very different geographic conditions and cultural traditions. The question therefore is how effective national housing policies can be and if an overall strategy for the housing sector for the entire country is feasible at all. The same question could be posed for conducting this very study. Is it possible to conduct a study with significance for the Russian housing sector as a whole? Will research show that the housing situations in different regions/ geographical areas are so different that a differentiated analysis for these regions/groups of regions is necessary and that different conclusions and recommendations will have to be made for different parts of the country?

The methodological concept of this study was specifically designed to help answer these questions and to identify regional variations in housing policy requirements. For this reason different regions of the country were visited and the research was based on information from across the country.

There are certainly for some regions extreme challenges which do not exist for other areas of the country. The best examples are the large-scale depopulation of the far northern settlements and the inward migration across the south-west. In particular, the massive depopulation of the northern settlements is unique and would merit extensive study in its own right.

Beyond these extreme challenges, divergences in economic development are the main explanatory factor for differences in the housing situation across regions. In particular, the ability of the regional or municipal authorities to provide their own resources or attract private resources for the financing of major repairs and/or new construction depends heavily on their overall economic situation.

In general, however, it can be concluded that, although there are regional variations with regard to the housing situation, the basic concerns and challenges in the housing sector are similar across the country. The differences are most often a

reflection of the extent to which a certain problem or challenge within the housing exists, rather than a difference in the nature of the problem or challenge. Basic housing policy therefore will not require differentiation between different regions. However, its implementation will have to take into account regional particularities.

Of prime importance for the implementation of the housing reform is, however, that the coordination between the different levels of government, the federal, regional and municipal levels works well, that the roles and responsibilities of each level are clearly defined and that a regular system of communication is established. The need to bring the federal and regional levels closer to improve the quality of housing policy and implementation will be discussed throughout the report and in particular chapters IV and VII will analyse the current relationships between the federal, regional and municipal level, and will provide suggestions for improving them.

Chapter III

THE HOUSING STOCK

A. Supply of housing

Total housing stock

According to official statistics, the housing stock of the Russian Federation stood, at the beginning of 2003, at more than 2 850 million sq. metres of dwelling space. Some 72.5% of the total housing stock was situated in urban areas. Official

statistics also show a clear increase in dwelling space between 1990 and 2002.

In general, statistics on the supply of housing have to be treated with caution as they sometimes provide contradictory information. In addition, units of measurement differ from most other countries, further complicating comparisons.

Table 4. The housing stock

Year	1990	1995	2000	2001	2002
Housing stock (million m ² of dwelling space)	2,425	2,645	2,787	2822	2853
- Urban	1720	1911	2020	2045	2069
- Rural	705	734	767	777	784
Average dwelling space per inhabitant (m ²)	16.4	18	19.3	19.7	20
- Urban	15.7	17.8	19.2	19.5	19.8
- Rural	18.2	18.6	19.8	20.2	20.6

Source: The Russian Statistical Annual Edition 2003, Goskomstat, pp. 199, 200, 202.

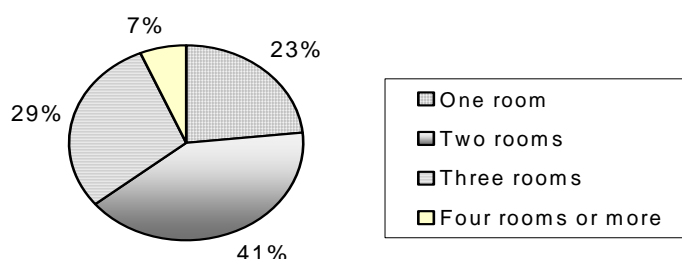
It should be noted that figures for the total housing stock include special-purpose houses such as hostels, shelters, homes for the elderly, children's homes, boarding houses for the disabled and boarding schools. They do not include cottages (dachas) or hotels or other premises intended for temporary residence. In Western countries special-purpose houses are not included in figures for the total housing stock, which makes comparisons with the Russian Federation difficult.

At the beginning of 2002 the housing stock of the Russian Federation was made up of more than 18.9 million residential buildings, composed of 55 million apartments. With 49.8 million households living in the Russian Federation in 2001, the total

number of dwellings exceeds the total number of households.

Dwelling space

In urban areas residential buildings mainly consist of multi-storey apartment blocks and in rural areas of single-family houses. Of the 55 million residential apartments, 23.2% are one-room flats, 41% two-room flats, 29.3% three room flats and 6.5% flats of four rooms or more. The area of a flat typically includes living rooms and bedrooms as well as auxiliary premises, such as kitchens, corridors, bathrooms, store-rooms, and staircases within a flat. Common corridors and staircases or balconies are not included.

Figure III. Number of rooms

Source: The housing economy in Russia, 2002. Collection of Statistics/ The State Statistics Committee of Russia (Goskomstat). - Moscow, 2002, p.110.

The average size of a flat amounts to approximately 51 m² and the average dwelling space per person is about 19.7 m², which is low in comparison to West European countries but about average for Eastern Europe. Newer flats are normally bigger. In 2001 the average size of

newly constructed flats was 83 m², and flats with three rooms or more represented 50% of the total number of new flats.²¹ The number of flats per 1000 inhabitants is 360 – 380. The average occupancy rate per flat is 2.7 persons and per room 1.2 persons.

Table 5. Comparison of housing stock indicators, late 1990s

	m ² /inhabitant	Dwellings/thousand inhabitants	Number of rooms per dwelling	Average completed dwellings per thousand inhabitants, late 1990s
France	43	490	3.9	5.4
Sweden	43	482	4.3	1.3
Portugal	28	482	4.3	11
EU	---	450	---	5.4
Estonia	22	430	---	0.6
United Kingdom	35	417	5.2	3.4
Hungary	29	400	---	2
Russian Federation	19.7	360	2.3	1.1 - 2.6
Ireland	33	341	5.3	12.4
Poland	18	300	---	2.1

Source: Housing Statistics in the European Union 2001. State Research Centre, VTT Finland. Goskomstat.

²¹ According to Goskomstat.

Table 6. Number of occupants per room

<u>Country</u>	Number of occupants	<u>Country</u>	Number of occupants
United States	0.5	Uruguay	1.1
Germany	0.5	Republic of Korea	1.1
Norway	0.6	Russian Federation	1.2
France	0.8	Israel	1.2
Japan	0.8	Turkey	1.3
Poland	1.0	Peru	2.0

Source: United Nations indicators on housing.
 Unstat.un.org/unsd/demographic/social.htm,copyright 2003.

The number of flats per 1000 inhabitants in the Russian Federation is not extremely low compared to Western countries but the flats are small with, on average, only 2.3 rooms per flat. Therefore, the number of persons per room is clearly higher than in Western countries.

As the population has decreased, the housing situation, in terms of available number of flats according to the official statistics, is improving. However, official statistics, do not take adequately into account the condition of the housing stock, which is worsening continuously due to the nearly complete absence of renovation and reconstruction. Statistics on renovation and reconstruction are very limited.

According to expert estimates,²² approximately 150,000 flats become uninhabitable every year due to lack of repairs. It is estimated that over the past few years around 40 million m², i.e. approximately 800,000 flats, have been taken out of the stock due to poor quality. Together with the low rate of new construction this might mean that, contrary to official statistics, there has been no increase in the total housing stock in recent years.

The scale of new construction to replace the run-down housing stock is limited. New housing construction in the Russian Federation has slowed

down significantly since 1990. New construction in 2001 was about 40% of the volume of new construction in 1990. Housing statistics indicate that the Russian Federation is producing about 32 million m² dwelling space and 380,000 dwellings annually, that is, 2.6 dwellings per 1,000 people. But more detailed surveys of different regions suggest that the real number is much lower, even under 200,000, which would mean about 1.4 dwellings per 1,000 persons.²³ In Western Europe the average number is 5 to 5.5 dwellings per 1,000 persons (see chap. X).

B. Quality of the existing housing stock

Age and design of the housing stock

The housing stock in the Russian Federation is young compared to that in Western Europe. The industrialization of construction started in the Soviet Union in the 1950s. Thereafter, precast concrete large-panel construction developed quickly. Most of the apartment buildings were constructed between 1960 and 1985, and as a result the urban housing stock today consists mainly of a few standard building types.

Residential panel buildings can generally be divided in three basic categories:

- *First generation:* five-storey buildings often called *khrushchevki*. *Khrushchevki* were

²² E. Hekali, Hansa Renovation Project, Finnish Association of Construction Industry.

²³ State research centre, VTT, Finland, Academic J. Rekitar, Russian Federation.

built between 1959 and 1969 and about 10% of residential buildings belong to this category. The buildings do not have lifts. Flats and rooms are small. Total dwelling space varies between 30 and 61m². There are four subcategories but the differences are not great. Most *khrushchevkys* are in a poor state of repair. Many five-storey buildings are situated in fairly attractive areas, not far from city centres.

- *Second generation:* these buildings were built between 1961 and 1975. The number of storeys varies but nine-storey buildings are the most common. The buildings are long and there are usually five to nine staircases in each. The external walls are different lightweight concrete structures without separate thermal insulation material. The housing norms of 1963 regulated their design and construction. The dwellings in this category are more comfortable than those in the first-generation buildings.

- *Third generation:* these buildings were built mainly after 1975 in the suburbs. Large elements and prefabricated modules were used. These buildings are nine-storey or higher, tower-type blocks of flats or long, narrow buildings with four to seven staircases. The external walls are 35 cm thick expanded-clay lightweight concrete.

Although the above-described urban housing stock is fairly new, technically it is not in a good condition owing to its low-quality construction and poor maintenance. Energy efficiency is generally poor. The thermal insulation of the precast panel walls does not meet modern standards. Moisture and mould problems appear in some apartments due to poor thermal insulation. The surroundings including streets, courtyards and parks are usually poorly maintained too. The limited variation in the urban housing stock results in suburbs of great uniformity, which are not geared towards individual wishes or needs.

There are also older buildings and other types of buildings in urban areas but these are much less common. One category is the famous “Stalin-era” buildings, which can be recognized by their typical architecture. These prestigious buildings are situated in good places in city centres; their technical condition, however, is partly problematic. In St Petersburg, for instance, there are also historically valuable residential buildings with communal flats, which are in urgent need of repair. In many towns there are also old wooden individual houses which are in very bad condition owing to a complete lack of repair.

Table 7. Age of the housing stock

Construction date	% of dwelling space		
	Moscow	St.Petersburg	EU
Before 1917	2	19	32
1918 - 1945	3	3	
1946 - 1975	52	43	40
1976 and later	43	35	28

Source: Moscow City Bureau of Housing Stock Technical Inventory 2002. Hansa Renovation.
Project, Finnish Association of Construction Industry: St.Petersburg State.
Housing Statistics in the European Union 2001.
Sciotech 1998.

Run-down and dilapidated (“emergency”) housing stock

The technical condition of the country’s housing stock is worsening continuously. More than 290 million m² or 11% of the housing stock needs urgent renovation and re-equipment, 250 million m² or 9% should be demolished and reconstructed. Gosstroy estimates that the annual need for renovation is equal to 4 – 5% of the total housing stock. However, in 2001 only 0.3% of the housing stock was actually renovated.

The State guarantees that citizens who live in dwellings or houses which do not fulfil the minimum safety or health requirements will be rehoused. There are no federal standards or guidelines defining run-down or dilapidated housing. Local authorities and special boards inspect the houses and estimate the “rate of wear”.

Housing with a rate of wear exceeding 60% is classified as run-down or dilapidated and is

subject to demolition. The numbers have increased continuously over the past years. In 2003 the housing stock classified as run-down or dilapidated represented more than 87 million m² which is 2.7 times more than in 1990. The share of run-down or dilapidated housing within the total amount of the housing stock has increased from 1.3% in 1990 to 3.1% in 2001 (see table 8).

The rate of demolition of condemned housing has been extremely slow in recent years. On average, around 2 – 3 million m² (about 60,000 dwellings) have been removed from the housing stock, i.e. only 3.5% of the run-down or dilapidated stock. However, according to estimates of Russian and foreign experts over the past years over 40 million m² (approximately 800,000 flats) have not been inhabited due to their poor condition. At present, 2 million people live in officially condemned stock. In the absence of adequate maintenance and repair the share of the run-down or dilapidated housing is likely to increase sharply in the near future.

Table 8. Run-down and dilapidated housing stock (2001)

Year	1990	2001
Total run-down and dilapidated housing stock (thousand m ²)	32,200	87,800
- Rund-down stock	28,900	80,000
- Dilapidated stock	3,200	7,800
Share of run-down and dilapidated housing (%)	1.3	3.1

Source: The Housing Economy in Russia 2002, *Goskomstat*, p. 87.

Unfinished construction

Insufficient investments and rising construction costs have often resulted in delays in construction or in an inability to complete the already started work. As a result, at the end of 2002, unfinished residential buildings (excluding individual houses) represented 40.1 million m², i.e. twice the volume of dwellings completed in 2002. In many areas it is expected that construction on this unfinished buildings will not resume in the near future due to a lack of financing or a lack of active demand. Nevertheless, the amount of unfinished housing is gradually decreasing: in 2002 it was 4.2 million m² (9.5%) less than in 2001 and 50 million m² less than in 1995, i.e. the unfinished housing stock has been halved (see table 9).

Table 9. Estimated unfinished housing

Year	1995	1996	2000	2001	2002
Number of residential houses	80,800	68,700	41,100	38,700	34,100
Total floor area (million m ²)	90.1	76.6	45.3	44.3	40.1

Source: The Russian Statistical Annual Edition, 2003, Goskomstat, p. 444.

There are strong regional differences in the volumes of unfinished construction. It is extremely high in the regions of Tula, Murmansk, Kamchatka, Magadan and the Jewish autonomous region, where in 2001 the ratio of the total unfinished dwellings to completed new dwellings was 10:1. Only in Moscow did the volume of unfinished housing not exceed annual dwelling completions at the end of 2001.

Housing amenities

There have been improvements in housing utility services during the past six years. However, in 2002, 13% of the housing stock in towns and

urban settlements remained without running water, 15% without sewerage, 12% without central heating, 20% without fixed baths or showers and 23% without running hot water. In rural areas between 59 and 81% of the housing stock had no such utilities. There is no piped water in 10 towns (i.e. in 1% of their total number), in 110 urban settlements (6% of all urban settlements) and in 110,100 rural settlements (71% of rural settlements). About 71 million people, i.e. 49.6% of the total population live in housing equipped with all amenities; 61% of the urban population and only 16.2% of the rural population.

Table 10. Housing amenities (%)

	Running water	Sewerage	Central heating	Gas	Fixed baths (showers)	Running hot water	On-floor electric stoves
Total housing stock							
1995	71	66	68	61	69	55	15
2001	74	70	75	64	70	61	16
2002	74	70	75	64	70	61	17
Urban housing stock							
1995	84	82	85	77	67	72	20
2001	87	85	88	80	69	77	22
2002	87	85	88	80	69	77	22
Rural housing stock							
1995	35	24	23	20	73	12	2
2001	40	31	40	24	74	19	3
2002	41	31	41	24	75	19	3

Source: The Russian Statistical Annual Edition, 2003, Goskomstat, pp. 199-201

Energy efficiency

The Russian housing stock has poor energy efficiency, but not so poor as sometimes estimated in energy-saving calculations. Measurements in Baltic and Russian panel-block buildings show that their energy consumption is about 1.1 to 1.7 times higher than that of Finnish energy-efficient multi-storey residential buildings. In Estonia it is estimated that different renovation measures to save energy in the Soviet-era large-panel buildings can reduce heat consumption by 7% to 27%. Energy-saving measures in old buildings are often technically problematic and expensive. Their payback time is long. They are often economical only in combination with other renovation measures. Energy-efficient stock needs to be built up slowly through new construction and strict building regulations, but even now new construction seems to be less energy-efficient in the Russian Federation than in Western countries.

In the Russian Federation energy saving measures that are not too costly, such as renewing windows and installing energy and water meters, are the most common. They might increase energy efficiency; however, attention must be paid to the overall circumstances. When, for example, changing windows there is a danger that the indoor climate deteriorates and mould problems increase due to a lack of ventilation. When windows are changed, the ventilation and heat systems of the whole building should be checked and regulated. The instalment of individual heat and water meters in flats also has

to take into consideration the state of the pipes in the building.

New flats are sold when the load-bearing structures and outer walls are ready. All the finishings and infrastructure inside the flat are done or bought by the buyer. This reduces the sales price of the flat but actually increases the costs of construction, maintenance and repair. Plumbing and heating equipment are consequently often very diversified and their quality, security and energy efficiency can be low. Roofs and heating systems must be regularly repaired to keep the building usable. Valuable technical knowledge about repairing Soviet-type apartment buildings is available, for instance, in the Baltic countries. Solutions to technical problems in renovating, for example, concrete panel buildings and modernizing district heating systems are well known in the neighbouring Nordic countries. This knowledge is also usable in the Russian Federation. The repair of the Russian housing stock should, however, take into account the country's economic, technical and cultural circumstances and not simply import methods developed for quite different situations far away.

C. Tenure structure

The tenure structure has changed greatly as a result of privatization. By the beginning of 2002, 22.3 million residential units, i.e. 61% of the housing stock subject to privatization, had effectively been privatized (see table 11).

Table 11. Privatization of housing units
(shown as accumulated results from the beginning of privatization)
(by the beginning of each year)

Year	1990	1995	2000	2001	2002
Number of privatized housing units (thousands)	53	12,479	17,351	18,538	22,339
Total dwelling space (million sq. m)	2.5	608.3	842.0	903.2	-
Privatized residential premises (% of total premises subject to privatization)	0.2	36.0	47.0	50.0	61.0

Source: The Russian Statistical Annual Edition 2003, Goskomstat, p. 200.

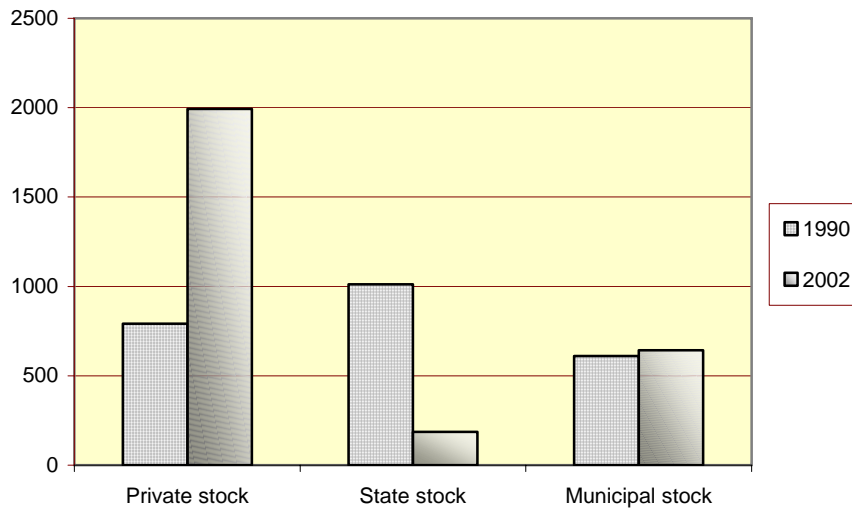
While in 1990, 33% of the total housing stock was privately owned, in 1995 it was 53%, in 2000 65.3%, in 2001 67.7% and in 2002 69.9%. Of the privately owned dwellings in 2001 50% had been privatized cost-free, 40% had been purchased by private citizens, 6.7% belonged to building cooperatives and 3.3% were in the hands of various other legal entities. much in recent years.

The share of the municipally owned housing stock has not changed Municipalities owned 25% in 1990, 30% in 1995, 26.5% in 2000, 24.1% in 2001 and 22.5% of the total housing stock in 2002. About 6.5% of the total housing stock was in State ownership in 2002. The share of State-owned housing has decreased rapidly. It was 42% in 1990, 10% in 1995, 6.3% in 2000 and 6.8% in 2001.

Table 12. Ownership of the housing stock
(m²)

Year	1990	2001	2002
Total housing stock	2,425	2,822	2,853
Private stock	791	1,910	1,993
- of which in citizens' ownership	641	1,809	1,897
- State stock	1,011	193	186
- Municipal stock	611	680	643
- Public stock	12	2	2
- Mixed ownership	---	37	29
Urban housing stock	1,720	2,045	2,069
Private stock	353	1,245	2,069
- of which in citizens' ownership	260	1,191	1,265
State stock	765	162	157
Municipal stock	594	612	575
Public stock	8	1	1
Mixed ownership	---	29	22
Rural housing stock	705	777	784
Private stock	438	669	679
- of which in citizens' ownership	381	618	632
- State stock	246	31	29
- Municipal stock	17	68	68
- Public stock	4	1	1
- Mixed ownership	---	8.0	7.0

Source: The Russian Statistical Annual Edition 2003, Goskomstat, p. 200.

Figure IV. Ownership of the housing stock

After peaking in the mid-1990s, the annual rates of privatization of the housing stock gradually fell till 2000. The share of privatized housing in different areas does not differ much. In Moscow 53% of the housing stock is subject to privatization, i.e. can be privatized by the tenants by the special privatization law, which is above the Russian average. The relatively low share of privatized housing in St Petersburg (43% of dwellings subject to privatization) can, for the most part, be explained by the large share of communal flats (i.e. dwellings being shared by more than one household). Privatizing rooms in such flats was until recently constrained by the necessity to get permission from the other households.

D. Households in need of new housing and housing improvements

The number of households in need of housing or better housing conditions registered by the local

authorities has substantially dropped during the past few years. By the beginning of 2002 the number of households registered by local authorities for the purpose of housing allocation had come down to 4 million, i.e. 10% of the total number of households down from 20% in 1990.

By the beginning of 2002, the share of households which had been on the waiting lists for new housing for more than 10 years was 37.7% of all households on the waiting list (compared with 13% in 1990 and 33.8% in 2000). During 2002 about 229,000 households (5% of all registered households) were housed, compared to about 1,296,000 households (13% of registered households) in 1990 (see table 13).

It is estimated that there are approximately 4.2 million homeless people, of whom half have been without a fixed abode for more than two years.

Table 13. Housing allocation

Year	1990	1995	2000	2001	2002
Number of households provided with dwellings or having improved their housing conditions (thousands)	1,296	652	253	242	229
- in % of households registered for housing allocation	13	8	5	5	5
- in % of all householdes	3.0	1.0	0.5	0.5	0.5
Number of households registered for housing allocation by year-end (thousands)	9964.0	7698.0	5419.0	4857.0	4428.0

Source: The Russian Statistical Annual Edition 2003, Goskomstat, p. 201.

The public housing allocation system with waiting lists is losing its role in the provision of dwellings. However, at the same time, the secondary market and rental market systems are not yet working

efficiently. The changing of flats between households seems complicated and households have difficulties to meet their housing needs.

Chapter IV

INSTITUTIONAL FRAMEWORK

Introduction

During the drafting of this chapter the institutional framework of the Russian Federation's housing sector underwent some major changes, in particular with regard to the institutional responsibilities of the federal Government. The analysis in this chapter is based primarily on the institutional set-up as it existed until March 2004, but will also give an account of the changes effected since then.

A. Institutions involved in housing policy implementation

There are three levels of government in the Russian Federation, each its own with competencies.

Federal institutions

The federal institutions are responsible for the State's unity and Constitution, its sovereignty and territorial integrity. State power is exercised by the President, the Federal Assembly (the Federation Council and the State Duma), the federal Government and the federal courts.

The State Duma does not have a separate housing committee. Its key housing-related units are the Committee on Industry, Construction and Technology and the Committee on Civil, Arbitrage and Process Law. Depending on the topic, the Committees on Property, on Social Policy, on Economic Policy or on Local Self-government may be involved in the discussions.

The Government of the Russian Federation consists of 14 ministries, 34 federal services and 28 federal agencies (March 2004). Ministries develop policy and regulatory documents. Federal services provide control functions. Federal agencies are the real "executive" bodies. The Government prepares and submits bills for federal legislation and the federal budget to the State Duma and ensures implementation of the budget by submitting relevant reports. The federal Government plays an important role in generating

financial resources through taxation, especially through the federal distribution of taxes, which are collected locally and distributed among the three levels of government either in accordance with rules laid down by legislation or regulated through negotiations. The federal Government has also created a system of tariffs for housing and utility services that are to be followed by local authorities when charging households for the relevant services.

The key federal institution for the housing sector until March 2004 was the State Committee for Construction, Housing and Municipal Economy (*Gosstroy*). Since 9 March 2004, it has been the Federal Agency "Gosstroy" under the Ministry of Industry and Energy. The Federal Agency has executive authority for inter-industrial regulation in construction, architecture, urban planning, housing policy and public housing.

The responsibilities of the State Committee for Construction, Housing and Municipal Economy were complex, covering all major aspects of planning and construction, but also of the built environment.

The State Committee had about 450 full-time specialists employed in the head office. In addition, it had under its authority a system of about 52,000 organizations all over the country and at all levels of government. There were about 50 institutions for research and development, and also about 40 institutions for education and training, consultancy and licensing, as well as a specialized State library on construction and architecture, a museum of architecture, exhibition halls, etc.

The State Committee was the initiator and the main responsible body for the major housing-related and federally targeted programmes without, however, having any vertical power on housing issues. The State Committee did not have the authority to command from top to bottom and support these commands with relevant funding. The State Committee's competence was only 'collaborative' or 'recommendatory' in particular with regard to the heads of regional

administrations. The State Committee established the Central Council of State Housing Inspections – a system of inspectorates to monitor locally the quality of housing construction and utility services. To date, State housing inspectorates have been created by 82 regional administrations (“subjects of the Federation”), but only 40 of them are administratively independent. The others are still part of the local housing management structures. The national housing reform generally aims to devolve the major responsibility for implementing federal housing policy from the federal to the lower levels of government.

The changes in government structure effected in March 2004 were still evolving at the time of finalizing this study. It was therefore not possible here to say with certainty what the new institutional set-up would look like or to judge what impact this would have on housing policy design.

Regional institutions

Executive power in most regions is exercised personally by the highest elected official called head of administration, governor, president or sometimes chairman of the government. The structure and the role of the regional governments are similar to those of the federal level in particular with regard to the distribution of resources and the execution of power. The competence of the regional governments includes duties that cannot be performed by municipal governments, such as developing infrastructure, but also regional housing programmes. The regional government approves the budget proposals of the municipalities, which in the case of new public housing construction is broken down into every single project. In many cases different ministries (or committees or departments) deal with construction and housing within the regional governments.

Local self-government institutions

Local self-governments, which are the municipal entities, represent a rather new component in the country’s power structure. According to the 1993 Constitution, their institutions are not institutions of State power and should act independently and be answerable to the local population. The underlying idea is that the local self-governments

may be organized independently without any interference from the higher authorities. However, this does not mean that the State completely abstains from regulating their structure and competence. The Constitution recognizes and guarantees their rights, but also establishes some basic responsibilities for them. Currently, there are 13,383 local self-governments, of which about 1,300 are urban.

Local authorities are the main executive agencies that provide housing and utility services. About 8,500 municipalities have their own housing stock and are thus responsible for its management and maintenance. The major competencies of the municipalities in housing are:

- Administering, maintaining and operating municipal housing and non-residential premises;
- Planning and developing the municipal territories;
- Creating the conditions for developing dwellings and buildings of public importance;
- Organizing, administering and developing the municipal electricity, gas, heating, water and sewage utility companies;
- Providing heating fuel to residents and municipal institutions (oil, coal, timber, etc.);
- Building and maintaining municipal roads;
- Operating emergency fire services.

In the foreseeable future municipalities are expected to continue to play a predominant role in housing. They are the major bodies for operating and maintaining the housing stock, and for providing the most important utilities through their local service companies. Although municipalities allocate about 40-60% of their annual budgets to housing, their financial and operational autonomy in housing is quite limited. They do receive considerable support from the budgets of higher levels.

The federal legislation and institutional guidelines tightly regulate the major processes in housing. The federal authorities set the legal framework

and decide on housing reform. Each municipality has to implement the housing reform locally. The law gives local self-governments the authority to determine the most suitable administrative structure for managing their local housing and utility service provisions within the budgetary limits and the targets set.

Within the administrative structure of the local self-governments, the city council typically sets the housing management guidelines for the local government administration, where the deputy head – due to the importance of housing for the local policy and budget – is quite commonly responsible for housing matters. The administration has to cover three major issues:

- Developing new public housing and public buildings, incl. major repair of existing buildings;
- Management and maintenance of the existing housing stock, and administering the waiting lists;
- Providing utility services for the city (e.g. electricity, water, sewage, heating, etc.) and managing and maintaining public facilities on the territory of the municipality (schools, saunas, public buildings, etc.).

Municipalities also have departments of architecture, land committees; so-called bureaux of technical inventory and sometimes also branches of the State housing inspectorate.

B. Civil society

It is vital for households to get information and advice on access to the services that they require to meet their housing needs. There should be help desks and advisers to answer residents' questions about their homes, but also to advertise other sources of information. At present NGOs play a predominant role in raising awareness about housing issues and about the roles of different institutions.

Due to the enormous size of the country, the list of its non-governmental housing-related institutions can never be exhaustive, but based on their mission and membership they may be classified into six major groups:

- Professional associations and trade unions;
- Federations of commercial companies acting on the housing market;
- Associations of municipalities;
- Research and educational organizations;
- Housing movements;
- Homeowners' associations.

Professional and commercial associations

Housing-related professional associations and trade unions unite specialists to defend their professional rights, as well as to influence the sphere of their professional activity – housing policy, architecture and design, land administration, and real-estate transactions. Some examples with long traditions are: the Russian National Urban Society, the Union of Architects of Russia, the Union of Designers of Russia and the Russian Society of Civil Engineers. Among the trade unions, the Trade Union of Workers of Local Industry and Municipal Enterprises should be mentioned.

As the housing market has become commercial, the companies involved in it are interested in protecting their business interests and creating fair rules for business. The Builders of Russia Union (founded in 1990) incorporates over 360 organizations from nearly every region of the Russian Federation. At the same time there are also about 25 associations, unions and societies for construction companies working locally in the different regions of the country. These institutions are active not only in developing the issues that are directly related to the construction sector, but they have also been involved in tackling customers' debts, mortgage lending, organizing tenders and contracting, and issues related to licensing. The National Union of Housing and Municipal Enterprises, the Russian Guild of Realtors, the Russian Society of Appraisers, the Association of Russian Banks and the Association of Mortgage Banks pursue similar aims.

Associations of municipalities

It is important for the country's federal structure that local self-governments can promote and

protect their joint interests both federally and regionally. Consequently, municipal entities have created organizations that operate throughout the country, within a single region or within several regions that share economic interests. Most of these organizations are fairly new and they all suffer from limited financial and professional resources.

The most important of the national level organizations are:

- The Union of Russian Cities: established in 1991; incorporates the 90 biggest cities, mainly regional capitals (excluding Moscow and St Petersburg);
- The Union of Small Towns of Russia: established in 1991; membership consists of the heads of administration of the cities with fewer than 200,000 inhabitants;
- The Association of Siberian and Far-Eastern Cities.

To merge the efforts of local self-governments, 52 of their unions founded a nationwide association, the Congress of Municipal Entities of the Russian Federation, which was registered in 1998. Today the Congress is the most important national association for Russian local authorities and is seen as the key actor in their future developments. Only the regional associations or unions of local governments, not the local authorities themselves, are members of the Congress. The Congress has a special standing commission to promote housing and municipal reform and it organizes discussions, conferences, training courses and exhibitions in close cooperation with many research institutes and private and municipal utilities and maintenance companies. A major discussion forum with some 300 participants about best practices in local government housing reform took place in spring 2003.

Research/ educational institutions and organizations for public information

Housing has become a professional field of activities requiring research and development, but also training. Those who want to be educated in built-environment-related professions can choose amongst more than 100 universities and colleges for higher education, some 300 specialized

training centres for professionals and more than 500 schools for skilled workers. Most of these educational institutions are publicly run. Moscow State University of Civil Engineering, founded in 1921, is the leader in civil engineering and built environment. There is also the Moscow Institute for Advanced Professional Training in the Housing and Municipal Economy. Specialized higher educational institutions in all the larger cities and in the regions provide education for engineering, real-estate issues and public management.

There are no public educational institutions specialized in condominium management. However, during the past two or three years several training centres in Moscow, Novosibirsk, Novgorod, Khabarovsk, Ulan-Ude, etc. have started new condominium management training schemes supported by Western donors, especially the United States Agency for International Development (USAID). Some housing NGOs also provide training in this field – e.g. the Housing Chamber of Moscow, ‘Domouprav’, the Institute of the Non-governmental Sector in Novosibirsk, but also in other cities.

One of the major media outlets for professionals is the monthly ZKH (Housing and Municipal Economy), which has been published by Gosstroy since 1998. Each monthly edition consists of two volumes, one with discussion papers and advertising, and another with official documents and reviews.

Moscow’s weekly housing bulletin Chain of Apartments is hugely popular. Though officially a Moscow-based paper, it highlights the major housing problems in the country and has sections for official documents, housing reform, homeowners’ associations, etc. Its Web edition is also widely read.

One of the best well known research bodies is the Institute for Urban Economics created in 1995. Its main goals are to develop and introduce new approaches to housing problems. Some of its most important activities are :

- Research into the social and economic problems of urban areas;

- Contribute to the drafting of legal and regulatory documents on housing reform;
- Assisting to the preparation of strategic concepts, practical approaches and implementation schemes for pilot programmes to reform the urban economy;
- Providing methodological and technical assistance to different institutions for drawing up and implementing urban economy programmes;
- Training government officials, staff of banks and private companies;
- Disseminating experience and recommendations through the media and publications.

Its ‘Transition to Smart Growth: Improved Local Governance and Economic Development’ programme aims to:

- Strengthen local self-government in the Russian Federation;
- Strengthen local government capacity to develop and manage municipal resources;
- Encourage local governments to operate in a sustained partnership with their communities;
- Increase the policy development skills of local and national officials and community leaders.

Two other institutions in this category should be mentioned:

- The Leontief Centre (St Petersburg) is an international centre for social and economic research; and
- The EUROGRAD Institute (St Petersburg) aims to provide wide theoretical and practical assistance to local authorities in an effort to foster the potential development of their towns and to implement municipal reforms.

Housing movements

Housing movements represent and defend the rights of different social groups in the housing sphere. In the Russian Federation, housing movements are a new social phenomenon, reflecting the dramatic and rapid changes in the country’s social, economic and political climate. The first officially recognized Soviet neighborhood organizations resembling grass-roots community groups were called ‘committees of social self-management’. They appeared in Moscow in 1988. Their activities included direct social assistance and the distribution of Western humanitarian aid, greater control over the actions of local authorities and over the delivery of services in the neighbourhood, representation of local interests at municipal agencies, defence of citizens’ rights in relation to housing, and organizing collective voluntary work to improve living conditions.

In the new social and political climate, different housing problems are superimposed on the old housing concerns mainly related to poor services. A lack of information, coupled with uncertainty, has contributed to the mushrooming of different movements highlighting particular housing problems. For example, in recent years, some 20 local community groups and hundreds of other grass-roots groups have been created in Moscow alone. They have been strongly involved in different community activities, including the defence of housing rights of different social groups, such as people with poor housing conditions, the homeless, applicants for free municipal flats, members of housing cooperatives, etc. These activities have changed their character from protest organizations to real movements attempting to work constructively in cooperation with the authorities on different levels.

Given the country’s size and diversity, different regions may have completely different problems to tackle. Therefore, not all movements that are crucial to some have a central body on the national level. Table 14 includes only a small selection of movements with very different backgrounds.

Table 14. Housing movements

Movement	Activities
Forum of Migrants	<ul style="list-style-type: none"> • Provides support to migrants returning to the Russian Federation and to homeless people. • Is the largest of its kind. • Has representatives in 53 regions. • Provides publications, advice and training.
National Forum for Affordable and Decent Housing, founded in 1991.	<ul style="list-style-type: none"> • Advocates partnerships in housing. • Experts provide consultancy throughout the country on housing finance, residents' self-management, collaboration with maintenance companies, defense of housing rights. Umbrella organization for inexperienced, but active housing partnerships in Moscow. <p>Provides training courses and high-quality publications about housing.</p>
Inter-regional Union of Tenants and Flat Owners, registered in 2002 (former Union of Owners of Flats in Municipal, Cooperative and Industrial Housing Stock, created in 1994)	<ul style="list-style-type: none"> • Developed a wide network of associations of flat owners in many Russian cities. Actively resists housing and utility service monopolies. • Raises awareness about the problems in the housing sector through seminars and workshops.
Public Council on Housing Policy, set up in 1994	<ul style="list-style-type: none"> • Created with the support of the Moscow City Duma. • Part of a representing body housing NGOs in Moscow. • Has great public influence as its activities are supported by several housing-related professionals.
<u>Nochlyezhka</u> (Night Shelter) in St Petersburg	<ul style="list-style-type: none"> • Charitable foundation to help the homeless. • Provides consultancy and surveys. • Supplies food for people in need.
Russian Union of Youth Housing Cooperatives	<ul style="list-style-type: none"> • Forum for discussing the housing problems of youth and young families. • Has been active for about 30 years. • Has several policy makers as active members. • Initiators of the special housing programme for young families in the Russian Federation.

Source: The Russian Statistical Annual Edition 2003, Goskomstat, p. 201.

In recent years, several housing committees, and “staircase” councils have been formed in municipally managed apartment blocks due to the fear of terrorism, vandalism and concern about the deterioration of common areas. These voluntary organizations are good examples of residents – either owner-occupiers or tenants in municipal flats – joining forces to tackle common problems. These housing committees include a great variety of voluntary associations, partly inherited from the Soviet period but adjusted to today’s realities, and partly created as a reaction to radical changes in housing policy, social structure and tenure structure.

The immediate motivation was the series of bomb blasts in several apartment buildings in Russian cities in the autumn of 1999. It became clear that the common spaces of the shared buildings and the yards were ownerless. On the local level (‘one block, one house’), staircase associations and housing committees, but also street, micro-region and community self-management committees have been formed to improve the quality of housing maintenance and living conditions.

Homeowners’ associations

With the transfer of ownership title to a large number of tenants, new forms of organization for the privatized property became necessary, as the new owners had to take over the management and maintenance of the housing stock. Housing reform policies foresee an increasing role for homeowners’ association. They are expected to be the main institutional form of housing organization and management for privatized apartment blocks (for further information on homeowners’ and condominium associations, see chapter VII.).

C. International organizations

The United Nations Development Programme has been active in the Russian Federation since 1993.

Its three most important project areas are the environment, governance, and sustainable livelihoods and economic development. All are contributing to developing human capabilities and improving the standard of living.

USAID has operated in the Russian Federation since 1992. USAID/Russia’s goal has been to support the establishment of a market-oriented and socially responsible democracy through the adoption and use of democratic norms. Of special concern have been the activities related to local governance, focusing on improving the responsiveness of local governments.

The World Bank is one of the Russian Federation’s largest sources of development assistance. About 70 projects are either currently running or have recently ended. These projects have targeted different aspects of energy saving or building renovation – thus either directly or indirectly improving living conditions.

UN-Habitat Executive Bureau in Moscow has been active through a number of projects such as the round table for assuring the sustainable development of Russian cities in 2002. It has also run projects in different regions to raise public awareness about sustainable development.

The international organizations active in the Russian Federation do not, as a general rule, provide direct help to municipalities and households for individual housing improvement projects. Their projects are targeted more at generating a suitable environment where the responsible institutions and actors can implement their housing strategies. The international organizations also aim at providing education, training and know-how.

Chapter V

LEGAL FRAMEWORK

A. The general legislative principles of housing reform: the Constitution, the land and the Housing code

The Constitution and ownership of property

Article 9 (para. 2) of the Constitution of the Russian Federation declares that ‘land and other natural resources may be in private, State, municipal and other forms of ownership.’ In addition, article 36, paragraph 1, declares that ‘citizens and associations of citizens shall enjoy the right of having land in private property.’ This right was further affirmed in parts 1 and 2 of the Civil Code, which is explicitly based upon the equality of participants in economic relations, the inviolability of property, freedom of contract, the inadmissibility of arbitrary interference in private matters and the guarantee of reinstatement of violated rights and their judicial protection. Yet until the passage of the Land Code of the Russian Federation in October 2001, the legal regulation of landownership relied heavily on presidential decrees and their promulgation was accompanied by the eruption of institutional conflict rather than consensus.

While existing in theory, private land property lacked an operational framework. Constitutional regulation does not have an exhaustive character; it has to be developed and specified by other legislative acts. Point 3 of article 36 of the Constitution asserts that ‘the conditions and procedure for the use of land shall be determined on the basis of federal law.’

In 2001 the adoption of the Land code helped to introduce general principles for real estate development. Its provisions cover: the unity of land and improvements; land as an object for commercial transactions; the classification of land into seven categories with regard to land-use policies; the demarcation of State property and the registration of federal property in the cadastre and real property rights in the registration system. However, these provisions have not yet been put into practice.

Until the Land Code came into force in October 2001, continual disputes arose due to the separation between ownership of land and that of buildings. As a result it was impossible to maintain a unified cadastre. Only with the enactment of the Land Code were building and land rights unified and was a federal programme created for the accounting of all objects of real estate on the basis of the land cadastre. The big problem remains to coordinate this system of registration. The Land Registry was created at the federal level but the actual management is under the regional authorities. As a result there are 89 systems of registration throughout the country. This network does not exchange data with the land cadastre.

Although the Land Code clearly affirms that land should be privatized, there is considerable municipal resistance to this. In accordance with the Land Code, individuals and entities can acquire land. If there is any problem, an application can be made to the courts to enforce this right. The implementation of this right is rendered inoperable by the lack of delimitation between federal government and municipal authorities. The result of this incomplete delimitation of property between federal and municipal land is the lack of transparency around investment schemes and an insufficient legal basis to develop a land market. Land and utility services are monopolized.

Ownership of housing and rental agreements

Following the introduction of the Law on the Fundamentals of the Federal Housing Policy in January 1993, housing relationships began to be regulated according to the different types of rights to immovable property that existed within the housing sector. These rights were codified in chapter 18 of the Civil Code. Chapter 18 eliminated a number of restrictions on acquiring residential premises into ownership, and restrictions on the use and disposition of such dwellings. However, in reality few of the

relationships in the housing sector, both the rights and obligations of owners and tenants, and the rights and obligations of maintenance and utility service providers, resemble contractual relationships as regulated by civil law.

With regard to the right to use State-owned and municipally owned residential units, the Civil Code introduced significant innovations into the rights and obligations arising under a rental agreement. Under a rental agreement for residential premises, the owner is responsible for providing the tenant with residential premises for the purposes stipulated by article 671. The next article specifies 'a social rental agreement' (art. 672). The notion of rent covers, drawing from both these articles, 'social rent', which is regulated mainly by housing legislation, and the 'rent' of residential premises governed mainly by civil legislation.

By law the tenant is responsible for the payment of housing and utilities charges. In accordance with the Law on the Fundamentals of the Federal Housing Policy (art. 15), a tenant who fails to pay for housing and utilities within six months may be evicted under a court procedure. The tenant should then be allocated another home which meets the sanitary and technical requirements of a hostel. The Civil Code reaffirms this provision for the termination of a rental agreement and the eviction of the occupants if they are unable to pay the rent (art. 687). However, the 1983 Housing Code does not contain such a provision, although the failure to pay rent is a widespread problem.

Eviction is allowed only exceptionally. The Civil Code provides that the premature termination of a rental agreement is possible only through a court procedure, in compliance with article 35 of the Constitution. In contrast, again, the Housing Code stipulates that the termination of a rental agreement and eviction are permitted by an administrative decision.

The obligation on the owner to use the dwelling in accordance with its purpose is spelled out article 288 of the Civil Code. One of a few grounds for the owner to be deprived of the property, directly specified by legislation, is its improper use (art. 293 of the Civil Code). In the case of such an infringement, the court, on the basis of a claim brought by a local self-government body, might

take a decision about the public sale of the residential premises with the compensation of the owner after the deduction of the court's cost. Thus the policy aim of preserving the housing stock is achieved by establishing the legal responsibility of the occupant to maintain the occupied residential premises in proper condition and to repair the dwelling, as stipulated by articles 678 and 681 of Civil Code, and article 142 of the Housing Code, and the responsibility of the occupant to provide for proper maintenance (art. 676 of Civil Code and art. 141 of the Housing Code).

Incompatibility of different legal acts

As illustrated above, the problem of the failure to implement the norms of civil law has resulted from the lack of definition within legislation, and contradictions between different levels of legislative acts. For example, there has been no 'legislative codification' of the constitutional principle that 'social rent' is applied only to low-income groups. Although legislation has introduced the notion 'State-owned and municipally owned stock for social use', there is no legislative definition of its allocation and use which complies with the constitutional principle, contained in article 40, of social efficiency. Perhaps most crucially the terms of the 1983 Housing Code need to be brought into conformity with newly enacted federal laws. As the most glaring example, what in the Housing Code is defined as 'rent' means 'social rent' within the Civil Code. In addition, in the Housing Code the notion of 'State-owned housing stock' includes residential premises owned by municipal bodies. Again, in contrast, the Civil Code as well as the Law on the Fundamentals of the Federal Housing Policy provides for separate notions, 'State-owned and municipally owned housing stocks.'

This incompatibility of the 1983 Housing Code with the development of market-oriented relationships has been partially obscured by the fact that new approaches have been provided by other federal laws. With their enactment the practical implementation of the Housing Code has narrowed. A number of problems that demand the introduction of a modernized housing code continue to exist, however. The 1983 Housing Code provides all citizens with the right to housing free of charge on the basis of a rental

agreement. This provision was grounded on norms of the 1977 Soviet Constitution. The 1993 Constitution of the Russian Federation, however, defined a citizen's right to a dwelling differently. Its article 40 stipulates that low-income households, as well as certain categories of citizens specified by legislation, are entitled to the provision of residential premises free of charge or at an affordable rent.

Housing privatization

Housing privatization remains one of the important factors of reforming the housing sector but replicates the approach of the Soviet-era Housing Code. The basic principles of housing privatization can be summarized as the voluntary acquiring of dwellings into ownership, the possibility to acquire the residential premises free of charge only once. The citizens' right to privatization derives from the social rental housing agreement for residential premises. In accordance with the Law on the Privatization of the Housing Stock, the tenant occupying residential premises under a social rental agreement can acquire in ownership the premises within the State-owned and municipally owned stock, with the consent of his family members. The right to privatization of a dwelling occupied under a social rental agreement is restated in the Law on the Submission of Amendments and Annexes to the Civil Code and the 2001 law on the Privatization of the Housing Stock.

Many believe that the privatization of the housing stock should continue, and that it should be free and without any time limitations. Those who support the continuation of the existing policy argue that any alteration would violate citizens' rights. The right is considered as a fundamental social guarantee. However, some believe that free privatization must be stopped, and this position is finding support in the new draft housing code.

The retention of this principle of free privatization ensures that municipalities do not have the possibility to make forecasts about the future volume of their housing stock and to develop a long-term policy for its use. Gosstroy has maintained that the issue of setting a deadline for the transfer of housing into the ownership of the occupants free of charge, raised by regional governments and municipalities, derives from this

perceived need to develop a long-term policy with respect to the housing stock that they own.

There is a necessity to amend the Law on the Privatization of the Housing Stock, to establish the right of regional governments to set deadlines for the privatization of the housing stock free of charge. This will allow regions to accommodate regional peculiarities within a long-term strategy in respect of their social housing stock, a stock which would remain in municipal ownership and would not be subject to privatization. This change is also necessary to preserve sufficient volumes of subsidized housing for low-income households. In addition, legislative restrictions should be introduced to stop the privatization of housing held under social agreements. The Law on the Privatization of the Housing Stock needs to be amended to expressly restrict the right of free privatization of houses subject to social rental agreements. This measure would eliminate one of the major constraints on the development of a rental market.

The end of the free privatization of apartments would encourage the creation of homeowners' associations. As long as buildings have mixed public and private apartments, tenants will not feel obliged to assume responsibility for the whole building, as the non-privatized apartment tenants will rely on the government for repair and maintenance work. The local government therefore remains responsible for the entire building, since there is no clear division of the common spaces among private and public tenants.

B. The delimitation of power and property: establishing the authority of national, regional and local government

It is crucial to identify the roles of federal, regional and municipal authorities in housing. The weaknesses in the delimitation of power and responsibilities between different levels of government and institutions has so far been one of the main impediments to reform. In the current political discussion two possible directions for reform have clearly been posited in opposition to one another. The first advocates the completion of privatization and the reduction of the role of municipal authority to the construction and maintenance of housing for special groups identified within legislation. In this scenario the

State would be reduced to a regulator and a provider of mortgage credits. In the municipal economy the sources of housing and utilities services would remain municipal property whilst the maintenance of networks would be undertaken by commercial companies. The consumers of such services should be homeowners' associations. The second policy advocates the termination of the privatization process and the continuation of the role of municipal authority as a de facto commercial entity.

Housing sector reforms are closely linked to fundamental changes in the functions of government authorities. An open market for services and transparent procedures for regulation of natural local monopolies presume the establishment of 'rules of the game' by taking appropriate legislative and regulatory action. Regulatory and institutional reforms will be needed to redefine both local government's role and that of private enterprises if efficiency in service delivery is to improve and if enterprises are to attract private capital for investment purposes.

At present the housing and the municipal sector has become a victim of institutional tension due to the instability and unpredictability in inter-budgetary relations between regional and municipal authorities. This relates to the amount of funding available for the housing and utility service providers, and tax sharing between regional and municipal authorities. There is a lack of transparency in the finances of the municipal economy so that there is more than usual room for argument over the municipalities' real capacity to fund federal initiatives. Federal legislation needs to be introduced to ensure that federal funding is effectively used to meet federal targets.

In accordance with the Law on the General Principles of Local Self-Government of August 1995, local authorities are the main executive agencies for operating and maintaining the housing stock and for providing most municipal services. The federal authorities have provided the legal framework and instructions on housing reform: each municipality has to implement the housing reform locally itself. In practice the Law gives the municipal authority the power to determine the most suitable administrative structure to manage the local housing. The

administration has to cover the development of new housing, and the management and maintenance of the existing housing stock.

The next phase of housing reform needs to focus on incentives for the implementation of the housing policy at the local level. The functions and scope of competence of the State authorities, local self-governments, market players and individual households should be clearly defined so that the efforts of the State authorities are concentrated solely on the functions specific to them. Particular attention should be paid to the role of the housing maintenance and municipal services enterprises, as today they continue to function largely in a non-market system, and under severe budget restrictions, with ambiguous allocations of roles and responsibilities.²⁴

Incentives for good management of the housing maintenance and municipal services enterprises are weakened by the legal features of these enterprises, including the financial relations between the enterprise and the owner-municipality as defined in the Budget Code. The incentives for enterprise management to optimize the enterprise's use of its assets is weakened because the management knows that proceeds from the sale of unused assets, or the rental of assets, would not be retained by the enterprise.

At present, the vast majority of enterprises that provide housing and municipal services have the legal form of *municipal unitary enterprises*. The Civil Code defines the unitary enterprise as a commercial organization, but one upon which ownership rights over the enterprise's assets are not conferred on the enterprise. Instead, the unitary enterprise manages these assets on behalf of the owner (the municipality) under the right of economic management. The resultant deficiencies

²⁴ The key problem areas facing the sector are: low levels of cost recovery throughout the system; large-scale subsidization of housing and municipal services in a non-sustainable system, exacerbated by the sharp drops in local government budgets and contractions in the real incomes of the population during the transition crises; rapid deterioration of the existing housing and utility infrastructure stock due to inadequate maintenance and repair, resulting from a general lack of funds; and extreme monopolization and centralization of the sector.

include the interference in enterprise management from local politicians, lack of transparency in operations, the inability of enterprise management to optimize the use of assets because of the lack of ownership control over them, and general concerns about the quality of the management. Furthermore, the management of such enterprises has to contend with the contradiction between the enterprise's function as a commercial entity providing economic services and the use of the enterprise as a vehicle for the delivery of ill-targeted social protection. Housing maintenance and utility services cannot be placed on a sound fiscal footing and operated on a commercially viable basis until the system of widespread and arbitrarily applied subsidization is explicitly financed or eliminated.

Once this has been completed, a concerted attempt can be made to place the entire system on a clear contractual footing, between municipal authority and service provider, and between service provider and consumer. At present no clear contractual relationship exists between the supplier and consumer as the municipality has to pay for the provision of services. The attraction of private companies to competition for maintenance of the housing stock is obstructed by the fact that "financial" settlements with contractors are made predominantly in the form of mutual offsets and local government securities.

An additional impediment that needs to be addressed is the problem that all contracts for maintenance are executed in a standard form which remains unchanged from year to year. The contracts, as a rule, fail to stipulate a fixed volume and list of services required from the contractor. The contractor is simply obliged to maintain the housing 'according to the standards.' Then in turn the customer does not assume any obligations for the amount and timelines of payments for a contractor's work. In practice, there is no enforcement mechanism when people do not pay maintenance charges. Although the legislation stipulates that if the tenant does not pay within six months he may be evicted, this procedure does not extend to property owners.

An important basis for any cooperation between municipalities, the suppliers of maintenance services and the consumer of those services is the establishment of housing management

associations. Management responsibility for the building can be transferred from local government to the tenants, and costs can more easily be shared out to users in a building. As is detailed in the following section, financial incentives for establishing and registering such associations should be implemented, the process of implementation needs to include the overcoming of current municipal authority reluctance to transfer land to condominium associations. To erode this municipal opposition once land has been valued, the real property taxation system should be reformed. Real property tax revenues should be distributed to a maximum degree to the municipal authorities, thus giving them a revenue basis for local development needs.

C. Homeowners' associations and condominiums

Privatization has failed to give owners in multi-unit apartment buildings effective management authority. The housing stock therefore effectively remains public housing from a repair and maintenance perspective, regardless of the percentage of apartments that are privatized. The main reasons for the slow development of homeowner management of the housing stock are: defects in the regulatory basis and inadequate support from the local administrations; complicated registration procedures; unresolved ownership issues with respect to non residential premises and land plots; and the fact that municipal authorities do not subsidize the maintenance of condominiums and provide no compensation for the payment for municipal services as mandated in the federal law.

The further growth and development of homeowners' associations calls for legislative and regulatory improvements at the federal and local levels. These improvements should address: the securing of land plots in condominiums for homeowners; the improvement of procedures for the registration of property and ownership rights in condominiums; and the granting of rent and utility subsidies to needy condominium owners.

The land held under a condominium may be owned by the homeowners in accordance with the Land Code. The Land Code, however, provides no mechanisms to implement such rights. This prevents condominiums from using the land, the

municipal authority retaining effective control. The members of the condominium cannot register the right of ownership to the land plot that they collectively own if the municipal authority does not allow them. To resolve this problem by reducing conflicting interests over the property the Ministry of Justice must delimit land in terms of the land cadastre.

At present the homeowners' associations are effectively prevented from raising funds through the use of condominium property. A condominium is classified as a non-commercial organization and should remain as such. However, as has been illustrated by a series of court cases, the municipal authority needs to be prevented from using condominium property to the disadvantage of a homeowners' association. As a legal entity, the homeowners' associations should be encouraged to use land for the benefit of the owners in a condominium.

As has been suggested throughout, the resolution of inter-budgetary problems will better facilitate the implementation of policy. Municipal authorities do not establish separate bank accounts for the taxes received for the registration of homeowners' associations in order to use these resources for the associations themselves. An additional problem is that the tax level for the registration of these associations is high, regardless of the wealth of the legal entity.

The establishment of collective managements bodies, such as homeowners' associations, for condominiums should remain a policy priority. When amending legislation to facilitate the development of such associations, those associations must be more than just a legal body possessing the legal authority to act on behalf of all the owners of a condominium. Legislation should be amended so that a condominium, as a property complex, is able to contain a variety of forms of property ownership. Both the rights of tenants and owners should be incorporable. Furthermore, legislation should be amended so that owners of large apartments with contrasting financial means are able to limit their liability for capital repair. Such amendments should be introduced along with those that facilitate the development of housing insurance.

The obligations and responsibilities of both owners and tenants can only be developed in a way that encourages their participation in collective property management if the liabilities of such participation are perceived as bearable. For contractual relations to develop between the suppliers of services and consumers, an owners' association must be able to enter into contractual agreements, to benefit from them and be liable under them. If an association becomes a legal entity, all participants must become jointly responsible for its liabilities. If this is not the case, no lending to secure maintenance is possible, as there is no satisfactory collateral for loans to the association. This is why a form of limited liability was suggested in the previous paragraph. This should be complemented by the provision of a well-targeted and transparent housing benefit system. Only then will both owners and tenants actively participate in the management of the property.

D. Legislation on mortgaging

If a policy is pursued of subsidized affordable mortgages, this will be a significant instrument to help households to improve their housing situation. A mortgage system will only work, however, with the improvement of the mechanisms for the State guarantee of the owners' rights, consisting of the right to free privatization and sale, rent, leasing and mortgage of the dwelling.

It should be possible to terminate the right to a mortgaged home even if it is the family's only one. At present, in accordance with article 446 of the Civil Procedure Rules, the foreclosure of a mortgaged property is not possible if it is the mortgagor's only residence. The grounds for termination would necessarily include those cases when a mortgagee was not in a position to fulfil his obligations under a mortgage agreement. At present, the number of restrictions on the termination of the right to mortgaged residential premises makes the practical application of the above provision impossible. As a consequence, the development of long-term mortgage financing for house purchasing is severely restricted.

This is not the only reason, however, why banks do not become involved in mortgage financing. There are other reasons. It is, for example, impossible to foreclose on default if the rights of a household to occupy the premises under a rental agreement are registered. All the persons residing together with the tenant under such agreement, even if they are not members of his family, share his rights and obligations (art. 677 of Civil Code). Protecting the rights of tenants is important. However, the protection should be effected in such a way that it does not make mortgage lending practically impossible.

There are amendments needed to the Laws on Bankruptcy and on Mortgages to further clarify the rights of the creditor and the borrower. In the most recent version of the Law on Bankruptcy, of December 2002, creditors received third priority upon the bankruptcy of the debtor. For creditors whose claims are secured by a charge, however, article 134 provides for separate satisfaction from the pledged asset. In practice, however, consistency in the implementation of the new bankruptcy procedure is yet to be clearly identified. It must be clearly stipulated by law which creditors are to be satisfied from the sale proceeds if the property is sold and in what order this will take place. In addition, there remains considerable contradiction within the legislation itself, such as differences in the order of satisfaction of creditor claims between the Law on Bankruptcy and the Civil Code.

Finally, a purchase of property using a mortgage requires the financial details of the transfer to be declared. In addition, the notary charges 1.5% of the value of the transaction. These unattractive features of purchasing property using a mortgage are compounded by the fact that the real estate rights registry takes over a month to effect registration. As long as the purchaser, however, does not have proof of registration and evidence of title he cannot receive the mortgage finance from the bank.

In such circumstance, especially in the absence of bank financing, the use of public funds for mortgage financing is an interesting alternative. Such a mechanism was evidenced in Ivanovo, where the potential purchaser makes an application to the municipal administration for finance. The purchased flat is placed under the

legal ownership of the municipality. The citizen buys the apartment with the money raised from his old apartment and the money provided by the municipality. If the purchaser does not keep up with the repayments, the municipal authority can initiate a court case to evict him.

E. Financing new construction

The allocation of land for new construction as well as the protection of land plots under objects already privatized are regulated by the Land Code. It prescribes that the owners of buildings have the right to form a land plot, and register the land plot necessary for servicing the building on an ownership or lease basis.

In the Land Code there are two different procedures for the creation of new land plots. Firstly, for the establishment of a land plot either in ownership or under lease: the so-called ‘granting of a land area for construction without the preliminary coordination of the location of the construction.’ In this case the appropriate body establishes the boundaries of the plot based on open planning documents; it decides issues connected with permitted use and issues of the technical condition of the infrastructure. There is then a public announcement of tender conditions. The plot of land is included into the land cadastre and a tender / auction takes place.

Secondly, when a person wants to construct a certain real estate object: the so-called “granting of a land area for construction with the preliminary coordination of the location of the construction”. That person applies to the appropriate public authority. In this case there is no town planning documentation. The appropriate public authority chooses the land plot, although different service organizations are involved in the consideration of locations. When one location is chosen, the land plot is established. All bodies must agree on the selection of this land plot; the decision is to be signed by representatives of both the federal and municipal governments. The approved selection is presented to the municipal authority, which decides on the implementation of the decision. The constructor must then acquire the required permits from the municipal authority. The land is granted on the basis of a leasing agreement.

The practical implementation of these rights to construction contained within the Land Code have been blunted by the fact that the system of urban planning and land use remains characterized by complicated administrative procedures, by the uncertainty of rights to the plot until all the final decisions have been made, and by a lack of specific procedures for allocating rights to land plots intended for development.

This lack of consistent policy is in particular reflected in the procedure of transferring land rights. Land is transferred for a long-term lease or ownership when the investment and construction project is closing rather than when it is starting. This is the main obstacle hampering the development of mortgage financing of construction projects. No legally enforceable rights exist for the co-investors until the project is completed and the land is registered.

New legislation and procedures, elaborating and facilitating the rights contained in the Land Code, need to be issued to serve as the basis for establishing rights and obligations in the construction of real property. Most importantly, these rights and obligations should be implemented in accordance with the legal zoning requirements to be introduced by municipalities.

F. Registration of immovable property

Until 1998 the legal regulation of the definition and registration of real estate rights varied according to the types of real property. Rights to land plots and land shares were guided by presidential decrees and registered by local land committees. Rights to residential property were guided by the Law on the Privatization of the Housing Stock, rights existing 'from the moment of registration with local executive authorities'. Rights to privatized non-residential real estate were governed by the Law on the Privatization of State and Municipal Enterprises and registered by sellers in a relevant property fund or privatization committee.

Many of the problems attributed to these different systems were substantially reduced by the creation of a federal registry on real estate rights by the Law on the State Registration of Real Estate Rights and Transactions. Documentation can be submitted by an individual, a legal entity

and an organ of municipal or federal authority. The registration of condominium property, however, still encounters difficulties. Associations of homeowners have been deprived of the opportunity to register their rights to common elements of their condominiums because of both technical complications and the refusal of local administrations to transfer the ownership of land to the associations.

The goal of the registration of rights to land must be to benefit private, collective and State interests in the protection of their ownership rights. To achieve this goal it is necessary to:

(a) Amend the effective civil legislation to ensure a free transferability of real property and the protection of bona fide purchasers of property rights;

(b) Include specific provisions for registration of land rights for collective or municipal purposes;

(c) Develop land management legislation;

(d) And provide for the State guarantee of registered rights in order to protect the parties of transactions in real estate.

Finally, it remains difficult to obtain the necessary documents from the federal registry and inventory authorities. The relevant legislation must be improved to properly regulate this area of services as at present no standard requirements for cadastre and technical registration documents are in place.

G. Urban planning

The concept of legal zoning was introduced by the Town Planning Code. The Code defines legal zoning and binds municipal authorities with the responsibility to design land use and development rules and introduces them in practice. Indeed, the success of town planning reform relies on increasing the motivation of city administrations to develop their own legally binding land use and development rules. Decisions on zoning plans and related developments should be made by the municipality. The municipality should be responsible for the issuance of building permits on the basis of the approved planning zones. Although the Town Planning Code was introduced in 1998 there remains a need to clarify and simplify zoning procedures and control,

implementation, and changing of zoning plans within urban municipalities.

In reality there is still the retention of previous non-market town planning principles based on command administration. There is no working system for differentiating lands by ownership types, and as has already been outlined, disputes between regional and municipal governments about the right of the latter to dispose of land within city boundaries; and the refusal of certain regional administrations to recognize any other forms of landownership except permanent use and short-term lease. There is opposition of municipal authorities to the introduction of legal zoning as they fear that this will decrease their flexibility in generating revenues from the disposal of land.

New legislation on legal zoning should be introduced. The aim should be to alleviate the ambiguity of the current system in defining the owners' competence to use land plots by way of transition to legally binding town planning regulations based on the legal zoning principles. The drafting of recommendations on legal zoning for regional and municipal authorities, i.e. a framework for local land use and development rules, should be undertaken immediately.

There should be a review of the procedures for land allocation for development purposes to secure long-term rights of developers and investors at the inception of the investment project. The process of construction and the raising of finance would be facilitated both by the formation of an easily accessible database on all real property units for which privatization is

permitted which should disclose information about the permitted type of use and town planning requirements; and the simplification of procedures used for expert examination and approval of town planning and design documents. When construction has been initiated regulations must secure transparency in the issuance of building permits.

This latter point cannot be underemphasized. There is a need for the clarification of the procedure for dealing with construction applications. There is a need for one procedure to grant title to land and a second procedure granting the right to construction. Furthermore, a classification for a range of construction projects needs to be developed to differentiate between those works that do not require any permission and those that require the full building permit procedure. These changes would reduce the problem of the lengthy and unpredictable process for the issuance of initial permits and certificates for construction projects. At present documents must be approved by more than 40 authorities and, due to lack of information on permitted types of land use, many applications for land allocation are rejected.

The ownership, use and disposition rights over property should be clearly defined by civil law. The construction of a reliable cadastral and registration system is an essential precondition to this development. It must reveal all legal relationships attaching and stemming from the land, and establish enforceable rights through the act of legislation.

Chapter VI

FINANCIAL FRAMEWORK

A. The current situation

1. Investment in housing

Total expenditure and trends

In 2001, the Government invested R 360 billion in local authority housing. In 2002, that amount was expected to rise to R 540 billion. In 2001, R 170.6 billion (47.7%) was covered by user fees and R 129.1 billion (35.5%) from budget funds. The deficit of R 60 billion (16.8%) was dealt with as follows: Services that had already been supplied (electricity, water, heating) were simply not paid for. This led to rising losses among producers. Some services foreseen in the tariffs were not supplied. These include, above all, fundamental renovations to buildings. This results in properties and their installations deteriorating at an ever-increasing rate.

Cross-subsidizing constitutes a further problem for financing. Electricity and gas, in particular, are supplied to customers at below-cost prices. The suppliers then demand excessive prices for supplying other services to finance this. This means that providing cheap services in one sector leads to higher prices in others.

According to Russian experts, for 2002 there is evidence of a rising trend in the cover from user fees.²⁵ There are also signs of a shift in government expenditure from the municipalities to the regions. In the residential construction sector, there are clear signs of an increasing trend in private investment and a decline in government investment. Although the number of completed houses virtually halved from 1990 to 2001, the proportion of private financing more than doubled in the same period. The proportion of private investment is also increasing according to the working groups on housing policy and the development of mortgage credit of the State Council of the Russian Federation. According to

²⁵ Using older data: Sivaev, Sergey: Housing Sector Reforms; in: Kosareva, Nadezhda B. / Struyk, Raymond J.: Urban Management Reform in Russia, 1998 – 2000; 2001, Pages 114 – 134 (115, 116).

their data, the volume of state-financed housing fell from 76.0 million m² in 1987 to 33.8 million m² in 2001. By contrast, the volume of privately financed housing rose from roughly 3 million m² in 1987 to around 13 million m² in 2001.²⁶ However, the volume of mortgage loans remains low:²⁷ the sum of US\$ 50 million equates to 0.1% of GDP.

Potential sources of funding

There are a number of potential sources of funds for the housing sector.

Tariff structure and social subsidies

Restructuring the tariff system for local authority services (electricity, gas, etc.) and putting an end to cross-subsidizing are likely to free up public funds. How far the various costs can be allocated to consumers needs to be decided for each sector. In this connection, a system of aid would need to be introduced for low-income households to enable them to pay the rising fees. This will prevent equal subsidies going to all households, including those whose income is sufficient. In addition, subsidies could be reduced or even abolished for individual households whose income rises.

Housing development funds

Housing development funds, which are dealt with in greater detail in chapter XI, could be financed from government income (in particular, regions and municipalities) from the sale of land or rights to land. They could – as will be shown – assume a central role in developing housing finance.

Taxes

Finally, the introduction of a property tax

²⁶ State Council of the Russian Federation – Working group on housing policy and the development of mortgage credit: Illustrated materials; Moscow, February 2003; diagram 3.

²⁷ Data from: Stupin, Ilya / Chajnikov, Juriy: Resultat zybkiego kompromissa; Ekspert #26(381), July 14, 2003.

(housing, land etc.) could be considered as a further option. This will also be dealt with in chapter XI.

2. Instruments and institutions

Due to the lack of legal foundations, various models of property finance have developed in practice. The basic structures are outlined below.

Co-investment model

This form is used for housing construction by private investors and is widespread. An investor acquires a lease on a piece of land for 49 or 99 years from the town or municipality. Since the new Land Code has not yet been implemented in most regions, the investor cannot acquire ownership of the land. The investor plans to erect a multi-dwelling unit on the leased land. As compensation for the lease, the town or municipality frequently receives a specific rate of the finished flats. The finance is usually organized as follows: future owners of the flats (so-called co-investors) initially pay some 30% of the value of the –yet unfinished– flat. They make regular payments to the investor during the construction. As security, the co-investors are awarded a claim against the investor for completion of the flat. The financial means (down payment and subsequent installments) can be raised as a loan from banks. However, until completion of the flat and its registration in the uniform state register of property rights the bank has no collateral. The bank cannot have a mortgage registered until the flat is registered. Sometimes banks demand higher interest rates until the mortgage is registered, in addition the claim by the co-investor/borrower against the investor can be pledged. However, there is no collateral in the event of the investor/property developer going bankrupt. As a result, banks admit that they become involved in projects of this kind only if they know the property developer and have worked successfully with him in the past. This naturally makes it difficult for new property developers to enter the market.

Besides the risks for the financing bank, there is a risk for the co-investor/borrower. During the building period and until completion of the flat's registration he has to trust the developer. It is

unclear what would happen to the borrower in the event of bankruptcy or fraud on the part of the developer.

Furthermore, the legal procedure of purchasing ownership of the flats seems unclear. The financing is sometimes supplemented by the option of saving up equity (for the first instalment of 30%) with the banks that will subsequently provide the finance. However, these savings options relate only to concrete projects. The saver must stipulate at the beginning (when the contract is concluded) why and for which specific project he is saving.

These forms of finance are used only for new residential construction, not for renovating existing housing. In addition, they are only accessible to high earners.

For co-investment contracts it is absolutely necessary to improve the civil law legislation on real estate, registration and mortgages. Moreover, for this technique, it is especially important to have a law on property developers. Regulations are needed on the transparency of their financial status and management, as is an efficient and supervised system of protecting co-investors from the risk of fraud or bankruptcy of the developer. The current system based on acquaintance can then change into a transparent market system.

Regional programmes

Following the 1998 crisis, when banks withdrew from the property financing, some regions and towns or municipalities developed their own mortgage projects. These were and still are largely financed from budget funds.²⁸ Institutions were set up to work with the Federal Agency for Housing Mortgage Loans (AHML) as were institutions to obtain funding through issues on the capital market (e.g. Irkutsk Regional Mortgage Agency).^{29,30}

²⁸ More detailed information: Pastukhova, N. S. - Rogozhina, N. N.: "Principal changes in long-term residential mortgage lending in Russia" in: Kosareva, N. B. / Struyk, R.: "Urban Management Reform in Russia, 1998 – 2000"; Page 135 (148 – 158).

²⁹ www.ipoteka.irk.ru.

Most regional programmes are based on budget funds. However, these programmes may strain public budgets since there is no clear legal demarcation between loan programmes (via banks, agencies or other legally independent institutions) and development instruments. In the event of recurrent economic instability, this may constitute a risk since there is no cushioning via banks, agencies, etc. as market participants and financial intermediaries. Budgets are also substantially exposed to the risk of interest rate changes and from time to time to the risk of credit defaults. Finally, the regional programmes are of minor significance in terms of volume because of the public sector's constrained financial position.

By and large, the programmes tend to be small because of the lack of budget funds. There are various reasons for the government's willingness to become involved at the respective level:

- (a) To deal with regional housing problems;
- (b) To strengthen the economy with capital inflows. In this connection, budgets are to be used in addition to private savings and other private sources;
- (c) In addition, there is a demand for transition systems for property finance until the macroeconomic situation stabilizes with a reduction in interest rates.

Budgetary support is provided through, for instance:

- (a) Interest subsidies to selected banks (offsetting the difference between market interest rates and actual lower preferential interest rates of the subsidized loans);
- (b) Loans from the budget at below-market rates;
- (c) Establishment of in-house (on balance) lending and funding institutions.

The regions are starting to use more market-driven models for housing finance, mainly based on development funding institutions to attract capital market resources (e.g. Samara, Irkutsk, Orenburg).

Federal Agency for Housing Mortgage Loans

In 1996, the Government established the Federal Agency for Housing Mortgage Loans (AHML)³¹ to create a secondary market. It was modelled after the United States agencies Fannie Mae and Freddie Mac. In 2002, its share capital was increased to 690 million roubles (US\$ 23 million). Subsequently, AHML adopted a more active role: new standards for mortgage finance were drawn up; and AHML started cooperating with regional agencies. In the meantime, it has concluded agreements on cooperation with 60 regions in which it assumes responsibility for funding mortgage loans and sets the framework for the regional programmes. Its aim is to achieve a structure in which it acquires mortgage loans from regional "operators", which it then funds via mortgage securities for which it obtains a guarantee from the Russian Federation. These government-backed securities are then purchased by pension funds. AHML has not received a banking licence from the Central Bank. The Federation's guarantee covers capital and interest on AHML debentures for their entire term. The maximum amount of the federal guarantee is stipulated annually in the Federation's budget. Until 2008, the assumption of guarantees totalling R 9 billion is envisaged. Thereafter, the guarantee will expire, according to current plans.

Moscow Mortgage Agency/Delta Credit

Apart from AHML, the Moscow Mortgage Agency and Delta Credit bank also specialize in mortgage lending.

Moscow Mortgage Agency

In 1999, the Moscow city government established the Moscow Mortgage Agency (Moskovsoye Ipotetshnoye Agenstvo (MIA))³², which has in the meantime received a banking licence. Its main task is to organize a secondary market in Moscow to fund mortgage loans. Fundamentally, it therefore belongs to the group of regional programmes. However, it should be dealt with separately because of its highly developed system.

³⁰ In recent years credit funds providing loans without own capital as defined under banking law and providing new loans direct from the repayments (the Sarov model) have been used in some towns, but they have become less important and are not discussed here.

³¹ www.ahml.ru.

³² www.mia.ru.

MIA acquires mortgage loans from associate banks, which are funded by issuing debentures secured by a charge on the mortgage assets. In addition, MIA has obtained a guarantee from the Moscow city government for its debentures. The Moscow city guarantee covers only capital on the debentures, not interest. MIA is mainly involved in commercial credit in roubles since it has difficulty competing with AHML products in the residential construction sector in roubles because of its federal guarantee.

Delta Credit

The Delta Credit bank³³ (established with funds from the United States-Russian investment fund Tusrif) is currently one of the most active players in the residential mortgage market. More than 10 banks in Moscow and St Petersburg cooperate with Delta Credit in the residential construction finance sector in United States dollars.

Banks in general

Banks view the long-term mortgage business as promising. However, the interest of banks, such as Sperbank, Vneshtorgbank, National Mortgage Company, the Austrian Raiffeisenbank and EuroTrustBank, in mortgage lending is growing. An interesting example is the recently created City Mortgage bank (Gorodskoj Ipotecnyj Bank)³⁴, a joined bank of Trojka Dialogue (leading Russian investment bank) and Rosgosstrakh (one of the country's biggest insurers). The Bank is going to sell its credits nationwide through branches of Rosgosstrakh.

At the same time, more and more banks are using mortgages to secure loans. Several banks use a three-sided purchase-sale and mortgage agreement, which is concluded between the seller of the property, the buyer/borrower and the bank/lender. Ownership of the property can be assigned virtually simultaneously and the mortgage on the property is created through agreements of this kind.

General observations

Elements of modern property finance are in

principle present in the systems outlined (saving up to create equity, bridging finance at the start of construction, long-term mortgage finance of purchase, funding via the capital market, government subsidies to promote residential construction). However, successful further development will depend crucially on clearly demarcating the various systems legally and systematically and adapting them to the demands of the market.

B. Current problems and challenges

1. Civil and enforcement law

Separation of land and buildings

The main problem in civil law remains the separation between land and the buildings on it. This makes lending by banks particularly difficult in the initial phase of the financing, when there is no building that can be registered and consequently mortgaged. The Land Code, which came into effect in 2002, provides for solutions but there is still a general lack of regional implementation laws.

Enforcement of homeownership, eviction of the previous owner

Under the Civil Code the registered owner of a mortgaged property cannot be evicted from the property by means of foreclosure. While the lender (usually a bank) can – on the basis of the Law on Mortgages – bring an action for eviction, it cannot enforce this judgement. There are also reports that in some cities the local authorities are entitled to accommodate homeless people in any property.

Position of the mortgage in bankruptcy

On 2 December 2002, the new Law on Insolvency (Bankruptcy) came into effect. It contains new regulations on the distribution of a bankrupt's estate.³⁵ One of the main criticisms of the old 1998 Law on Insolvency (Bankruptcy) was the unusually poor position of creditors whose claims were secured by charges. They were satisfied only

³³ www.deltacredit.ru.

³⁴ www.gorodskoi.ru.

³⁵ See Wedde, Rainer: Neues im russischen Insolvenzrecht (Changes to Russian Insolvency Law); WiRO 2003, 195 – 200 on this subject.

third (of five ranks) and no separate satisfaction from the pledged asset was possible. Under the new Law there are only three groups of creditors (art. 134). In the first place – as is generally the case in insolvency law – the costs of the proceedings are satisfied. This is followed by the first group, namely creditors to whom the debtor is liable because of death or injury. The debtor's employees and author's copyrights follow in the second group.

All other creditors are satisfied in the third group; there is no longer any differentiation according to claims secured by charges, budget claims and off-budget claims (art. 137). For creditors whose claims are secured by a charge, however, article 134 (4) 2 provides for separate satisfaction from the pledged asset. Compared with the previous legal situation, this change constitutes massive progress. However, a number of questions remain open: in the first two groups registration of claims is also possible after the actual registration period ends, which means that disbursement of the proceeds to the secured creditors will be delayed. The relationship vis-à-vis the costs of the proceedings is unclear: can the pledged assets also be used to settle these? It is also unclear who realizes the pledged asset. From a legal viewpoint, it is interesting that the order of satisfaction in the liquidation of a legal person in article 64 of the Civil Code was not changed, in that it still provides for five groups (as the old Law on Insolvency of 1998); this order also applies to insolvency proceedings via article 65 of the Civil Code.

Registration

Under article 2 of the Law on the Registration of Property Rights and Transactions, every disposition over property (purchase, creation of a charge, etc.) must be recorded in the uniform state register of property rights. However, the significance of this registration remains unclear. As a result of this there have been different interpretations between the Supreme Court and the Highest Court of Arbitration.

There were problems with registrations that were effected following the privatization of housing where there were mistakes in the privatization proceedings. It would seem that the Supreme Court used the mistakes as an opportunity to

declare the privatization invalid – contrary to the records in the uniform state register and the sales that had taken place subsequently. In similar cases, the Highest Court of Arbitration decided that the purchaser could rely on the record in the register.³⁶

Notary's fees

Official recording by a notary is needed to conclude the creation of a mortgage. The notary's fees amount to 1.5% of the loan. This constitutes a major impediment for many contracting parties since this means that the provision of collateral by means of a mortgage is made far more expensive.

Conclusions

The position of mortgages as a means of providing collateral for loans must be improved. The following regulations are recommended for this purpose:

(a) Option of evicting the owner from the property that has been sold by auction. (At the same time social security provisions need to be in place for providing alternative accommodation to the owner);

(b) Further improvement in the position of mortgages in insolvency (full right of separation of the mortgaged (pledged) real estate from the general bankrupt's estate and realized only in favour of the mortgage (pledge) secured lenders);

(c) Complete public trust in the uniform state register.

2. Banks and the financial market

Commercial banks and other mortgage lenders

The main problems for banks and other mortgage lenders are:

(a) Credit risk, essentially the risk of enforcement (sale of the property and eviction of the previous owner, see above legal problems);

(b) An absence of long-term funding options. Today, banks are essentially dependent on their short-term deposits for funding long-term loans, making it difficult to manage their assets/liabilities;

(c) Currency risk. Moscow and St Petersburg

³⁶ OWC (Ost-West-Contact) supplement 7/2003, P. 25.

banks, in particular, provide loans in hard currency (especially United States dollars) at fixed rates. However, the vast majority of borrowers have earnings in roubles. In the event of strong fluctuations in the exchange rate (devaluation of the rouble), the banks run the risk that borrowers will no longer be able to repay the loans;

(d) Interest risk. Regional lenders largely refrain from dollar-denominated loans but provide loans in roubles at variable rates. If rates rise sharply, there is a risk that borrowers will not be able to pay.

(e) Low incomes. Individuals declare only part of their income officially to the tax authorities. Their aim is to cut their tax bills and, in particular, their social insurance contributions. As a result, it is difficult or impossible for lenders to obtain a reliable picture of their clients' creditworthiness. Given that Russian tax rates are low, this problem is largely psychological, arising primarily from the fear that income tax will be raised following disclosure of all earnings. The only solution is a tax policy that is stable and trustworthy in the long term.

AHML – Current problems and possibilities for further development

There are considerable doubts concerning AHML activities in terms of both its business plan and its structure as a whole. Under its current business plan, AHML takes over mortgage loans in roubles from regional operators (regional agencies, etc.), which themselves have acquired the loans from banks.³⁷ Account must be taken of the fact that each of these participants in the system receives fees in this connection. This makes it far harder to make the loans cheaper for borrowers.

A further risk – resulting from the one-sided guarantee for AHML – is the risk of a government-established or sponsored monopoly emerging. These monopolistic institutions have a long and mixed history in a number of countries. Government monopolies generally offer explicit or implicit public guarantees and related contingencies. At the same time they are more

exposed than competitive private banks to policy interference. In several countries these monopolies have slowed the entry of private banks into mortgage finance. Such an outcome in the Russian Federation would be detrimental to the objective of producing more housing units.

The system of government-backed agencies, like AHML, in a country in transition is likely to be a problematic vehicle for trying to build up a non-monopolistic free market system and can lead to significant burdens being placed on the government budget. The preferential treatment by the Government of AHML could drive other providers away from the housing finance market. In addition, the transfer of credit risk in the mortgage market to the Government constitutes a considerable potential threat to stability and growth for any country in transition, which is still weak financially and burdened with a backlog of infrastructure investment.

There is also the risk that the policies governing AHML do not adequately fit into the overall housing policy context. By subsidizing the lender (AHML) instead of borrowers, there is a risk that the desired housing policy effect will not be achieved and that significant budgetary problems can be expected in the future instead.

It is to be welcomed that AHML plans to subject its activities to the new Law on Mortgage Securities. This is an important step in the development of equal opportunities for all competitors in the market. It is also positive that AHMLs' guarantees are limited to 2008 and that their amount must be stipulated by law each year in the federal budget.

For the future, consideration should be given to the direction in which AHML develops. In principle, there are two options: privatization and conversion into a private financial institution or development into a federal housing development fund.

In the event of privatization, AHML could continue its current business model (purchase of mortgage loans from regional operators and the provision of funding for them) albeit without a federal guarantee. In this context conversion to a specialized credit organization would be recommended. As a result, AHML would be

³⁷ Semenyaka, Aleksandr N.: Mortgage lending as a key factor for the decision of the housing problems"; Conference "Mortgage in Russia"; Moscow 3 April 2003 .

subject to banking supervision – instead of merely securities and investment regulation. This would introduce further security, which would be an advantage for bondholders.

In contrast to privatization and conversion into a private financial institution, consideration should also be given to converting AHML into a federal housing development fund. This would enable it to discharge the duties of promoting residential construction at a federal level – in addition to similar activities of regional funds. This could be supplemented by the responsibilities of a federal housing regulator, which would serve as a central federal unit to develop and implement a federal housing policy. In this case, however, AHML would have to give up all its lending business and withdraw completely from the market.

Banking regulations

Another problem for mortgage finance is the lack of banking regulations. As shown above, savings models and funding systems based on securities are used today but, since there is no legal provision, various problems occur. For instance:

(a) Uncertainty for investors in funding securities and savers in the savings systems;

(b) No statutory standardisation of the schemes for savings, own capital and mortgage funding systems. This leads to a lack of transparency and does not facilitate effective investment decisions;

(c) A lack of flexibility since banks and other institutions will provide finance only for specific projects where they know the investor in order to help get over the legal problems.

The following areas should therefore be regulated:

(a) Saving with savings and building societies (Bausparen);

(b) Mortgage lenders and funding through mortgage securities (improvements in the Law on Mortgage Securities)

(c) The law on property developers;

(d) The credit bureau.

C. Developing the financial system

This section looks at proposals for developing the financial system, with a focus on using mortgages to secure loans and developing the financial instruments needed.

1. Developing mortgages to provide suitable collateral for a loan

The Law on Mortgages (Charges on Property) was introduced in 1998. It represents a major step towards a system of securing property finance. However, it must be supplemented with an effective system of using mortgages to secure loans. International experience has shown that the following is a concrete legal precondition for the introduction of mortgage lending.

Clear and secure laws on property rights

The ownership, use and disposition rights over property should be clearly defined by civil law. This includes the definition of property, the secure regulation of ownership and other rights to property. Apart from the owners' rights, third parties' rights, in particular, those of tenants and lessees, should be stipulated precisely.

A reliable cadastral and registration system is a precondition. As experience in other countries in transition that have introduced mortgage lending and in Western Europe shows, a practicable register must fulfil the following criteria:

(a) Complete cadastral recording of the plots of land and other properties;

(b) A register (land register) that shows all the legal relationships clearly;³⁸

(c) Constitutive (establishing a right) effect of registration;

(d) Mandatory registration for new rights;

(e) Public faith in the accuracy of the registration;

(f) Ongoing updating of the register;

(g) Professional qualification of those maintaining the register;

(h) Adequate personnel and material resources for the register's authorities;

(i) Official liability rights against the government if the register's officials have acted incorrectly.

³⁸ The requirements of a modern land register were summarized by Professor Hofmeister in a comparative legal study "The modern land register", which was issued in 1992 by the Austrian Society for International Cooperation in the Notary's Office and the Austrian Ministry of Justice. This work was also translated into Russian.

Problem-free creation and enforcement of loan collateral

Only those mortgages which are not reduced in value by preferential rights are suitable as a basis for short- and long-term property finance. Therefore, the following points are to be taken into consideration:

- It must be stipulated by law which registered and unregistered creditors are to be satisfied from the proceeds if the property is sold and in what order. The situation has improved thanks to the new Law on Insolvency (Bankruptcy) but is still not resolved unequivocally;
- The claims that are not recorded in the register but are to be satisfied from the sales proceeds are to be restricted to those that relate to the piece of land, e.g. land tax or land development costs. Situations where general tax claims or tax claims unrelated to the land that are not recorded in the register can rank ahead of registered rights to the land must be excluded;
- An insolvency fund into which a proportion of employment income is paid should be established to protect employees and their claims. In the event of bankruptcy, employees' claims will be satisfied from this fund. They would then no longer participate in the insolvency proceedings;
- There must be no charges that make the sale unattractive for the creditor. It should, for example, be possible to evict the owner who fails to pay up. At the same time, effective government instruments must be in place to protect individuals against homelessness.

Rapid feasibility

Property transactions should be swift and at reasonable cost. Taxes, registration fees, notary fees and other expenses should not be so high as to make property unnecessarily expensive and prevent the development of a market. Moreover,

the fact that property transactions can be carried out quickly must be guaranteed. This relates above all to speedy official recording by the notary and registration.

2. Generating funds

Regional/municipal level

Funds for housing

In particular, sales of land and rights to land should be used to remedy the lack of capital at a regional and municipal level. This could raise large sums, especially in view of the privatization of land that is imminent under the Land Code. Public landowners are already selling rights (leases) to investors who are constructing residential and commercial buildings on the land.

Today, the funds which the regions or municipalities receive seem to flow directly to the regional or municipal budget. All, or in any event some, of these funds should be aggregated in a fund for the local or regional government, which could be used to promote housing ("housing development fund") and administered separately from the rest of the budget.

If necessary these funds should be created as new institutions or within existing institutions. The aim is to have reliable and sustainable income for the development of the housing sector. This is a precondition for developing and implementing a public assistance system for households to improve their housing conditions. Beside the question of the institutional organization, it is necessary to improve the efficiency of the existing subsidiary systems, a better targeting of the resources and a higher level of budget transparency.

The improvement and reorganization of the public subsidiary system can be successful only if there is also an improvement in the legislative environment, a removal of administrative barriers, and more interest of banks in mortgage lending.

Use of the housing development fund

The fund should be used to:

- Establish financing institutions tailored to market demand. As described above, many regions are developing their own mortgage programmes, which include both savings elements and mortgage lending and in some cases funding from securities. Since private banks' interest in residential construction remains low, the public funds should not simply be used for open or hidden subsidies or a "social mortgage" but to establish a property finance system that is compatible with market conditions and in which support is provided for social target groups;
- Promote social housing construction³⁹ for social target groups. Today, all borrowers are subsidized via the various regional mortgage programmes without social target groups being reached sufficiently effectively. This situation must be improved by separating the financing institutions and the development institutions.

Taxes

The option of introducing a property tax (on housing, land, etc.) should also be considered. This might be based on the principle of the assessed value of property, a system used, for example, in Germany. This system takes into account potential rental incomes and construction costs. This assessed value of a property lies well below its market value, which generally fluctuates. The tax rate is set by the municipalities.

Consideration could be given to converting today's normal rents for leasing land into a property tax. This would bring more real estate into the circular economic flow through the privatization of land (and encourage the development of a market) and, by bringing together land and the buildings on it, would solve many practical and legal problems which are preventing the development of a property and lending market.

³⁹ "Social housing construction" has to be understood as public assistance for the purchase, renovation or building of houses/flats to particular segments of society that cannot afford a mortgage without this assistance.

The regions and municipalities would not be disadvantaged by such a tax.

Federal level

The measures discussed above should be supported at the federal level through an appropriate fund to promote housing and housing construction. This can be fed from the Federation's income from the sale of its own property or rights to property. A levy on the production, sale and export of oil and gas to generate funds to this end is also conceivable.

3. Capital markets (pension funds)

According to the Law on Investment of Funds to Finance the Savings Portion of the Employment Pension of 24 July 2002 and the Law on Non-government Pension Funds of 7 May 1998, government and private pension funds may invest some money in securities (government securities and mortgage securities).

The former Law limits investment in securities, apart from government securities, to diversify risk: investments with one issuer and the group associated with it should not exceed 5% of the portfolio. In terms of the quality of securities that may be acquired by the pension fund, the latter Law provides that the investments should guarantee the preservation of the pension contributions and the diversification and liquidity of the investment portfolio.

Mortgage securities should therefore be structured in such a way that they do not need a government guarantee because their legal structure and standardization makes them so secure. Otherwise, buying these securities would also be only an (indirect) investment in government securities. Therefore, risk would not be diversified nor would pressure on the government's budget ease. In addition, the right to issue should not be limited to one issuer since in that case it would be impossible to comply with investment limits and it would be difficult to ensure the securities' liquidity. With only one issuer there would also be no opportunity for pension funds to diversify.

4. Development of institutions

The mortgage-based financing system that is to be developed in the Russian Federation must fulfil

various requirements. It must be suitable for all types of property finance (purchase, construction, renovation) and for both residential and commercial property.⁴⁰ In addition, it must combine the various features such as saving up equity, long-term lending using the capital markets and the option of cooperation between the various institutions and the option of government assistance. Three or four different institutions should be established for this purpose:

(a) Mortgage lenders whose funding is based on securities (attracting institutional investors, especially pension funds).⁴¹ These mortgage lenders can provide mortgage loans themselves or acquire the loans from other institutions;

(b) Institutions for saving up equity for construction finance;

(c) Development funds for housing construction (this can also be effected via the proposed housing development fund). The development funds must, however, be deployed in a way that is competition-neutral, i.e. also for borrowers who obtain their finance from private lenders. The development of these institutions will open several business and cooperation opportunities for the institutions involved;

(d) Possibility of introducing a system of public sector lending, in particular refinancing public credit guarantees to the borrower.

Several municipalities and regions could cooperate with private banks to establish and develop these institutions. The privatisation of these institutions should be given as a binding goal for their subsequent development.

In the following, several aspects which relate to the four institutions mentioned will be discussed:

⁴⁰ Also agricultural land

⁴¹ The World Bank's proposal that mortgage agencies should receive banking licences in order to conduct lending on this basis goes in a similar direction (World Bank: Developing residential mortgage markets in the Russian Federation – Final report ; December 1, 2003; No. 53). Moreover, without further special legislation in this area (above all laws on mortgage securities and saving with savings and loans associations) the granting of banking licences does not seem sufficient.

(a) Introducing a mortgage security, usable by institutional investors without State guarantee

The question of competition between covered bonds as special bank debentures and mortgage backed securities (MBS) (to which the "mortgage share certificates" and especially the mortgage obligations issued by mortgage agents correspond in the new Law on Mortgage Securities⁴²) is currently one of the most debated in Europe. Neither is better. Both have their own role. The covered bond serves as a means to procure original capital, that is to fund assets. By contrast, MBS are a means of selling assets to relieve bank balance sheets of risk and to release shareholders' equity. Covered bonds and MBS complement each other with their different characteristics and purposes. The markets in which they are placed are correspondingly different. MBS are securities that pass the risk to the investor. They are therefore suitable for investors who are capable of and willing to assess the investment risk individually. However, the focus of the securities on this target group is not required if, as was the case of the major United States agencies until a few years ago, there is a general government guarantee against default.

MBS

In Europe, there is no government liability of this kind. Instead the quality of the payment flows, which are passed on from issuers not only economically but also legally in the case of MBS, is checked by rating agencies. The interest rates

⁴² Articles on the new Law on Mortgage Securities: Djemushkina; Ekaterina:

- Opredelenije pravogo statusa ipotetschnoj zennoj bumagi; Rynok zennyh bumag (RZB), No. 24 (255) 2003, p. 32 – 39.
- Konzeptual'nye podchody k opredeleniju pravogo statusa ipotetschnoj zennoj bumagi; RZB No. 1-2 (256 – 257) 2004, p. 67 – 72.

Lassen, Tim: Wiedereinführung Pfandbrief-ähnlicher Wertpapiere in Russland (Reintroduction of Pfandbrief-type securities in Russia); Immobilien & Finanzierung 2004, p. 120 – 124.

Weiland, Hans-Otto / Lassen, Tim: § 18.5: Mezhdunarodnaya Ekspertiza Zakona „Ob ipoteschnych emissionychnykh zennykh bumagach“ in: Agapkin, V. M. / Chernyak, A. V. / Chernyak, V. Z. (publ.): Zhile – kompleksnyj vzglad; Moscow 2001, p. 722 – 740.

for MBS are geared to the interest rates prevailing on the capital market at the time of issue and the securities' rating. It is normal for MBS to be divided into various risk tranches.⁴³

MBS are complex transactions requiring a great deal of documentation and the costs of this kind of transaction are correspondingly high. If a special purpose vehicle (SPV)⁴⁴ is involved (corresponding to a mortgage agent under the new Russian law), further transfer costs will be incurred.

In the Russian Federation, the introduction of MBS-like structures through mortgage bonds issued by mortgage agents is being considered. Mortgage agents are joint-stock companies without their own staff, which are managed by a parent company that must not be a bank and which receive their assets, on the basis of which they issue mortgage bonds, from the parent company.

It should be noted that it is not easy to achieve the resistance to insolvency demanded for SPV structures.⁴⁵ In addition, the decisions on the allocation of assets to SPV are not made by the issuer but by the entity transferring the claim by selecting the transferred loans. All actions of relevance to the supervisory authorities do not take place with the issuer but elsewhere. Furthermore, since SPV have no staff, it is not clear who would be responsible for certain supervisory measures.

⁴³ This procedure – if possible by two rating agencies – is also suggested by the World Bank (World Bank: Developing residential mortgage markets in the Russian Federation – Discussion draft, May 8 2003; No. 53, 54). However, this increases the cost further and makes the loan more expensive for the borrower.

⁴⁴ SPV = special purpose vehicle. Legal entity, normally without own staff, where the assets are transferred to. The SPV issues securities (depending on the assets mortgage-backed securities (MBS) or asset-backed securities (ABS)). The aim of granting a special legal entity is to try to obtain a bankruptcy-remote structure in case of bankruptcy of the institution (bank or agency) founding the SPV.

⁴⁵ Reason, Tim: Securitization: False Security? in: CFO Magazine, 16 June 2003.

In a more advanced capital market with more specialized and sophisticated investors, MBS will have their role as a part of structured housing finance. As in other European countries through MBS the risk of credits higher than 60% or 80% of loan to value may be sold to the capital markets.

Mortgage share certificates

The mortgage share certificate is a registered security which confirms:

- (a) Its holder's share in the total title to the mortgage cover;
- (b) The right of the person issuing the paper to demand appropriate fiduciary administration;
- (c) The right to receive funds from the fulfilment of liabilities for which the claims create the mortgage cover.

The structure seems to follow that of the investment funds in the Law on Investment Funds. Claims secured by mortgages are allocated to the fund as securities. In line with the structure of the investment fund, the aim is to introduce an anonymous aggregate group of creditors with respect to a large number of mortgage loans, which will then be administered on a fiduciary basis. This does not seem entirely harmless under property law.

As far as is clear, the investor in share certificates carries the full default risk on the mortgage loans. There is also no government guarantee for the paper.

From the viewpoint of investors, mortgage share certificates do not seem very attractive because of their complicated structure, which may deviate from general property law, and the lack of security (the purchaser carries the full credit risk).

Consideration could be given to using the options envisaged in the Law on Investment Funds to create and develop property funds instead of mortgage share certificates (art. 33, para. 2). In the EU, these property funds are important associates of mortgage and commercial banks as borrowers.

Moreover, the possibility that security investment funds act as investors in bonds with mortgage cover and consequently a further institutional investor appears – in addition to pension funds –

should be promoted. They could be included in article 33, paragraph 1, of the Law on Investment Funds as a new type of security.

In this way, complementary rather than competing instruments would appear. Competition between different providers, not different systems (here types of security), is necessary for the stability of the market.

Covered bonds

On the other hand, mortgage banks and covered bonds are optimal instruments for developing and servicing wide and effective capital markets thanks to their extremely simple and transparent structural features and the security that these allow – at least if the specialist bank principle is adopted.

For this reason, the legislation should focus first on the covered bond (in the new Russian law: a mortgage obligation issued by banks) as it is the instrument most likely to persuade a broad range of investors (domestic and international) to invest in the residential finance market. Through investors' willingness to acquire this comparatively low-yield but secure instrument, cheap funds will be obtained for the housing finance market.

Covered bonds are also increasingly used in countries where common law applies. In 2001, the Asset Covered Securities Act was introduced in Ireland, for example. In 2003, securities were issued in the United Kingdom under the HBOS programme, which is similar to the covered bonds in other European countries but based on a contractual rather than a legal foundation.⁴⁶ In future, it is expected that covered bonds will be used increasingly in countries that previously made greater use of MBS tools (such as the United Kingdom, Spain and the Netherlands).^{47,48}

⁴⁶ See for example: Damerow, Frank / Barbour, Iain / Hostalier, Katie: HBOS Covered bond – Transaction overview, Commerzbank Securities, 22 July 2003.

⁴⁷ In the Netherlands the Banking Association drafted a mortgage bank act to introduce a legal environment for mortgage bonds, based on the principle of specialized banks.

The banking role of covered bonds

Lending funded via covered bonds can constitute a stable base only for externally financed investment; only with this restriction can they guarantee the quality that justifies faith in their security.

Covered bonds offer mortgage banks the option of promising the investor very low redemption rates for very long loan terms without delay on the evidence of the loan collateral and also of fixing the interest rate for the duration which corresponds to the long-term maturity of the covered bonds providing the funding.

The most important preconditions for acceptance on the capital market emerge from the correct structuring of the following elements:

(a) A simple and readily comprehensible structure for the financing model stipulated by law;

(b) Statutory and supervisory requirements, which counter risks to the mortgage bank's creditworthiness;

(c) An effective system of government monitoring of the security of covered bonds and mortgage banks;

(d) The expectation that the mortgage banks will regulate prices in the interests of investors.

Securities fulfil this particularly if:

(a) The issuing bank does everything in its own business interests to maintain its reputation and the quality of the securities including market-making (as accepted market practice);

(b) Issuers do not assign their loans but fund them on balance through the issuance of their own securities so that they are liable under the covered bonds; and

(c) The bank's shareholders' equity and other risk cushions serve to protect the securities.

⁴⁸ Engelhard, Fritz: Sector Report: Don't stop, and don't be afraid to start; HVB Credit Research Covered Bonds, 21 August 2003, Page 3.

Minimum standard for covered bonds under EU law (Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) art. 22, para. 4)

Covered bonds are not subject to uniform regulations throughout Europe. Nevertheless, EU law sets a minimum standard for covered bonds and comparable securities with which certain alleviations to the supervisory requirements for financial institutions and insurance companies are associated. The EU regulations and the privileges for mortgage bonds in EU law will be discussed as an example of the necessary minimum requirements and the possibilities to attract national and international money by privileging the mortgage bond as investment instrument.

The preconditions for UCITS, article 22, paragraph 4, are:

- (a) A financial institution's debentures;
- (b) The fact that because of statutory provisions to protect the holder of these debentures they are subject to special regulation that monitors the cover funds. This supervision is not geared to the financial institution's stability but to protecting investors;
- (c) By law, income from issuing these debentures must be invested in assets that adequately cover the liabilities arising under the debentures for their entire term;
- (d) Preferential right of the covered bond holder in the event of the issuer going bankrupt to be satisfied before all other creditors from the assets recorded in the cover register (preferential right in bankruptcy).

Privileges for covered bonds

Because of this guarantee, covered bonds attract a number of privileges under EU law:

- (a) They may account for up to 25% of assets in an investment fund instead of a maximum of 10%;
- (b) They may account for up to 40% instead of a maximum of 5% of "committed assets" in the case of life assurance companies and investments in covered bonds;
- (c) They do not have to be included in the

large exposure limit;

(d) Liabilities under covered bonds do not have to be included in the deposit protection insurance;

(e) Covered bonds are automatically admitted as tier I securities for money market policy operations by the European Central Bank.

This also helps institutional investors since they can acquire the securities without lengthy checks knowing that they will be able to liquidate them at market rates at any time.

Issuers

Under the UCITS directive, the issuer must always be a financial institution. It is irrelevant whether the issuer provided the loans on whose basis it is issuing the security itself or whether it purchased them from other institutions.

The aim is to include a fundamental element of investor protection: financial institutions are subject to general banking supervision and the special provisions for financial institutions such as the rules on equity, solvency, large exposure and annual accounts and consolidation.⁴⁹ This is supplemented by the requirement for "special public supervision to protect holders of covered bonds," where the quality of the cover funds is monitored. This supervision is not geared to the stability of the financial institution but to investor protection.

Specialization

The specialist bank principle is a particularly important aspect of mortgage bank law. A specialist bank is a lending organization that is subject to general banking law but is limited by a specialist law to specific areas of operations (its main business being mortgage and public sector lending funded by covered bonds). A specialist bank has its own staff and its own management board. Its business is long-term. A special purpose vehicle (SPV or Russian mortgage agent) for MBS is not a specialist bank.

⁴⁹ Bellinger, Dieter: Commentary on Art. 22 (4) of the UCITS directive; in: European Mortgage Federation (publ.): Mortgage Banks and the Mortgage Bond in Europe; 3rd ed. Baden-Baden 2001; point 4.6.

The specialist bank principle is the outer wall protecting covered bonds. In Germany, for example, no "Pfandbriefe"-issuing mortgage bank has gone bankrupt since the introduction of the Mortgage Bank Act (1 January 1900).⁵⁰ The additional walls protecting covered bonds are the quality of the cover funds (above all the mortgage lending value) and the preferential ranking in insolvency of covered bond holders in the event of a mortgage bank becoming insolvent. Because of their statutory specialization, mortgage banks are institutions with a portfolio that is overwhelmingly made up of very low risk loans. This contributes significantly to their protection from bankruptcy. The rating agency Moody's and covered bond analysts view the specialist bank principle as an important aspect of their security ("outer protective wall").⁵¹

The macroeconomic reasons for the specialist bank principle are:

(a) The direct link between the liabilities side (mortgage obligation) and the assets side (cover assets), whereby funding is guaranteed via the capital market. This means efficient, risk-oriented pricing and an efficient allocation of capital. In addition, it is a competitive system: simply because several banks that are regulated by the same specialist law compete with each other. Long-term funding is the precondition for long-term lending.

(b) The concentration of their main business brings important economic benefits for mortgage banks:

- (i) Low funding costs;
- (ii) Specialist knowledge and experience in their main business, highly qualified staff;
- (iii) Necessary special market experience;

⁵⁰ Lassen, Tim: Lehren aus der Hypothekenbankkrise (Lessons learned from the mortgage bank crisis), Immobilien & Finanzierung 2003, p. 652 – 654.

⁵¹ Meisner, Norbert: The Market for Covered Bonds in Europe; Deutsche Bank, 4 March 2003, p. 2. Anhamm, Christoph/Langer, Heiko/Goth, Klaus/Kaplan, Peter: Liquid European Covered Bonds; 3rd ed. ABN AMRO September 2002, p. 4. Moody's Investors Service: European Covered Bonds: Moody's Rating and Analytical Approach; September 2002, p. 9.

- (iv) If applicable, manageable company size, short decision-making channels;
- (v) Flexibility by the bank, proximity to the market;
- (vi) Cost-effectiveness and a good cost/earnings ratio (in Germany 30.5% in mortgage banks, 68.8% in universal banks);

(c) The high security standards imposed by law are the basis for covered bonds as a homogenous securities class. With the specialization of mortgage banks, the appeal of covered bonds also increases for major international (institutional) investors. At the same time, the relatively widespread standardization of mortgage bank business makes for a high degree of transparency in the covered bond market. No additional government guarantees are needed for covered bonds. The capital market benefits from the fact that the highly liquid covered bond is used as a benchmark for pricing other products.

The specialist bank principle is the precondition for effective and sensible specialist supervision by the banking supervisory authorities, which leads to increased security for investors.

Valuation

The security of covered bonds is crucially dependent on the quality of the assets serving as collateral, which is related to the preconditions under civil and enforcement law (see above), and the banking industry security criterion for the individual mortgage loans. The valuation is the basis for this.

The cover must ensure that the claims arising under the covered bonds for capital and interest can be met irrespective of the performance of the issuing bank, i.e. even in the event of foreclosure and insolvency. This presupposes that all risks can be avoided with the assets needed as cover. For mortgage loans this means that:

(a) While the borrower's personal ability to pay is important at the beginning for assessing his creditworthiness, it must not make any difference to the security;

(b) The security must result entirely from the economic and legal quality of the mortgage; and

(c) Consequently, reductions in the value of

the mortgaged property that occur during the term of the loan do not reduce its suitability – even partly – as cover.

For funding mortgage loans via covered bonds a valuation “add on” is needed. A decisive point in the decision to take a mortgage credit in the cover pool is not only whether the borrower has the ability to pay the credit back, but whether the real estate will secure the mortgage bonds even if the borrower defaults. To secure the long-term mortgage bonds in these cases the open market value – as today’s value – is not sufficient. Many European countries use the “mortgage lending value”.⁵²

In a recently published study⁵³ the Bank for International Settlements (BIS) found that “the use of current market price is important in generating the cyclic movement of property prices. This occurs despite the fact that expansion of bank credit increases market supply and will eventually cause the property price to fall. The long-term negative effect of bank credit implies that the banks should adopt a valuation method that anticipated market developments.”

The mortgage lending value⁵⁴ is not an estimate of the future value or price of the real estate. It is a value-at-risk approach to manage the risk exposure of the bank and it is linked to banking supervisory issues.

The concept of mortgage lending value is based on the following principles:

- A prudent assessment of future marketability;
- Identification and elimination of speculative elements;
- Normal and local market conditions;
- The long-term (sustainable) aspects of the property;
- The current use and alternative appropriate uses of the property;
- Transparent and clearly stated valuation methods;
- Valuations should be carried out by valuers with an appropriate level of competence and following any country-specific rules;

Thus the mortgage lending value is in some ways close to the definition of market value, but introduces, inter alia, a notion that could be described as “smoothing” of market trends, rents and yields. The sustainability of the mortgage lending value may require adjustments to, or discounting of:

- (a) The actual rental income of the property,
- (b) The market capitalization or discount rate,
- (c) The property administration and management costs.

(b) Saving with a savings and building society

The mortgage bank system, which is used for funding via the capital market, might also be supplemented by a system of saving with savings and building societies, which allow the formation of equity.⁵⁵ The national economy also benefits substantially from this:⁵⁶

(a) In the form of nest-egg saving it leads to the formation of equity without which a construction project and its actual financing would not be feasible;

(b) The subordinated loans to be secured, i.e. in excess of 60% of the mortgage lending value may be provided (after allocation of the savings

⁵² for mortgage lending value see: Kerl, Volkher: Sut’ i znachenije ponyatiya „zalogovaya stoimost’“; in: St. Petersburg State University for Economics and Finance / University Potsdam: Tendentsii razvitiya nemetskoy bankovskoy sistemy i opyt dlya Rossii; St. Petersburg 2002, p. 320 – 350.
Rüchardt, Konrad: Mortgage Lending Value; Frankfurt am Main 2003.

⁵³ BIS Working Papers No. 150: Davies, E. Phillip and Zhu, Haibin: Bank lending and commercial property cycles: some cross country evidence; March 2004, p. 19.

⁵⁴ See The European Group of Valuers’ Associations (TEGoVA): European Valuation Standards 2003; 5th ed. London 2003; S6.04 – S6.11 (p. 72 – 77) (TEGoVA on the internet: www.tegova.org).
The Russian Society of Appraisers (www.mrsa.ru) is a member of TEGoVA.

⁵⁵ World Bank: Developing residential mortgage markets in the Russian Federation – Discussion draft; 1 December 2003; point 58.

⁵⁶ Mints, Viktor: Doplata ot Dyadi; “Ekspert” No. 19, 26 May 2003.

agreement) preferentially by savings and building societies;

(c) The savings system achieves the formation of capital through consumer restraint and – as a side effect – has a positive impact on inflation;

(d) The continuous flow of earmarked savings deposits and bank loans has a stabilizing impact on the economy as a whole;

(e) The savings and building society system promotes a constant demand for construction finance that is relatively independent of current interest rates;

(f) Smaller home loan and savings agreements are often used to modernize property for which no external finance would otherwise be available at acceptable interest rates;

(g) The saver learns the habit of saving and depositing money, which will give a favourable impression if he subsequently borrows money from a mortgage bank;

(h) The saving – over longer periods – of capital and the provision of credit at tolerable interest rates also allows households with more moderate or average incomes to raise construction finance.

The reasons for the specialist bank principle apply also to savings and loan associations.

In recent years, a plethora of informal systems have been set up. Customers have put their money into these banks. Either these banks have gone bankrupt or they have taken the customers' deposits for other investment projects and thus have not been able to meet the commitments from the savings and building contracts.

A specific law would therefore protect customers' deposits against the misuse of funds and improve confidence in this type of institution and the Russian banking sector as a whole. In addition, an act on savings and building banks would ensure the stability of the savings and building system since the bank has to fulfil certain requirements to start operations. Such an act would for example regulate minimum savings periods, the waiting period, allocation of loans (after the customer has completed the savings period), securing of the savings and building loans, etc.

The functionality of savings and building systems is not subject to premiums. It is up to the design and the objectives of the national housing policy

whether a government provides a premium for savings and building systems. As experiences in Germany, Austria, Slovakia and other countries with their savings and building systems show, their premium schemes have been an efficient tool to encourage especially low- and middle-income groups to save. Through this mechanism, these groups have been able to get access to credit, which would otherwise not have been feasible for them. Moreover, these schemes have been an incentive for them to tackle their own housing problems and to feel more responsible for their own property because they have invested their own funds in the house.

(c) Development of funds for housing construction and business opportunities

When mortgage banks and savings and building societies are introduced, the precautions to which the two systems are subject initially constitute a major hindrance to competition. Commercial banks that are free to choose the risks they incur will first attempt to draw all business to them. They can risk 100% finance and will fight against cooperation with the mortgage banks. Experience has shown that this frequently leads to their having problems and also impedes the establishment of a long-term, fixed-rate financing base that is in the general interest. Therefore, government assistance should be focused on persuading banks to cooperate.

Cooperation in terms of time

Lending to buildings under construction is, for security reasons limited or not at all permitted for mortgage banks. Therefore the borrower needs a credit from other lending institutions for the construction period. The mortgage bank can refund or take over the credit after completion of the building. Under normal circumstances the credit, now secured by a mortgage on the completed building or the land, will be eligible for covered bonds.

This is solved by a loan agreement between the owner and the bank providing bridging finance. It contains the promise of bridging finance and the agreements needed to secure the bridging finance. It also stipulates that the amounts subsequently paid out by the mortgage bank are not to go to the owner but to the bank providing the bridging

finance up to the level of the bridging finance.

The owner's own resources

For all credit decisions in mortgage lending, banks must ensure that the risk for the upper parts of the credit is borne by the borrower. This applies to both commercial buildings and residential construction (newly built or renovation of existing housing stock). This ensures that the investor checks the profitability of the project carefully because of his own risk.

In practical terms, full use of the traditional scope for lending of the two groups of specialist institutions leads to 50% of the investment costs being provided by a mortgage bank with covered bond funds and a further 20 to 30% by the savings and building society whose security ranks second in the land register. The owner/borrower must provide the remainder from his own resources.

Also MBS as a risk transfer instrument can be added here to find investors for the higher parts of the credit.

Link with development measures

As already mentioned, the need to provide government assistance may arise if the borrower's income is low or for social policy reasons such as the construction of property to improve the infrastructure.

Fundamentally, the financing structure is similar to that in the previous example. However, part of the resources to be provided by the borrower will be financed by a loan guaranteed by the government (Federation, regions, housing development funds).

The government-backed loan may also be provided by a mortgage bank and funded with covered bond funds, if – as happens in various countries – the issue of public covered bonds, which are covered by government-backed loans, is permitted.

Government assistance

It is expedient to assign the implementation of development programmes, that is the allocation of development funds and the decision on guarantees in accordance with the government's guidelines, to an institution specially created for this purpose (development institute).

Apart from the guarantees described above, an interest subsidy should be introduced as a second instrument that allows large sectors of the population to raise loans. An interest subsidy of this kind could be created via covered bond funded housing loans. As a result, loan conditions that borrowers could pay would be possible.

On the other hand, covered bonds would be promoted as an important capital market instrument. In addition, this subsidy does not subsidize the system, rather it is linked to the borrower's personal circumstances. With the increase in financing options among the population and falling interest rates, this gives the option of withdrawing this subsidy without jeopardizing the covered bond system.⁵⁷

Experience has shown that an adequate housing supply cannot be achieved, at least not at the speed required, without government help. This is particularly true when the need is acute, as was the case in Europe after the Second World War, but it can also develop in rich economies. The United States, which has invested billions of dollars in subsidizing residential construction for many decades, is an example of this.

Borrower protection

It has been shown again and again that dubious or barely solvent entrepreneurs also offer to plan and implement new construction projects for interested parties or to reconstruct or renovate buildings. The contracting parties are often prepared to transfer the amounts needed to cover the construction costs to them prior to completion. It often emerges subsequently that the entrepreneurs are going bankrupt or have disappeared before the buildings are completed or any warranty claims for defective building are met.

⁵⁷ Hungary: Moody's Analysis July 2003: Land Credit and Mortgage Bank (FHB), Page 6 – 8.

A tried and tested means of protecting the owners of buildings from major losses of this kind is to force the entrepreneur to provide sufficient security by law and with the threat of punishment. This can be effected by paying the purchase price in compulsory instalments to a bank account to which the contracting party has no access or through a bank guarantee.

(d) Introduction of the public sector loan and the public sector covered bond ("public asset covered bond")

As already indicated on numerous occasions, consideration can be given to introducing public sector covered bonds and public sector lending in addition to the mortgage covered bond ("mortgage asset covered bond"). The mortgage bank provides loans to government institutions instead of mortgage backed loans to entities under civil law. The background is the government's security as a borrower. Since this can be problematic, such an instrument should be limited to loans to the Federation and the regions. However, the instrument would offer the government the opportunity to obtain low-interest loans without having to deal with the sale of paper it has issued itself on the capital market, which would be dealt with by the mortgage banks when selling covered bonds.

5. Government assistance for housing

No country can manage without actively supporting the construction or acquisition of housing. Housing policy is part of social policy.

When formulating the government's policy on assistance for housing, as much use as possible should be made of existing financial instruments or those requiring development (e.g. covered bonds, MBS). However, care must be taken that the use of development funds is open to all market participants (e.g. all mortgage banks, all lenders) and preferential treatment must not be given to individual lenders, e.g. because they are owned by the government.

*Aims of the assistance*⁵⁸

Assistance for residential construction includes all government measures aimed at providing housing for the population on an appropriate and long-term basis. A distinction should be made between measures to increase the housing stock and measures that aim to retain the existing stock for a broad stratum of the population. Generally the aim of the development measures is also to reduce housing costs for tenants or for owners of an owner-occupied house or flat.

Assistance for residential construction must also take account of the fact that it is a very complex issue in both economic and technical terms and is difficult to regulate with generally applicable laws.

- The demands on residential construction must dynamically follow changes in the way people live together and the general living conditions.
- Rental housing must be managed in accordance with economic requirements if it is to be protected from a decline in the fabric of the building.
- With family homes and owner-occupied flats, the priority is that the owner can bear the burden placed upon him by the property.

Here, too, the fundamental economic principle that no investment is compatible with sustained losses applies. Any assistance must also be targeted at taking account of this aspect in addition to the actual procurement of housing.

Extent of the assistance

Assistance for housing construction is intended to reduce the housing costs for rented property, owner-occupied houses and flats to socially acceptable levels. That is why it should be provided only to the level necessary to ensure housing in line with the constantly changing living conditions.

⁵⁸ This section is based on a lecture by Dr. Reinhard Daniel (Retired Head of the Ministry of Social Affairs in Lower Saxony) on 27 June 1996 on the subject "Social Residential Construction in Germany".

Equally important is the level of interest on the loans to finance the new construction or the redevelopment of existing housing. Since interest rates are shaped autonomously in the market and may fluctuate sharply, the only option remains to reduce unbearable burdens with government funds. This can be effected in various ways:

(a) The causal costs are reduced through targeted subsidies for the benefit of the borrower (the subsidies, however, may be given directly to the borrower or through the lending institution) (objective assistance); or

(b) Part of the full burden on the person using the housing is reduced through personal subsidies (subjective assistance);

(c) Both procedures may also be used cumulatively, in particular to take individual account of particular social hardships (unusually low income, large family, etc.).

Methods of assistance

Assisted housing construction finance consists of a combination of government help with the owner's own funds and loans from banks, savings and building societies and insurance companies. This combination can take various forms.

Assistance for property

One aim of assistance to property is to reduce the debt service. In this context, government aid would consist of soft government loans to owners or interest subsidies to lenders.

Government construction loans, which are granted in place of loans carrying normal interest rates or interest subsidies on bank loans, are possible. Interest subsidies are granted on bank loans in order to cover the interest accruing on loans raised in the market in whole or in part.

For the owners of rental housing and the owners of owner-occupied houses it makes no difference whether they obtain an interest-free government loan or the State pays the interest payable on a bank loan for them. However, it does make a major difference to the government's budget.

Construction loans are intended to pay the costs related to construction and must be available during the construction period since they are drawn down in line with construction progress without it

being possible to control this to any great degree. They constitute an immediate burden on the government's budget – in terms of both the entire principal and the entire interest burden.

Interest subsidies do not have to be paid until interest is due, i.e. every six months or every quarter. Usually they are not paid until the building is ready for use. The volume of initial government expenditure is therefore relatively low so that large amounts of construction can be quickly financed in cooperation with financial institutions.

When using interest subsidies, it should, however, be noted that this will place a burden on future budgets. While the interest due will diminish annually or after a certain period and a time limit can be placed on the interest subsidies, this does nothing to alter the fact that liabilities for the future will accrue. Assistance for residential construction should therefore not be provided using time-limited interest subsidies alone in the long term.

A second aim of property assistance would be to substitute for own funds, which the owner either does not have or cannot access. The help consists in guaranteeing subordinated loans for the lender.

In cases where assistance is appropriate, it is not possible to provide the financing solely from bank loans. Considerable amounts of own resources, which are unlikely to be available in such cases, are often a prerequisite for banks. Savings and building contracts provide opportunities for creating own funds, as they enable the borrower to obtain a loan of up to 80% of the land, construction and ancillary construction costs once the face value of the contract has been saved. However, there remain gaps in the financing – particularly for people with low incomes. To close the gap, government guarantees to banks have proved relatively simple and low-risk in Western Europe – at least for owner-occupied housing and for flats constructed or acquired for owner occupancy.

Accordingly, a financing package for the borrower can be built up as follows: a loan from a mortgage bank of up to 60% of the mortgage lending value,⁵⁹ a loan from a home loan and savings association for the credit portion from

⁵⁹ As limit for refinancing mortgage credits through covered bonds.

60% of the mortgage lending value up to 80% of the costs. The borrower receives a bank loan for the missing part of 10 – 20% for which the government assumes a guarantee. The rest, however, has to be covered through own funds. If public asset covered bonds are introduced, the mortgage bank providing the loan can fund this guaranteed part in the capital market with long-term, low-interest securities. As mentioned above, in this structure MBS can be integrated as risk management tool. MBS can be issued by mortgage banks or commercial banks.

Assistance for people

This is intended to support the tenant or the owner of an owner-occupied property who cannot afford the rent or mortgage payments with his income (housing benefit), or to act as a general incentive for creating housing for personal use by constructing owner-occupied houses and flats (owner-occupancy bonus).

Support to the tenant or homeowner who cannot afford the rent or the mortgage payments (housing benefit)

Housing benefit has a social function above and beyond its significance to the housing industry. In terms of assistance policy, its advantage lies in that it can be more precisely adjusted to meet social requirements and it is currently under discussion as an alternative to property-related assistance. In its existing structure its role is not to

replace actual assistance for housing construction but is only intended to help hardship cases that remain despite the provision of assistance.

The homeownership incentive is intended to increase borrowers' ability to repay the funds borrowed thanks to government subsidies in the first years after the construction of owner-occupied houses and flats constructed for own use.

Organization of assistance for residential construction

The organization of assistance for residential construction should include all levels within the government. The federal Government, regional governments and local authorities, i.e. districts, towns and municipalities, should be involved in the measures. Their roles and responsibilities should be clearly defined. In Germany, for example, the federal Government creates the legal framework; financing is the responsibility of regional governments. Scrutiny and decisions are largely left to local authorities. The federal Government has become involved in the provision of earmarked financial aid.

All regional governments have largely transferred their responsibility to special "housing construction development offices," which are responsible for administering development funds and subject the applications for assistance from the local authority to banking-type scrutiny.

Part Two. CURRENT SITUATION, GOALS AND CHALLENGES IN PARTICULAR AREAS OF THE HOUSING SECTOR REFORM

The analysis of the framework conditions in part one shows that there are a number of aspects within the Russian Federation's housing sector that need to be analysed in more depth. Although many themes deserve to be studied in their own right, the following are thought to be the most relevant today:

- The management and operation of the housing stock (chapter VII)
- Utilities (chapter VIII)
- Social housing (chapter IX)
- New construction and urban planning (chapter X)
- Land management and real property market development (chapter XI)

For each theme, the major challenges will be identified and analysed in depth. In addition, options for addressing these challenges will be put forward.

Chapter VII

MANAGEMENT AND OPERATION OF THE EXISTING HOUSING STOCK

One of the greatest challenges within the housing sector is the management and operation of the housing stock, in particular the organization of repairs and maintenance. Free privatization has dramatically changed the ownership structure of the housing stock. However, even today there is no clear understanding of ownership. The concept of private homeownership has been highly devalued, not only by the public authorities, but also by the owners themselves. There is no proper institutional structure for the flat owners and there is a lack of information sources for them in particular in multi-unit buildings. In most cases, they do not have the opportunities and capacity to take decisions on their property.

A. The consequences of privatization

In the Soviet Union all apartment buildings were for rent. The State or State companies owned the residential buildings and the authorities took care of their management, maintenance and repair. Living space in State-owned buildings was rented to citizens for permanent residence. The monthly rent was approximately 1% of the average per capita income of ordinary families.

The privatization policies of the 1990s changed this. The privatization of flats and the switch from tenants to owners was seen as a tool to increase the efficiency of the housing stock management and maintenance. The privatization process has, however, left many questions open. Although individual flats are privatized, the common areas, structures and infrastructure of buildings are not formally privatized. Home ownership is understood to cover only the dwelling.

The privatization policy made it possible for residents to "privatize" their dwellings free of charge. About half the flats in apartment blocks have been privatized. Because the rents in Soviet times were nominal, they did not include capital repair costs and did not even cover maintenance costs. This has not changed. Therefore, privatization does not bring any financial benefit

to the residents. On the contrary, in most cases it increases their financial responsibilities. Consequently, interest in privatization has waned among residents, while the authorities are still promoting it as they hope that privatization will reduce their responsibilities with regard to the huge problems in the housing stock.

Private owners can form a homeowners' association, which in principle can independently decide upon the maintenance and management of the building. But in most cases, some flats in a building are privatized and others not. In such apartment houses it is almost impossible to form a homeowners' association, because the local government, which formally owns the other flats, is reluctant to be part of a private owners' association.

The privatization legislation did not stipulate sufficiently clearly how the ownership of the whole building should be legally determined and organized. At the moment nobody clearly owns the partly privatized apartment blocks and nobody is clearly responsible for them; the buildings are "ownerless". This situation is a serious obstacle to the development of proper maintenance and renovation.

The first priority should, therefore, be to search for efficient patterns of management of apartment blocks in which some of the flats have been privatized. The Government will have to be strongly involved in the development of such patterns. The lack of a tradition in the ownership of buildings and of understanding of an owner's responsibilities makes it difficult to rapidly shift the responsibility for housing and buildings to the individual private flat owners.

B. Management of the housing stock

In the Soviet system there was no clear distinction between ownership, management, maintenance, reconstruction/repair and provision of public utilities for housing. This is generally still the case

today. The same local organizations and authorities can act in all these tasks and take care of all these duties. There is no clear distinction between customer and supplier in the housing sector and a lack of transparency in costs and money transactions. In this kind of system it is almost impossible to measure or assess the efficiency of different actors.

Formally, the overwhelming majority of residential buildings still belong to the municipalities, i.e. public authorities, which delegate their management and maintenance to subordinate organizations - housing maintenance offices (ZHEKi), companies offering customer management services (DEZi), trusts, etc. It has become evident that these are inefficient.

The causes for the current low quality of housing stock management cannot be merely explained by the strong impact of the municipal authorities on customer's service offices (Zheki/ Dezi). There is also a lack of correlation between the results of their activity and their financial remuneration. The fees are hardly related to the services delivered, and increased payments would not necessarily lead to any improvement in service. Another reason for the inefficiency of the customer's service offices and their subcontractors is that their activity can hardly be controlled. There is little transparency, either in financial terms or with regard to the delivery of services.

The lack of explicitly prescribed responsibilities is one of the biggest problems of the management and maintenance system. Up to now housing and public utilities have largely been provided by a monopolistic system, which means that the occupants are unable to reject management services of inadequate quality. Demonopolization of the market would enable them to choose the best company and to be involved in the management of their homes. This is not the case now, as their involvement is restricted to paying for housing services and public utilities.

The current system of payments for housing services is complex (see chap. VIII). Citizens cover only 20-40% of their housing costs through complicated tariff systems, which include a complicated social support system, privileges and subsidies for 60-70% of the population. The remaining housing costs, 60- 80%, are supposed

to be covered by the municipalities, which in general are unable to finance the sector properly even though approximately 60% of their budgets go to housing. Approximately 20% of the costs are not covered at all, which means increasing debts, deteriorating services and dilapidated property. This has already resulted in social problems.

Moreover, despite the lack of income, maintenance enterprises have 5-10 times more personnel than similar West European organizations. This is an indication of their very low efficiency. The households that they serve consume 2-4 times more energy and 50 % more water than generally in the West and there is much waste of material resources. In general, the service providers suffer from poor management. In the Russian Federation it is already understood that maintenance urgently needs more efficiency, better tariff systems and better financial administration. Citizens cannot understand why they should pay more for poor or even deteriorating services.

Compulsory annual financial auditing has been recommended to Russian municipalities and enterprises. The promotion of professionalism in municipal enterprises needs consultant advice in technical and administrative issues, in the promotion of transparency and in developing tariff systems and personnel policies. Although there is a control mechanism through State and municipal housing inspections, which control the quality of public utilities, this is not sufficient, in particular as these inspections frequently also suffer from a lack of efficiency. Compulsory auditing is impossible as there are hardly any qualified Russian auditors. The need for education and training in all aspects of maintenance is obvious and urgent.

As a result of all these difficulties, renovations and repairs in the housing stock are insufficient and the public utilities cannot renovate their infrastructure. Consequently, both the infrastructure and the housing stock are run-down.

C. Ownership of the housing stock

With the transfer of ownership, it was expected that the new private homeowners would take over the management and maintenance of the housing

stock. To facilitate this, the organization of individual owners in multi-apartment buildings into associations was promoted. Those homeowners' associations either take the form of traditional housing cooperatives and housing construction cooperatives (ZhK, ZhSK) or the newly established household associations (TSZh).

In fact, the attempt to organize households through homeowners' associations has not been very successful so far. According to Gosstroy, in 2001, there were only about 5,000 registered TSZhs and about 16,000 registered ZhSK.

Most associations were established in new constructions and in buildings intended for demolition, so the real figures are even more modest. Many of the TSZhs were established artificially, under pressure from local authorities. Many of the associations are kept alive only formally: they have no bank account, no statutes and no board.

The establishment of homeowners' associations is constrained by a number of factors that are difficult to overcome, for instance:

(a) The authorities have not fully transferred the land on which housing has been built to the ownership of condominium households, despite legal obligations to do so;

(b) The authorities have failed to comply with a legal obligation to give State and municipal grants to homeowners' associations to finance maintenance, current repairs and renovations of buildings and to provide utility services, and to compensate for housing subsidies and privileges which had been granted to the owners of the condominium;

(c) The low number or total absence of professional real-estate managers, and the lack of a market for management, maintenance and repair services.

Generally speaking, creating homeowners' associations is burdensome, especially for local authority management companies, but also for the major utility providers, as they have the need to tailor their management and billing systems towards the needs of the new management institutions (see chap. VIII).

It has proved easier to establish homeowners' associations in cases where new blocks of

apartments were developed for sale. Developers and association representatives report that there were no major difficulties establishing the associations and running them. These cases may serve as promising examples, however even here there are problems:

(a) The developers and the construction companies have become the initiators of the homeowners' associations. Due to the huge size of these new blocks, creating a homeowners' association turns into a formal act of collecting signatures rather than involving the owners in joint decision-making. So basically the developer runs the block and applies his management and maintenance solutions.

(b) The practice of forming homeowners' associations in new buildings goes against the main idea of the housing reform to demonopolise housing management and maintenance services. The developer has the obligation to run the building during the warranty period. The developer will, however, also have a major comparative advantage for any future tendering for maintenance and repair work owing to his familiarity with the technical particularities of the block;

(c) The efficiency of a homeowners' association depends on the professionalism of its leaders. Those pre-established by developers are not 'bottom-up' initiatives, rather a quasi-association assisting the developer to meet his business targets. Some of these institutions may turn to be successful in the future, but few are forums for initiatives from owners.

The federal Law on Homeowners' Associations obliges authorities to rethink and to develop new approaches to increasing the role of the owners and their institutional representatives (homeowners' associations). Today, the new owners of the privatized apartments lack any real incentives to take responsibility and form homeowners' associations. There are even cases where the owners may lose certain benefits that are provided only to tenants. Moreover, ownership of the flats is not registered so that they cannot be used as collateral. The newly formed homeowners' associations in the existing housing stock face several procedural difficulties in connection with their establishment, or when they try to run to the block differently than before.

The creation of a homeowners' association entails that full responsibility for upkeep and maintenance rests with the residents. However, the establishment of homeowners' associations requires adequate financial means and organizational support.

In a few cases the regional or local government institutions are making an effort to promote, advise and assist the new owners in creating homeowners' associations. A good example is Moscow's Department of Housing Policy, which advises the owners of the apartments directly and virtually through its website.

In the blocks of apartments where no homeowners' associations are created, the municipal housing companies (DEZi, Zheki) remain in charge of everyday management and repair, but also of channelling the different subsidies. For people living in housing provided by employers it is still possible that the companies' managers run the housing stock too, but there is a tendency to transfer this stock to municipal responsibility.

During the Soviet era, there was a variety of self-help groups and local initiatives, e.g. housing committees (ДОМКОМ). They were based on national traditions of collectivism and mutual support in rural communities and neighbourhoods. All these mainly dealt with regulating the community and setting rules. So there is a tradition of third-sector public movements in the Russian Federation and they have been closely associated with 'collective' homes, including multi-unit buildings, and the need to regulate the living conditions there.

D. Organizing repair and reconstruction

The Russian housing stock is fairly new, but due to the low quality of construction and poor maintenance it is wearing out quickly. According to Gosstroy, all *khrushchevki* will have to be renovated within the coming 10 years. Other large-panel buildings are generally in better condition.

It is important to try to repair the housing stock as economically as possible and prevent its increasing deterioration, the loss of flats and the further lowering of housing conditions. At the

moment it is not economically possible to demolish all older, run-down blocks of flats and replace them with new construction. Therefore, massive economical renovation is necessary to prevent housing standards falling further. In general, costly renovations of the panel block buildings might not always be advisable. If the economic situation of the country gets better quickly, this kind of housing stock will lose its attraction as wealthier people will start wanting better and more individual dwellings and houses and living areas, and will move out of old block buildings.

Reconstruction and renovation of residential apartment blocks seems to have almost come to a halt. Renovation of buildings has shrunk heavily after the break-up of the Soviet Union and has not yet picked up. Renovation of private flats by their owners increased after the 1998 economic crisis, which as a whole was a disaster for the renovation sector.

Statistics and other information on renovation and reconstruction of buildings and flats are very limited. This is probably due not only to the lack of statistics but also indicates that there is little repair and reconstruction. The unclear situation of the ownership of buildings effectively limits all interest in repairs. Federal organizations and some municipalities have made some preliminary plans for renovation and reconstruction work but these have not yet been carried out. How to finance repairs has not been decided. It is, however, evident that private inhabitants or "private owners" are not able to finance renovations directly from their incomes. Private investors are rarely interested in financing repairs, when the incomes of the inhabitants are low or uncertain. So the only possible financier is the public sector, municipalities or the federal Government.

There is a lack of companies specialized in renovation and reconstruction work. There are Russian companies that carry out new construction, and are capable of developing new housing areas. They do not seem very interested in renovation projects, but if municipalities can organize financing, those companies will probably be capable and interested in repairing larger apartment blocks, in the same mass production way as they were once built. For smaller or

specialized renovation projects more small firms would be needed in the market to increase flexibility and boost competition. There should be free and transparent competition between different renovation companies to improve efficiency and reduce costs. At the moment this is not the case.

When planning and starting the renovation work a technical, economic and social survey of the building stock is needed. Technical surveys of

Russian residential buildings are made both by Russian and Western experts using different methods. According to the Russian system, the condition and standard of an old building is compared to regulations for new buildings. After renovation, the old building should fulfil the standards of new buildings. This principle makes renovation work difficult and expensive and it is, therefore, not used in Western countries, where the original design of the building is the basis for renovation.

Chapter VIII

UTILITY SERVICES

Introduction

Tariffs⁶⁰ for housing-related services are one of the most widely discussed topics in the Russian Federation today. TV talk shows as well as professional newspapers and journals highlight the different aspects of the new tariff policy and the problems related to it. The main concern is that all residents have to start paying the full cost of the services provided - the principle objective of the national housing reform. Residents, however, fail to understand why tariffs for housing and municipal services (ЖИЛИЩНО-КОММУНАЛЬНЫЕ УСЛУГИ) continue to increase when roofs and pipes still leak, and the municipal management companies cannot repay their debts to the utility providers.

Although the concept of full cost recovery seems normal – the consumer of a service should pay for the service provided – the problem in the Russian Federation today is much more complicated. Housing and community are inevitably handled as one interrelated ‘housing and municipal complex.’ The companies of this complex provide ‘housing and municipal services’, including running the housing stock, maintaining and repairing it, but also utility services and rubbish collection. Today its major problems are related to its inherent contradictions:

(a) According to official statistics, the average resident has a reasonable amount of housing space at his disposal; and most urban apartments are equipped with the necessary amenities (central heating, piped water, electricity, etc.). However, the housing stock and the utility infrastructure are in very poor condition and during the past 15 years no adequate funding has been made available to maintain these amenities. So there is a considerable imbalance between the standard of services provided and the prices/tariffs that households are charged. Consumers do not receive value for money.

(b) Household income is low and neither the households nor the public budgets can afford the prices of the services provided. Continuously

increasing the tariffs will cause a serious crisis both for the providers and for the consumers.

The term “crisis” is now officially used to describe this situation. Professional papers and policy documents list the following priorities to overcome it:

(a) Securing financial stability for the companies providing housing and municipal services;

(b) Establishing market-based instruments for housing and municipal services;

(c) Creating the right conditions to attract investment into these services to ensure their long-term operation;

(d) Encouraging households to take an active part in the management of the housing stock.

A. Technical condition of utilities

‘Community catastrophe’ – was a common headline during the winter of 2003 in the official Gosstroy newspaper ‘Stroytel'naja gazeta’ (Construction Newspaper). Already in 2002 there had been about 300,000 cases of heating pipes breaking. After the catastrophe of the 2003 winter, the following data were published about the condition of boiler houses. In the autumn of 2002, about 70,000 boiler houses were inspected, but only 76% of these were certified as ready for the heating season. Thus, during the extremely severe winter of 2003, there were 86 major emergencies, with dwellings cut off from heating for more than 36 hours in 38 regions of the Russian Federation. According to the press, in January 2003 heating provision was disrupted in 4,000 apartment blocks, affecting 350,000 residents.

The situation is similar with regard to the water supply. In more than 100 big cities the water supply to residential areas is irregular. On average, in the Russian Federation, 25% of the water supply is lost in the pipes and more than 40% does not meet health requirements. The deficit of water pipeline capacity exceeds 10 million m³.

⁶⁰ Tariff: the target price for a service set by the relevant public authority.

According to data of Gostroy, the rate of physical wear-out of the water-supply networks is 54.2%, of heat-supply networks 56.7%, for electricity supply 68%, and engineering communications in general 60%. About 7% of the district heating networks and 16% of water pipelines need urgent modernization. The accumulated losses within the heating networks, including those caused by the worn-out state of the pipes, equals 30% of the produced heat, which would represent 58–65million tons of fuel a year.

The annual number of accidents per 100 km of engineering communications has increased from 15–20 in the mid-1990s to 70 for water and sewerage networks and to 200 for heat-supply networks in 2000. The European average is three.

In the cities only 30% of sewers are cleaned by municipal sewerage systems to satisfy the norms. The capacity shortage of sewer systems is 9 million m³ per day (16.5%), about 17% of the networks require major repair; but practically no money is earmarked for these purposes.

From 40 to 80% of the resources of local budgets and a substantial part of the budgets of the “subjects of the Russian Federation” are allocated to housing and municipal services. New housing construction brings losses to cities as every new residential or social building requires additional inputs, deepening the budget crisis.

The following facts further demonstrate the technical situation in the sector:

(a) Between 50 and 60% of the heating and sewage pipes require major repair, the remainder needs to be replaced altogether; 29,000 km of pipes are said to be in a critical situation;

(b) The actual losses of thermal energy and water in the pipelines in some regions are said to be about 55-60%, compared to the normative level of 16%, which is considered to be ‘reasonable’;

(c) The housing stock requires major repair. While the average norm for major repairs is

between 4-6% of the existing stock annually, in reality in some regions in 2002 major repair was carried out only on 0.1% of the stock.

Today not only the professionals but also the politicians on all the levels of government speak about the threat inadequate infrastructure poses to Russian cities and human settlements. The former Prime Minister, Mr. Kasyanov, speaking in the Duma in early spring 2003, analysed the critical break-down in utilities and housing during the winter of 2003 as follows:

(a) One third was the result of major obsolescence, lack of repair and poor preparations;

(b) Another third was due to the non-professional operation of the equipment, i.e. there is lack of professionalism in the sector; and

(c) Finally, the remainder was due to extremely bad weather.

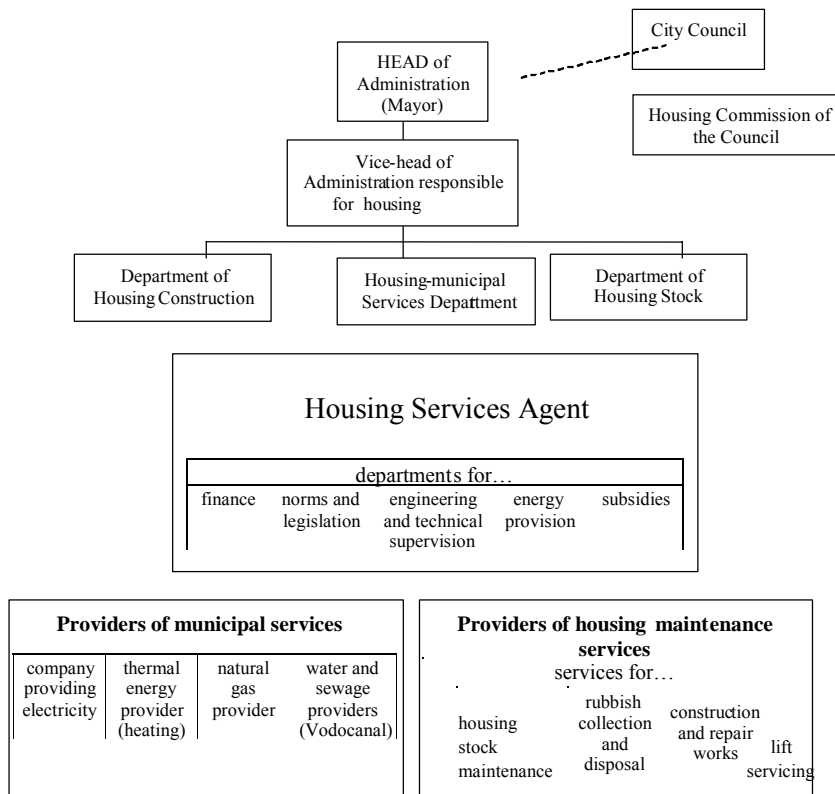
B. The system of management

As described in part one, chapter III, municipalities are still seen as the owners of the dwellings and the municipal companies continue to provide most of the services. There are about 52,000 companies of different ownership with more than 4.5 million staff to provide housing and municipal services, i.e. about 600 m² of housing stock per employee. Yet, it is quite difficult to get clear data on how the staff is placed and what the responsibilities are.

The services are generally provided through municipal enterprises for maintenance, heating, water, etc. There are only a few cases where this function is exercised by privately owned management companies. Private management and maintenance companies are said to number fewer than 200. Private companies are more active in providing different maintenance work and repair, but also rubbish disposal services.

The management and maintenance of housing estates is arranged according to jurisdictions, so the service companies have access only to administratively divided markets.

Figure V. Structure of housing and municipal



The current system of services gives rise to conflicts of interest. If a household cannot pay for all the services provided, the municipal authorities have to make up for this shortfall. In fact, the municipal authorities should try to reduce the costs of the services so that fewer budget funds will be required for such subsidies. The municipal authorities and relevant managerial structures should strive to reduce the tariffs.

However, the municipal authorities are also the owners of the service companies and they have to pay their staff. Any losses that these companies make are also losses for the municipal authorities and social problems among the staff of these companies are of concern to the municipal authorities too.

personally responsible for the efficiency of their activities and for the expenditures incurred. An audit of heat provision in one of the regions in spring 2003 showed that the municipal ‘heating dealers’ had increased the tariffs for energy 2.5-2.8 times. This is clear evidence that the management system for providing such services lacks any incentive to reduce costs.

Assessments published in professional journals estimate that reasonable management in the sector and an increase in professionalism would cut the cost of utility provision by about 15%. Currently the housing and utilities sector ranks second after construction as the sector with the highest turnover of labour, and data about Moscow have revealed that that about 50% of the posts in the technical maintenance companies are vacant.

C. Tariff setting

The official price level for housing service provision is termed 'economically fair tariff' (экономический обоснованный тариф). According to Gosstroy, the average is about 22-24 roubles/m² for all the housing and municipal

services. In fact, it is approximately 25% higher because of the increasing prices of energy. It is also important to keep in mind that the official tariffs cover only operating and maintenance costs and, in general, do not include depreciation of the housing stock and no funds for repair are collected.

The utility service prices are regulated by all three levels of government. Local governments set prices, tariffs and rates for the municipally provided services. Sub-federal (regional) governments control the delivery of gas, power, heat and water supply by other providers. Moreover, responsibility for setting electric power and (co-generated) heating prices is delegated to special regional power supply commissions. At the federal level, regulation of the housing and municipal services lies with the Federal Power Supply Commission and the State Anti-trust Committee.

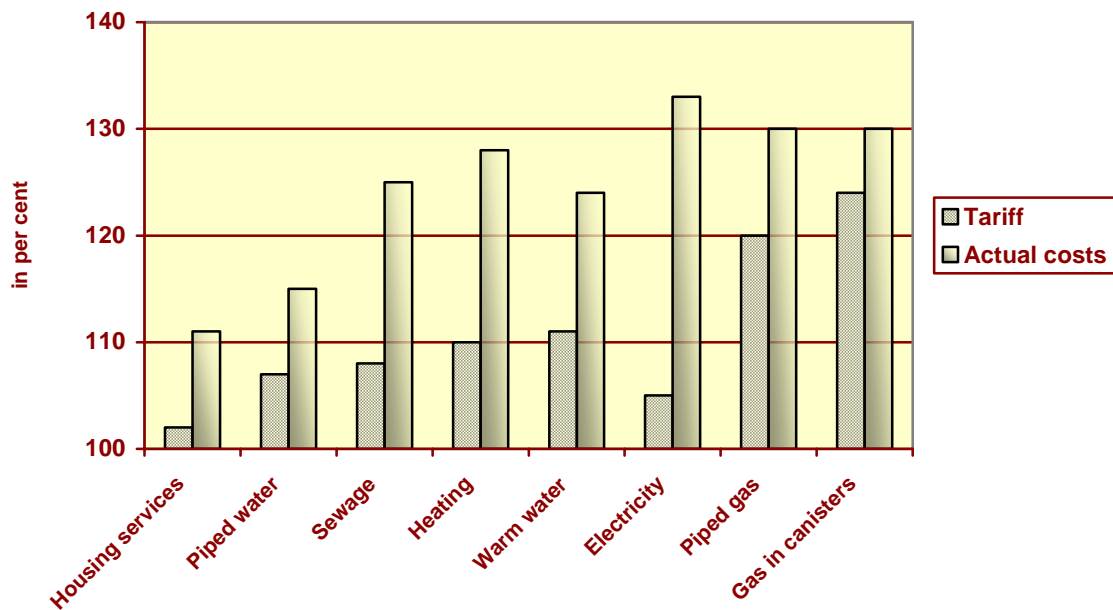
The tariffs for utilities (heating, water, sewage, but also natural gas) are normally calculated according to a standard system. The utility companies invoice the municipal managing company according to the existing norms of consumption or the actual amount of services provided (e.g. the amount of water pumped to the city) which are then multiplied by the economically fair tariff. The municipal management company divides this amount by the number of housing units in its jurisdiction and bills the consumer accordingly.

These schemes date from Soviet times. However, they are seriously flawed, especially because consumption by the final consumer (household) is

not accurate. In fact, except for electricity, there are no accurate figures as metering is very rare. Bills are largely based only on the total water or heat energy produced. They do not take into account whether the consumer has actually used the service, nor its quality.

The problem is aggravated by the fact that average consumption data (amounts) are used not only for invoicing of water, but also for calculating the norms of consumption. The national average is about 235 litres of water per resident per day; in 81 out of the 88 regions where data were available these norms were above 150 litres, with 389 litres in Moscow as the absolute maximum. However, the experience of homeowner associations in Moscow shows that it is easy to consume about 40% less than the norm when consumption is metered. So, the norms introduced for consumption are highly overestimated. If metering were more widespread, service provision would be more accountable and excess provision more difficult. For the seven regions where the norms for consumption were below 150 litres, or 27 litres as the absolute minimum, it can be argued that there is either no relevant service available, or the data provided are not fully reliable.

The main housing policy aim today, as mentioned above, is to raise all the tariffs for the services provided to households to cost-recovery levels. According to the comparative data in table xx of official tariffs and actual costs, during 2002 the costs to service providers increased more rapidly than tariffs. The official tariffs for the services that are set by the relevant authorities are much lower than the actual operating costs reported by the service providers.

Figure VI. Increase in tariffs and costs for services during 2002

Between 1993 and 2000 there were considerable increases in tariffs and the cost-recovery levels increased from 2-3% to 60-70% on average, not including charges for capital repairs. However, the Russian Federation still has the lowest level of cost recovery in Eastern Europe. Moreover, the service providers have come under increasing financial pressure because tariffs charged to consumers remain highly controlled, while price liberalization in other sectors has raised their costs.

In these circumstances, when tariffs are adjusted by different authorities either on the federal, regional or municipal levels, service providers have no incentive to lower the costs for utilities. If a service provider were to invest know-how and become more efficient at a relatively lower cost, the authorities would lower the tariffs accordingly. Higher operating costs on the other hand imply higher tariffs. Therefore the market is still producer-dependent and companies are interested in showing higher rather than lower operating costs.

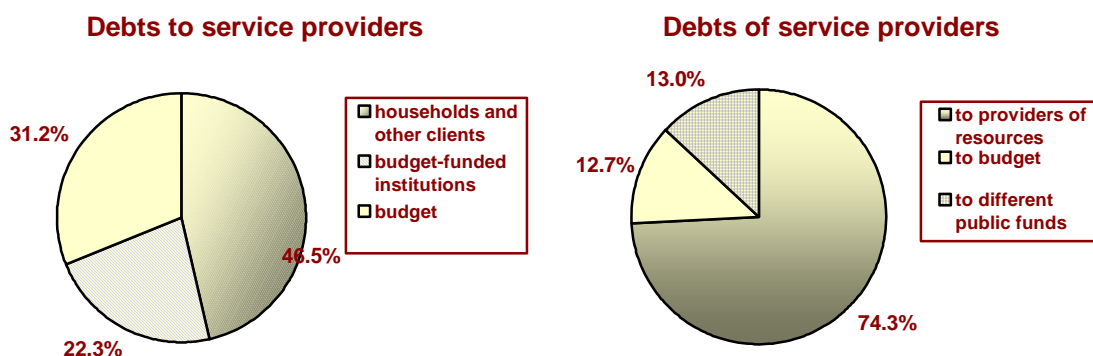
D. Affordability and payments

Utility bills often go unpaid and debts have mounted. In Moscow, on average, about 80% of

bills are paid on time, 10% are paid late and the remaining 10% are never paid. Currently, residents get bills showing the full costs of services, but they have to pay only about 60% (on average) of these costs. As incomes are too low to meet these costs in full, municipalities are expected to cover the remaining 40%.

Municipal budgets are usually small and housing accounts for about 40-60% of all municipal expenses. In Moscow housing services swallow about one third of the city's resources. As all the tariffs are constantly increasing, municipalities cannot fully compensate for the part that is not covered by households. Consequently municipal maintenance agencies do not have the funding to organize all necessary maintenance works and the municipal housing stock suffers from a lack of repair or/and maintenance. Every month the companies – especially the providers of utilities – are 2.3 billion roubles short: 0.5 billion due to unpaid household bills and the remaining 1.8 billion due to a shortage of funding from the budget.

Figure VII. Financial situation of housing and municipal service providers

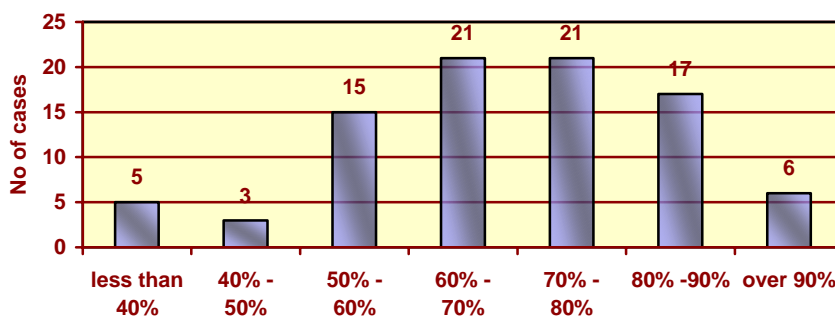


The charts above show the financial situation of the housing and municipal service at the end of 2002. In total, 184 billion roubles were owed to them for delivered but still unpaid services, the debt is 8.7% higher than the previous year. Roughly, half this debt is due by the households and by other clients, the other half is due by the budget. This shortfall in income means that the providers themselves owed 274 billion roubles to their creditors. In 2002, this sum increased by 7.8% compared to 2001.

According to the Gosstroy's monthly journal, the situation is likely to worsen substantially by the end of 2003. At best it will remain unchanged.

Based on data provided by Gosstroy for 2002, the average housing cost per resident was 465.76 roubles per month. However, on average residents paid only 322.01 roubles (69.14% of the sum due). The lowest cost per resident was 244.66 roubles and the highest 2593.28 roubles. This covered from 9.25% to 94.77% of the cost.

Figure VIII. Cost coverage by region



On the diagram above, data from the regions for 2002 are analysed to present the average cost covering percentages. The national average for the period was 69.14%. The histogram gives a clear picture of certain inter-regional problems of affordability. The vast majority of regions have a coverage percentage above 50%, but there are problematic regions in the far north and other

regions with severe climatic conditions where the cost coverage percentage is below 50%. Realizing this problem, Gosstroy has initiated a special national programme to resettle households from these regions.

Below is a randomly chosen bill for housing costs for June 2003 in a region where the average

housing cost per resident per month was 414.57 roubles (for 2002) and cost coverage was 56.38%.

In this apartment the household consists of two persons and the floor space is 35.7 m².

Table 15. Randomly chosen bill for housing costs for June 2003
(in roubles)

Item	Rate per unit of measurement	Costs incurred
Technical maintenance	0.51	18.21
Cleaning the stairwell	0.24	8.57
Cleaning the surroundings	0.73	26.06
Major repair	2.56	91.39
Rubbish collection	11.05	22.10
Cold water	78.05	156.12
Hot water	65.43	130.86
Heating	4.04	144.23
Gas	9.30	18.60
Radio	14.00	14.00
TV aerial	36.00	36.00
Total		666.14

From a total bill of 666.14 roubles the household had to pay only 167.77 roubles, so 498.37 roubles were subsidized from different sources. The household's share is only 26.69%. The bill does not include electricity charges.

In early 2002, Moscow's Mayor Yuriy Luzhkov started a 'pilot project'. He called on people with incomes above R 8500 (\$280) per household member per month to pay 100% of housing costs on a voluntary basis. Thousands of families received two bills: a 'voluntary' (full price) bill and a normal bill (about 60% of the full price). Families could choose to pay either of the bills. Only 44 families paid the voluntary bill in January 2002.

E. Government initiatives

To address the problems of the housing and municipal services, the Federal Government initiated, on 17 November 2001, the housing reform sub-programme 'Reform and Upgrading of

the Housing and Utilities Sector in the Russian Federation for 2002-2010'. Its major idea is that the reform of the complex and the relevant services may be successful if two initial preconditions are met:

- (a) Providers have sufficient revenues to cover at least operating and maintenance costs;
- (b) Consumers are willing and able to pay the costs of services they are charged for; consumers will be willing to pay as long as they feel services are priced fairly.

The sub-programme identifies five priorities:

- (a) Increase tariffs to the level of operating cost coverage by 2003;
- (b) Discontinue the current system of privileges and exemptions;
- (c) Establish a system of personalized housing allowances as protection for low-income families;

(d) Creating joint-stock companies for the management and maintenance of the housing stock;

(e) Privatizing utility companies.

(f)

An action plan was established to carry out the measures in three major stages.

Stage one: 2002-2003:

- Draw up an inventory of debts to identify the share and reasons of the debts caused by public institutions, correspondingly due to a lack of funds in the budget; find the resources to payoff these debts, but also introduce measures to receive the due sums from the households indebted to the service providers;
- Discontinue the subsidization of the housing and municipal service sector and introduce market prices for these services;
- Improve the social security system for residents.

Stage two: 2004-2005:

- Develop the principles of competition in the sector;
- Introduce professional management in the complex;
- Create instruments to monitor and regulate the activities of natural monopolies;
- Improve the financial and technical situation of the utility companies by introducing management through concessions;
- Introduce personal housing allowance accounts for all residents.

Stage three: 2006-2010:

- Attract private funding to the housing and municipal services sector;
- Propose instruments to ensure the stability of service providers;
- Make available different banking credits.

However, there have already been delays.

Chapter IX

SOCIAL HOUSING

The cohesion of a society cannot be seen independent from its housing situation. The Russian Federation's economic and social transition during the past decade affected some population groups more adversely than others. To protect the most vulnerable from despair and social isolation, a social safety net is needed and it has to include provisions for those households that are unable to solve their housing problems unaided. This chapter looks at the social housing thematic in the Russian Federation. It first looks at the current situation and the main challenges with regard to housing provision to the socially weak, including the current system of targeting of housing support. It then moves on to describe the impact of transition policies, in particular the large-scale privatization policy, on the capacities of the different actors in the housing sector – public institutions at the different levels of government, condominiums, etc. – to address the housing concerns of the socially weak.

A. The current situation

Social housing in the context of the Russian Federation today is a complex theme. The first step in any discussion on that topic would need to address the question on what is meant by social housing and what is included in this notion. The present structure of the urban housing market in the Russian Federation is approximately 20% private and 80% multi-flat blocks, predominantly municipally owned. These municipal blocks of flats are in turn split approximately 50-50 between privatized and rented units.

It is tempting to define social housing as rented units within municipal blocks of flats. However, the specific characteristics of Russian privatization and the legal structures for the municipal blocks mean that no discussion of social housing can ignore the privatized flats within these multi-flat blocks.

Firstly, cost-free privatization means that tenure and economic circumstances are by no means consistent. There are many relatively needy - especially elderly - flat owners within the multi-flat municipal blocks. Secondly, since property

taxes and pure rent (Nayem) are both modest, the running costs to both privatized owners and tenants are largely identical, consisting of utility and maintenance charges. In an overwhelming number of cases, the municipality retains responsibility for the structural condition of the block as condominium associations normally do not accept this responsibility even where a majority of the individual flats have been privatized. For these reasons we will refer to these municipal multi-flat blocks as mixed-tenure public housing, of which the rented units – or social housing more narrowly defined – can be seen as a subset.

Russian social housing thus suffers from being a problem within a problem. Social housing cannot be improved without resolving the issues around the municipal blocks - the mixed-tenure public housing. The thrust of social housing policy over the coming decades must be progressively to disentangle social housing from the wider challenges facing mixed-tenure public housing. This is critical in order to allow the State to focus its scarce resources on those in greatest need. In other words, the Russian Federation needs to make the step from providing public housing to virtually all its citizens to targeting specifically needy and vulnerable people or categories of people for social housing.

It is striking in discussions with Russian housing professionals that housing is expressed almost exclusively in terms of surface. There is little focus on dwellings, households or people. Defining the priority target groups for social housing and designing buildings around these people – rather than expecting the people to adapt to a fixed form of housing provision by construction type or tenure – is the long-term future for social housing in the Russian Federation, as in all advanced societies.

Radical improvement can certainly not be achieved overnight. Mixed-tenure public housing exists as a fact. Inevitably much public resource will be diverted away from the specific area of social housing to address the urgent need to maintain the fabric of these buildings which,

whatever their failings, are at present the essential means of delivering housing to the overwhelming bulk of the urban population.

However, throughout the process, the goal of social housing policy, i.e. the creation of rented and other forms of subsidized tenure for specific groups based on economic need or vulnerability with housing designed around their requirements, must not be lost sight of.

The remainder of this chapter reviews in turn the tactical challenges which need to be overcome in the medium term in order to be able to deliver this longer-term vision. The focus will be first on the issue of targeting resources by need, then on how to maximize existing resources in the context of huge maintenance liabilities in the public housing stock, before reviewing the interaction of the various levels of government in the context of social housing.

B. Main challenges

Three distinct issues are specific to the Russian Federation when trying to define needy or vulnerable groups for social housing. The first of these is the historically grown notion of collective provision, while the other two relate to the phenomenon of privileges or “mandates” and “poor owners”.

1. Collective provision vs. means-testing

The concept of targeting or means-testing is relatively novel in the Russian Federation. Until a decade ago, collective provision was both ideologically and economically a given. The transition to a market economy has created significant disparities in individual economic circumstances, particularly in Moscow, where there is a sizeable, financially independent middle class, which the city authorities estimate at between 25-30% of the population. Given the present housing structure, the majority of this middle class will still live in mixed public housing. If they have privatized their flats, they will enjoy upside capital appreciation, while the public purse, in most cases, still takes responsibility for the fabric of the building.

This is a powerful example of the opportunities that may exist through appropriate incentives (such as low-cost mortgages) for gradually moving this category into privately owned condominiums and so freeing up social resources.

At present, municipal waiting lists are based on the housing space available to an individual. The primary drivers are not their social vulnerability or income (“means test”).

It can be argued that means-testing is a luxury when the average standard of living across the Russian society remains depressed. However, if means-testing is not introduced, State resources will continue to carry individuals even as their economic circumstances improve. The example of the growing Moscow middle class is telling. The economic policy of the Russian Federation is designed to create such financially independent sectors of the population throughout the country.

It is important that social policies are in place to protect the population in case economic policies are not as successful as quickly as envisaged. It would be strange however to design social policies on the assumption that key economic policies will never succeed.

It can be further objected that means-testing is complicated by the lack of transparency in many individuals’ true financial position. However, means-testing does already apply for social security and other support payments to cover housing costs, so there is no reason why it should not also be adopted as one of the key criteria for allocating social housing.

2. Privileges and mandates

Means-testing in the Russian Federation has a further challenge due to the system of privileges or mandates which grant inter alia priority housing rights to different classes of citizens. The privileges may cover up to 70% of the population and cover an estimated 40% of the population for housing payments alone.

While some of this grouping is consistent with targeting State support to the needy, a

considerable number of beneficiaries are from the relatively comfortable area of the public sector.

The impact of privileges on waiting lists for social housing is dramatic. According to Moscow city, applicants with privileges receive 50% of annual allocations and can expect to be relocated within five years. Other applicants, who may have far fewer financial means, can wait forever.

As a result the waiting lists have lost credibility and many needy people no longer register at all. Therefore, waiting lists are likely to significantly underestimate real social housing needs across the country.

The Russian Federation is actively reducing the number of privileged groupings, but, as yet, no effort has been made to integrate the federal system based on privilege with a more means-tested municipal approach. Even within the municipality, means-testing is incomplete, being based primarily upon dwelling space not financial capacity.

If means-testing is accepted as a guiding principle for targeting social housing and it is also accepted that federal takes precedence over municipal, the following integrated order of priorities for social housing waiting lists emerges:

	Means-tested	Non means-tested
Federal privilege	1	3
Other citizens	2	4

3. "Poor owners"

Cost-free privatization has resulted in many property owners who are actually poor. There are a few examples of condominium associations within the public housing sector where the owners had formed an internal and informal social security system to support elderly and poor owners unable to meet their share of the condominium's maintenance bill.

It is therefore possible in Russian mixed public housing to find a relatively comfortable "tenant" living next to an indigent "owner".

It will take many decades to eliminate this mismatch between economic circumstance and housing tenure. The solution requires a systematic long-term effort to incentivize more rational allocation of social housing. Such incentives might be as follows:

Existing situation	Incentive	Desired future situation
Financially comfortable tenant or privatized owner within mixed public housing	<p>Positive Subsidized affordable mortgage</p> <p>Negative Higher property tax on privatized mixed public sector flats</p> <p>Increased pure rent (<u>nayem</u>) for wealthier tenants in mixed public sector flats</p>	Private owner in real private sector, i.e. directly or through condominium taking responsibility for structural as well as day-to-day maintenance

It is important to note how vital a functioning mortgage system is likely to be to Russian social housing. Without a mortgage market, it is difficult to see how wealthier households within the existing mixed public housing can be enticed towards the real private sector.

Without the ability to focus scarce resources on those in need, it is unlikely that the State will be able to begin a social housing new build programme, which is essential if a real Russian social housing sector is to evolve.

The reason why such new build is critical is the probable unsuitability of much of the existing

Financially comfortable owners/tenants	→	Private sector – either new build or public blocks upgraded to genuine condominium status
Financially needy but able-bodied owners/tenants	→	Existing public housing blocks on rental agreements or other subsidized tenure
Elderly and special-needs owners/tenants	→	New build social housing on rental agreements or other subsidized tenure

It must be emphasized that the shift towards new social housing construction will be gradual and over a lengthy period. Social housing is expensive in terms of public budgetary resources. For example, the capital cost of general-needs social housing in England (where private finance has been available within social housing for 15 years) is borne 50%-60% by the State, whilst for more specialized social housing the share of the State rises to 95% in many cases. At present in the Russian Federation only Moscow city has a substantial “social housing budget” intended to be used to fulfil the needs of applicants on the waiting list.

C. Financial challenges

1. Public housing blocks

The financial challenges facing the present mixed-tenure public housing system are considerable. The estimated heavy repair backlog across the

mixed public housing for true social housing. For general needs (able-bodied individuals and families), the existing stock, adequately maintained, may provide an attractive long-term solution.

However, for elderly or special-needs tenants, accessibility issues and lack of care and support facilities are likely to be serious impediments to using existing mixed-tenure public housing as a long-term solution.

A possible long-term outcome for the existing mixed-tenure public housing stock is thus:

country amounts to R 550 billion, or twice the annual gross turnover of the housing sector. The situation is deteriorating. Within one district in St Petersburg it is estimated that a 300-350% increase in the heavy repair budget is needed to meet current requirements. In Nizhny Novgorod the demolition/repair of dilapidated/run-down stock is barely 50% of the required level.

The lack of reliable stock condition surveys makes it unclear how accurate the R 550 billion estimate is, but also makes it difficult to predict future trends. There is the clear risk that obsolescence and the underfunding of the past decade will result in the backlog increasing at a greater than linear rate.

Although the current mixed public housing blocks are in many ways far from ideal, they are at present the only means of providing housing to the overwhelming majority of urban Russians. It is therefore imperative that the current heavy

repair backlog should be cleared as the most pressing priority.

2. Implicit and hidden subsidies

Some of the backlog can and is being addressed through demolition and re-provision using private finance. The immaturity of the wholesale and consumer finance markets, limited competition among construction firms and the general level of economic wealth will limit the ability of the private sector to respond to the full magnitude of the challenge in a realistic time frame. There are, however, most likely unrealized opportunities for expanding “planning gains” as discussed below.

For the greater part, the State will need to share this burden with the population and this means eliminating a vast array of subsidies, which the State simply cannot afford if the housing stock is to be maintained. These subsidies include:

- (a) Incomplete recovery of utility and maintenance charges including unfunded federal mandates;
- (b) Maintenance charges that often fail to include a portion for heavy repair;
- (c) Pure rent or nayem at miniscule levels;
- (d) Nominal property taxes on privatized flats within public housing blocks;
- (e) Cost-free privatization even on new and recently refurbished properties.

The present economic conditions mean that some people require all such subsidies and most require some subsidy. Hence elimination of subsidy means the elimination of implicit or hidden subsidy, since by definition these are indiscriminate and wasteful. The thrust of all the measures discussed in this chapter is to end implicit and hence indiscriminate subsidy and move towards grossed up charges offset by explicit means-tested and hence targeted support.

Housing is at present an intensely political area, in which the electorate is offered significant inducements by rival parties. Since the costs of these inducements are implicit, the illusion is created of a “free lunch”. In reality what is happening is that current general consumption is being financed by foregone capital expenditure on the mixed public blocks, which house 80% of all urban Russians and which are falling into increasing disrepair.

Two issues are of particular relevance to social housing issues: the lack of pure rental charges and cost-free privatization. But first this chapter discusses the financial challenges condominiums are currently facing.

3. Financial challenges facing condominiums

Within recent purpose-built private sector housing, condominiums are potentially highly effective. Household incomes are high and the property maintenance charges should be relatively predictable.

An enormous effort is being made to create condominiums within the public housing sector. Thus far less than 1% of households within the public sector are covered by condominiums. Many of the challenges facing such organizations have already been discussed – tenure/economic mismatches and mixed rental/privatized tenure.

It is questionable if such condominiums will ever be able to make a serious contribution to the heavy repair burden – either the existing backlog or upcoming. Incomes are likely to be weak or at best uneven, whilst the structural maintenance liabilities are not transparent and at worst ruinous. Insurance for the entire block is virtually non-existent.

Creating condominiums in the existing mixed public sector housing blocks may be effective to meet current or day-to-day maintenance. However, few households will want to shoulder the huge potential structural liabilities in large and often visibly poor-quality municipal blocks.

Serious consideration should be given to limiting the liability of public housing condominiums until full building insurance is available. In addition, social security should be available to those condominium members who are truly unable to meet payments.

There are constitutional issues concerning the compulsory memberships of condominiums. It must surely be easier to address this constitutional issue if it is clear that the demands on condominium members within the mixed-tenure public housing blocks are affordable and fair.

This merely serves to emphasize that only the State will be able to finance the bulk of public housing heavy repair. However two areas of subsidy militate against the State successfully shouldering this burden. These are discussed below.

4. Rent charges

Rent in a Russian context hardly deserves its name. Pure rent or *nayem* is estimated at between R 0.1 and R 0.12 per m². Compared to this, utility and maintenance charges average R 24 per m².

The absence of pure rent represents a significant subsidy to tenants but on an indiscriminate and implicit basis. As explained above, there is no automatic link between tenant status and financial means.

The present situation is exacerbated by the fact that service charges rarely provide for a heavy-repair sinking fund. As such, there is no direct correlation between housing charges and the capital costs of providing the housing.

It may seem visionary to discuss pure rent when even utility and day-to-day maintenance charges are still not fully recovered. However, housing is a long-term business and this is compounded by the need to reform the system of housing subsidies and to develop an offsetting social security system - itself a long-term undertaking. It will be difficult to develop and see through the necessary reforms over an extended period of time unless there is a genuine understanding of the long-term goal.

Introducing a pure rent - even if heavily subsidized - that is linked to capital costs, including a real market price for land is also going to be important if rational capital allocation decisions are to be made in respect of new social housing construction. As discussed above, this will ultimately be necessary once initial stabilization of the public housing blocks is achieved.

5. Cost-free privatization

Cost-free privatization has achieved a number of benefits. It has provided the beginnings of a traded housing market, enabled individuals to find

personalized solutions to their housing needs and, through inheritance, begun a modest cascade of wealth across generations. At the same time cost-free privatization has led to confusion of tenure and need. It has significantly reduced the ability of the public sector to offer rented accommodation to those in need and left the public sector in the unenviable position of being responsible for the structural integrity of ageing public housing blocks, whilst the upside capital appreciation of the individual flats is held by individuals.

In Moscow alone some R 2 billion worth of rented accommodation is privatized on a cost-free basis annually. This equates to approximately 225,000m² of rental space assuming US\$ 300 m² construction cost or almost a quarter of the new social rented accommodation being built each year by the city. The situation in other areas is far worse than in Moscow, as it is one of the very few regions able to construct new social housing at all.

D. Municipal, regional and federal responsibilities

1. Roles, responsibilities and interrelations

It is widely acknowledged that the municipal sector is the last area of the economy to begin the transition from the earlier collective command-and-control environment. The guiding principle thus far has been to allow the municipalities and regions to lead on this area under general federal guidance. At the same time, the housing sector has formidable financial challenges and grossing up subsidies as discussed above will inevitably compound the scope of housing-related social security.

It is clear that the Russian Federation will not merely need to be involved in setting overall housing policy but also become increasingly engaged financially if the challenges are to be effectively addressed.

At present social security support is primarily a regional responsibility with limited federal finance estimated at approximately 20% of the total budget cost.

There are also variations in regional support levels, most of which become effective well before the 22% of household income, which is the

federal threshold, as well as differing administrative arrangements. It is open to question whether the regional level is able to carry the financial and policy burden involved.

The relationship between Federation, region and municipalities might best be described as evolving, with a level of tension in the budgetary sphere. There is a real risk that housing and the municipal sector become a victim of this institutional tension.

The Federation has on occasion created expectations – examples being the level of federal privileges and the new programme to clear the heavy-repairs backlog – without matching these expectations with adequate funding.

The present bill on the municipal economy is in fact being delayed, while the financeability of various measures is addressed.

Besides the relative newness of federal structures, two specific features probably contribute to the present situation. Firstly, there is no single point of responsibility for housing at federal level either in terms of ministry or parliamentary subcommittee. Secondly, there is a lack of transparency in the finances of the municipal economy so that there is more room than usual for argument over the real capacity of lower tiers of government to fund federal initiatives.

If housing is to flourish, the Federation will need to invest heavily as discussed earlier. Whilst it is surely right to encourage the municipalities to take the lead delivery role, the Federation will need to be sure that federal funding is being effectively deployed to meet federal targets.

2. Budgetary relations

The present budgeting situation within the Russian Federation is difficult. Of 87 federal regions only 8 are net contributors to the overall national budget.

Within federal regions the major city may itself subsidise the region. Even in a case like Ivanovo, which with average monthly income per head at \$80 is below the national average, a net R 1.5 billion is transferred to the poorer municipalities within the region by the main city. If the city overperforms against budget, this outperformance

is in turn shared with the rest of the region.

This is a complex area. On the one hand, the overall lack of budgetary resource and the economic challenges of non-urban municipalities make significant redistribution unavoidable. Set against this, the present situation offers no incentives to the urban municipalities to outperform, transfers funds away from areas with large housing heavy-repair backlogs and potentially stifles the ability of urban centres to lead the much-needed process of wealth creation.

It is recommended that the Federation should review whether the present redistribution model is aligned to its critical path policy issues. As part of this review, the Federation needs to be clear on the importance that it attaches to the municipal economy in general and urban housing in particular relative to its many competing priorities.

Fragmentation of responsibility for housing is not confined to the federal level. On the ‘subject of federation’ level, an issue such as homelessness can be found in a different department from housing, whilst regular housing management and heavy repair/construction, if in the same department, generally appeared quite distant cousins. It is likely that a stronger holistic focus on housing and a reduction in the autonomy of the various housing committees would be desirable.

It is further evident that, within the federal cities (Moscow and St Petersburg), the districts are essentially administrative only with no independent budgetary authority. Given the size of these two cities, one has to question how effective any totally centralized control can be. Indeed Moscow city has a commitment gradually to empower the districts.

This lack of independent district budgets is particularly relevant in respect of “planning gain” - the social return in terms of cash, new units or housing repair that a private contractor commits to in return for land and planning permission. It is striking that these planning gains are not transparent as a contractor might acquire rights, for instance in a suburb, in return for a cash contribution to the city budget, which might be used in housing elsewhere [or possibly even for another budget line].

As economic prosperity and hence land prices increase, planning gain will become ever more valuable a social resource and it is strongly recommended that such planning gains should be accounted for in the district where they arise and any inter-district budgetary transfers linked to these gains should be fully transparent.

Planning gain is a powerful tool. The typical approach to urban renewal in the United States or the United Kingdom has been to create beacon sites on which landmark buildings are constructed to generate a chain of rising land values. This in turn stimulates further private development with in turn opportunities for planning gain in support of social housing and amenities.

In certain cities there are relatively attractive individual buildings being constructed but generally in sites where there appears little opportunity for further new construction in a similar style. Municipalities probably require training in how to maximize this benefit.

The Congress of Municipalities organizes benchmarking and best practice conferences. However, the federal Government will need to strengthen its own involvement in this area in order to ensure efficient knowledge transfer across the country.

Chapter X

NEW CONSTRUCTION AND URBAN PLANNING

This chapter aims to analyse current challenges within the system of new construction and spatial planning. Section A assesses practices in new construction, including the organization of the construction industry, trends in the demand for new construction, as well as concerns of construction norms and quality. Section B examines the planning process, which includes policies of land pricing, plan development, the planning environment and permission procedures.

A. New construction

1. Predominant characteristics of new construction

The Russian Federation with its enormous diversity of climatic conditions, cultural traditions and size of settlements as well as with the naturally diversified availability of natural raw materials suitable for the production of construction materials is strongly predisposed to the development of a highly differentiated construction industry. However, due to the long period of a highly centralized system of governance the Russian construction industry is still dominated by the construction of standardized, multi-storey blocks of flats. Ten years ago only five types of buildings were built. Now architects and constructors enjoy the possibility of more variety in the design of buildings.

With changes in technology the formerly common large-panel buildings give way to more complex construction systems in which concrete (including light concrete), brick and some ready elements of the construction are used. Concrete poured into tunnelled forms is used for the fast construction of housing blocks. A relatively simple and cheap method for the improvement of energy efficiency of buildings has been introduced in Moscow and Vladimir regions. Similarly to the commonly used method of the concrete construction, liquid concrete is poured into a form, which is made of boards. Then the concrete hardens and the form is no longer needed to keep the structure and therefore boards have usually been removed. However, as these boards are made from material

(e.g. prefabricated polystyrene sheets) which has better thermal characteristics than concrete, with the new method the boards are left stuck to the concrete walls for thermal insulation.

The permanent growth of the above type of housing construction is particularly strong in the cities of Moscow and St Petersburg, in the republics of Chuvashija, Adygeja and Tatarstan, in Sverdlov, Novosibirsk, Tomsk, Tjumen, Kemerovo, Nizhny Novgorod, Vologda, Samara and Sakhalin regions, in Primorsky kraj. However, the bulk of new construction still consists of complexes of multi-storey block of flats. Low-rise residential buildings are still a rare phenomenon in Russian cities, let alone detached, single-family houses. The “Kurkino” housing estate in Moscow constitutes an example of recent housing construction. The whole estate is planned for more than 30,000 inhabitants but only a small fraction consists of single-family houses built specially for veterans. Buildings with fewer than 40 flats are considered “elite housing” in Moscow. Relatively smaller buildings are built on sites of historic and cultural importance (e.g. Pushkin near Saint Petersburg) where limits on the height and size of new construction protect the historic townscape.

As described in chapter VIII, the provision with utilities is insufficient, in particular in newly built single-family houses. Out of 22,600 single-family houses built in 2001 only one third (45.7% in cities and 22.5% in rural areas) were fully equipped, i.e. running cold and hot water, central heating, sewerage.

Newly built flats in multi-storey blocks are usually delivered in a very rough, unfinished state apparently to give to the owners the opportunity to complete the flat according to their individual wishes. As a consequence of the poor offer of specialized services, interior work is often done, more or less successfully, by the owners themselves. As a result the final standard of flats varies widely.

The domination of multi-family blocks in Russian cities goes in pair with the domination of large

construction companies on the Russian construction market. This dominance is also closely related to the situation of housing finance described in chapter V. The lack of a secure system of construction finance leads to a situation where banks provide loans for housing construction projects only if they trust the developer, i.e. if they have collaborated with the developer successfully for a long time. This situation favours for large established construction companies that are more or less rooted in the communist era and still accustomed to the style of housing construction of that time. This in turn hinders the development of a more diversified construction industry. This is how a closed circle in the construction industry was created. Large companies prefer to take up large-scale housing projects on empty construction sites rather than small-scale developments within a built urban environment. Local authorities, which usually obtain a share of the newly constructed flats, have little influence on the type and the quality of construction.

Construction companies in the Russian Federation undergo a double licensing procedure. Professionals in the construction industry must have their individual licences certifying their qualifications in construction or design. The company that employs them must have a separate licence for the same work. There is an acute shortage of small or medium-sized companies capable of performing small-scale construction works within built-up areas without excessively disturbing the daily life of the inhabitants of the neighbourhood. This concerns mainly constructions between existing buildings, reconstruction or extensions of existing buildings, major repairs as well as provision of utilities for existing single-family houses.

2. Capacity and know-how of the building industry and local authorities

The capacity and know-how of the building industry and local authorities do not develop evenly in all areas related to housing. In big cities there are many construction companies which use modern construction technologies. However, the progress takes place mainly within the predominant type of construction, i.e. the construction of multi-storey flat-roof housing

blocks on empty construction sites. There is relatively little competition on the construction market. So there is also little incentive to take up innovative projects where new technologies would be accompanied with diversified design, type and scale of construction for the sake of the inhabitants, who would have a wider choice of flats in terms of price and comfort.

Yet local authorities depend on large construction companies to enlarge the municipal housing stock. They are thus unable to stimulate competition on the construction market. Local authorities have little knowledge about and exposure to situations where they are neither the developer nor the constructor but should create enabling conditions and stimulate fair competition among contractors for the benefit of the community.

3. The polarization of housing demand

Figures quoted in chapter II indicate that the current pace of new housing construction hardly exceeds the pace of deterioration of the existing stock. At the same time the average size of newly built flats is increasing. Diverging trends have occurred between the cooperative sector of housing construction (decreasing role) and individually financed construction (increasingly important role).

There is a trend towards polarization of newly built housing stock, as the share of large and small flats in the total of completed flats grows and that of medium-sized flats (i.e. two or three rooms) decreases. This reflects growing disparities in income levels. A relatively small group of rich people creates the demand for large flats (four rooms or more), whereas two other groups create the demand for small flats: those who can afford only the cheapest flats and those who manage to meet their own housing needs and still have some extra money. So they purchase a small flat, which they rent in order to have an additional and relatively secure source of income.

There is one more group of people who need flats, but do not create any market demand because they cannot afford it. They continue to live in the deteriorating stock and wait for their turn in the allocation of a new flat.

Diversified incomes mean that new housing construction should also become adequately diversified. It should meet the growing expectations of the rich and at the same time it should create affordable options to as many people as possible. The more people can afford their own flats, the sooner the municipality will be able to meet the basic housing needs of those households who need assistance.

4. Construction norms and standardization

Construction norms in the Russian Federation are established on the federal level and the level of the “subjects of the Federation”. Federal norms are divided into:

- (a) Construction Norms and Specifications (SNiP);
- (b) State Construction Standards (GOST);
- (c) Code of Rules for Design and Construction (SP).

Moreover, the “subjects of the Russian Federation” prepare their own regulatory documents called territorial construction norms (TSN) for issues not regulated federally. The State Construction Committee approves and registers these territorial norms. The whole system of construction norms is gradually being updated. Some old norms have already been replaced with new ones, but for other issues norms drawn up in the 1980s or even earlier are still in force. Special attention has been paid recently to energy efficiency. The 1996 Law on Energy Saving tightened federal norms of heat transmission and consequently the “subjects of the Federation” have been introducing territorial construction norms for energy efficiency. However, as stated in chapter III, energy-efficiency standards are still below Western ones.

Russian construction norms are usually very detailed. As regards safety of construction and minimal standards they are usually good. However, because the State was long the only investor, the only developer and the only owner of land and buildings, some norms contain not only safety requirements but also detailed regulations on how buildings and other facilities should be built or designed. Even some recent norms are in the same style, i.e. they contain very detailed indicators leaving little room for individual wishes.

The major problem is not so much the contents of norms but their role, in housing construction. As a result of the lack of competition among builders even in newly constructed buildings, minimal normative values instead of clients’ demands are used as a basis for designing flats. Symptomatically, constructors on several visited construction sites when asked about specific features of the flats under construction assured that they were built in accordance with Russian construction norms. Norms should provide minimal conditions, in particular with regard to safety, whereas competition among constructors should lead to the development of a construction industry oriented towards satisfying consumers’ needs within affordability limits.

Therefore, there is a need to stimulate competition in all branches of the construction industry. Municipalities should focus their efforts on the organization of fair competition in the construction market. Particular emphasis should be put on the competition for municipal housing construction.

5. Quality of housing design

The economic and social sustainability of a building stock is largely dependent on its design quality. As there is only a limited tradition of diversified housing architecture, a whole new culture will have to be developed. There is a clear need for better design and for further diversification of housing forms to satisfy the needs of a diversified clientele. Builders will have to start listening to the consumers. The scale and size of operations as well as the way in which new collective ownership is organized will strongly influence the character of the new housing stock and hence the whole urban environment. The outcome will depend on the choices made in the near future by a large number of stakeholders, and it will be crucial whether the future users or the producers, developers and big construction enterprises put their stamp on these developments. One can expect that growing demand by the wealthy will lead to a gradual improvement in the quality of design of large and expensive flats. As regards the smallest and cheapest municipal flats built for people on waiting lists, market forces alone will not improve quality.

Therefore, local authorities should pay more attention to the quality of design of the smallest and cheapest category of flats. The smaller the flat, the more carefully it should be designed to make life in it bearable. Even small improvements in design not entailing excessive costs may facilitate significantly the everyday life of people who have to live on a very small area. For instance, the provision of sufficient (not only minimal) width of internal doors enables more flexibility in the location of furniture and this contributes to an efficient use of the floor area.

6. Wooden housing construction

There is a lack of statistical data about wooden construction. However, observations in many Russian cities and the countryside suggest that a significant part of the urban housing stock and the vast majority of rural housing are built out of wood. This part of the stock is in particularly poor technical condition, as wooden buildings usually date back to the pre-revolutionary era. Little care is taken of this stock although many of these buildings constitute a valuable part of the cultural heritage. Many wooden houses are still inhabited although they are totally run-down or dilapidated. In many cases, especially if the building is located in the city centre, the only solution is likely to be demolition and relocation of the inhabitants. However, there are several reasons for which this approach should not be applied to the whole wooden housing stock.

Firstly, it is unrealistic to think that city authorities will be able to provide sufficient new flats to replace the wooden housing stock in the near future. Secondly, many wooden single-family houses have been privatized together with the plots of land beneath them and their inhabitants are often against being moved to apartment blocks. Thirdly, wood as a construction material has many advantages and although there may be a shortage of high-quality modern wooden materials, raw wood is a relatively easily available construction material in the Russian Federation.

Bearing in mind the long period of neglect, simultaneous action in the production of wooden construction materials as well as in design and training is needed.

B. Spatial planning

1. Planning documentation

Spatial planning regulations heavily influence the environment around housing estates as well as the provision of housing. The allocation of land for housing is done in local spatial plans. Hence the importance of spatial planning for housing.

Spatial planning in the Russian Federation is moving from a situation where the State administration was the only actor in the development planning process, i.e. the only landowner, the only developer and the only spatial planner, to one where many actors are involved and there is a need for common rules and for securing a public interest among all other interests.

The new Town Planning Code of 7 May 1998 provides the legal framework for spatial planning. It seems to be a sort of compromise between the old planning system and the requirements of the new socio-economic conditions. Probably due to the transitional situation in many Russian cities and regions, the regulations of the Code are vague in some places. A broad term "planning documentation" is used for a set of documents. Each level of administration has its planning documentation. So two types of documents serve the purpose of spatial planning on the federal level:

- (a) General Settlement Scheme of the Russian Federation;
- (b) Consolidated Urban Planning Scheme, which covers the area of two or more "subjects of the Russian Federation".

The territorial complex urban planning scheme of the development of the "subject of the Russian Federation" constitutes the planning documentation at regional level.

The local level planning documentation contains the biggest set of documents divided into two groups. The first group contains the following urban planning documents:

(a) **Territorial complex urban planning scheme of districts and rural areas.** According to the Code, this scheme should contain, among other items, basic directions for the implementation of government policy on spatial development. It should also contain rough divisions of the territory into different functional zones;

(b) **General plan of urban and rural settlements (Genplan).** According to the Code, this is a basic urban planning document defining the directions and boundaries of spatial development. The contents of the Genplan and the above described scheme overlap significantly. The Genplan is very similar to a spatial development plan of an urban area;

(c) **Draft lines of urban and rural settlements and other municipal entities.** This document is based on Genplan or the complex urban planning scheme. It may be a separate document or small towns and villages it may be incorporated into the general plan;

(d) **Rules for building in territories.** This document should also be based on the general plan or the complex urban planning scheme. It is the only document which, according to the Code, should be a normative local legal act.

The second group contains more detailed documents related to the process of developing land. These are:

(a) **Layout projects.** These are made for elements of the planning structure defined in the general plan. They cover selected parts of urban and rural settlements. They are therefore more detailed than general plans;

(b) **Projects of land subdivision.** These contain the planned subdivision of the area into plots of land. They may be incorporated into the layout project;

(c) **Development project.** This may be prepared by the developer. It covers either the single plot or the area defined in the layout project. Its contents include the exact location of buildings and other structures, number of storeys of buildings as well as other architectural and technical characteristics of planned buildings.

To make the matter more complicated many cities still have old master plans developed during the Soviet era.

Planning documentation provides the legal basis for location decisions. Although only “rules for building” are required to be a local legal act, the general plan (Genplan) is now usually perceived to be the crucial instrument for the introduction of new spatial planning rules. According to the Town Planning Code, the general plan should shape the living environment of settlements in the interest of the population and the State. It should also define directions and boundaries of the spatial development; zoning regulations and rules for the provision of utilities, for the development of the transport network and for basic social services. The plan should also include rules for the protection of the cultural and natural heritage.

Moreover, Genplan is expected to perform several other tasks not explicitly listed in the Code. It should be a spatial reflection and a supportive instrument for the implementation of the city development strategy. It should delineate the economic and functional spatial structure of the city. It should constitute a basis for the spatial allocation of particular land-use types and different forms of landownership. It should also delineate units of the territory for more detailed planning documents.⁵

The general plan is expected to be both a policy document and a legal regulatory document. Moreover, at the current stage of development planning it is also expected to play a distributive role with regard to landownership. This role is performed in several ways. The allocation of land for public roads, social services and other public purposes excludes some areas from privatization. On the other hand, allocations for other purposes (e.g. commercial activities) create demand among potential buyers. The distinction between areas for development and agricultural land also influences conditions of privatization because different regulations apply to the privatization of these two types of land. Finally, it is possible to earmark land in the plan for a particular type of ownership if the city’s strategy foresees this in the general plan. The distributive role is a unique feature of

current spatial plans. The next generation of spatial plans will have to take into account the landownership structure shaped by market forces. Therefore, there is a need to identify now the plots of land that should not be privatized in order to secure public interest (future transport corridors, public open space, etc.). A healthy balance should be struck while doing this.

There is a need to clarify the roles of the different local planning documents in the planning system. To make the system more transparent, policy documents, local legal acts and project documentation should be distinguished as clearly as possible.

2. The planning process

Another set of problems relates to the participation of different actors in spatial planning, especially in the process of plan-making. So far spatial development plans have been prepared by a relatively small group of professionals. This refers not only to old master plans from the Soviet era but also to the new plans under new socio-political conditions. The project of the new general plan of Moscow was prepared in cooperation between planners and a special committee of the city council and then approved by the council without much controversy.

By law, projects for new spatial plans should undergo a public review. The Town Planning Code states that local self-governments should establish their own procedures for project reviews and hearings and that they should also work out how comments should be taken into account. However, it refers only to one planning document, namely the “rules for building”.

A review usually takes the form of a media campaign and a few sessions (each of them lasting several days) to open the project to public inspection and organize public hearings. The experience of the first such public hearings has shown that they are attended mainly by representatives of institutions or organizations with a professional interest in the plan (e.g. utility providers), whereas the turnout of ordinary citizens was relatively poor and even those who attended had little prior knowledge of the subject. The first public hearings did not result in any written remarks. The experience of other countries

in transition suggests that this process might have to undergo further changes.

The spatial planning system should allow for a much more active public involvement. Therefore, further clarification of the planning procedures is recommended. The institutions and organizations that represent the public interest and consequently are obliged to review, to negotiate and to approve or reject the contents of the project within their competencies prior to any public review should be defined. Furthermore, it should be possible for individuals and groups of inhabitants to make applications and remarks concerning the contents of the new plan before the public review. Similarly, there is a need for defining procedures for taking into account written remarks, protests, etc. during the public review.

A well-organized planning process may contribute greatly to facilitating new housing construction. Currently, a municipality can prepare and approve a new plan relatively easily while many potential actors remain passive. However, for the developer obtaining a building permit is usually time- and energy-consuming. Part of this problem should be transferred to the planning stage. Bodies that are now involved in the review of applications for building permits should be more involved in actual planning. This refers especially to the providers of utilities, transport and communication services. The review of the plan should result in a detailed and binding written agreement between the municipality and the utility providers. Rules and conditions for the provision of utilities and services to planned housing estates should be set out in these agreements and included in the plan regulations so as to make the subsequent application procedure clearer and more predictable.

3. Land prices and planning gains

Another challenge is related to the contributions that developers make to the municipality in return for the permission to carry out development. In the case of housing development this contribution usually consists of a certain number of flats that are transferred into municipal ownership. Currently, new developments are usually carried out on land which city authorities rent to the developer for the period of construction. The developer sells the flats and his title to the land

terminates after the completion of the building. If a condominium is formed, it may take over the landownership. According to law, land under housing estates belongs to condominiums. However, no condominium has registered its property rights.

City authorities grant the developer the building permit as well as the title to the land. It is not clear whether the constructor's contributions in kind are made in return for the title to the land or in return for the building permit. However if the privatization of land goes ahead these two things will have to be separated. Issuing building permits will certainly remain in the hands of city authorities, whereas land may be bought and sold freely among citizens.

So the following question needs to be sorted out if the privatization of urban land is to become reality. Is the contribution made by the developer part of the price of land or it is a planning gain? The choice is difficult but unavoidable. Both options have advantages and disadvantages.

If the contribution is included in the price of land, it will be applicable to all cases where the municipal land is sold to the private owner. In such a situation the contribution could also be made in cash, which would allow the municipality more flexibility in spending it, e.g. on the construction of municipal housing or on the reconstruction of the existing stock. However, the land will be sold from municipal ownership only once and any profit will be gained also once.

If the concept of planning gain is applied, it will be up to the municipality to apply it to the particular case or not, regardless of the ownership of the land. The introduction of such an element in the Russian spatial planning system seems reasonable due to the permanent shortage of municipal funds and the considerable need for housing assistance as well as growing income disparities in society. However, care will have to be taken that this instrument is not abused. In addition, this might further complicate the already complicated development procedure and it might even hinder development. Moreover, it is not reasonable to apply the planning gain to small-scale development (e.g. single-family house) or to small construction companies, which are just starting up.

Scrapping the current practice of allocating a certain number of flats to the municipality and replacing it with a system of cash payments seems a better solution because:

(a) There is a need to stimulate the development of new small and medium sized companies offering new products and services on the construction market;

(b) It creates better conditions for fair competition between developers;

(c) It makes the municipality less dependent on the existing big construction companies and gives it more flexibility in planning the use of its housing stock as well as in planning the provision of new municipal housing.

At present, municipalities have relatively little influence on the location and on the quality of new municipal housing. They are dependent on the choices of the large construction companies.

4. The planning environment

The planning environment consists not only of the building but also of its neighbourhood with all its links to the rest of the city and the region. The choice of the location of the first housing estates may affect the safety of the settlement, in particular if the area is prone to natural disasters. Like many European countries the Russian Federation suffered heavy floods in recent years. Moreover, floods have always endangered Saint Petersburg due to its location. The protection of existing settlements requires the construction of protective earth walls, dams, etc. For planning new housing it is certainly better to avoid endangered areas. In seismic areas (the Caucasus, some parts of Siberia and the far east)¹, the danger of an earthquake should be taken into account in the territorial construction norms and all buildings should be earthquake-proof.

The arrangement and use of green open areas in cities is closely related to the quality of housing and the quality of life. There is usually enough open space in newly built housing estates and efforts are being made to preserve trees and water bodies on construction sites. However, the green space around housing blocks is usually poorly maintained. Moreover, the actual accessibility of open space is difficult for children and the elderly because housing estates are predominantly made

up of 5-storey blocks without lifts (problems for the elderly) and 10 to 20-storey blocks with lifts (problems for children).

Finally, the provision of public transport to housing estates is essential for the inhabitants' quality of life. However, Russian planners are now more preoccupied with the provision of adequate space for garages and parking places, due to increasing car ownership, than with the provision of public transport.

5. Permission procedures

The general situation

One of the most important obstacles to construction (including housing) is the complicated procedure of issuing building permits. Russian and foreign sources report that developers who want to construct a building have to spend a lot of time and energy to collect all the required documents, approvals, permissions, etc. This is what prevents small and medium-sized enterprises from getting involved in the construction industry because such companies usually do not have the necessarily administrative staff. The developer is obliged to collect between 40 and 110 partial permissions from different institutions before applying for the final building permit. This seems to take from approximately three months to more than two years. The lack of transparency and predictability of the final outcome makes matters worse.

One should note, however, that this procedure entails not only granting the building permit but also granting the title to the plot of land for the construction. The Land Code (art. 30) specifies two ways of getting the title to the land for construction:

(a) Without the preliminary approval (given by the municipality) of the location of objects to be built: the title may be granted exclusively by means of selling municipal or State-owned land by auction. The purchaser gets the full ownership rights;

(b) With the preliminary approval of the location of objects to be built: in this way only the leasehold may be obtained. This is the case when the developer applies for a specific piece of land where he or she is going to build a specific object. Moreover, a significant part of urban land has

been already privatized together with old wooden single-family houses. One can expect that the very process of land privatization may simplify the procedure to some extent, but this is not enough.

The Ivanovo case

A significant effort to simplify the procedure is currently being made in the Ivanovo region.³ The municipality of Ivanovo has drawn up suggestions for a new procedure for the preparation of the primary-permission and project documentation for construction. It is based on the "one-door" concept. In the new procedure the municipal administration would take on much more responsibility and would do the bulk of work related to preparing documentation required for building permits. The new procedure would consist of five stages.

1. Preparing primary-permission documentation. Two slightly different sub-procedures are proposed at this stage depending on whether preparing documentation includes the preliminary approval of the location or not. In both cases the first steps are the same. The developer applies to the municipality. Then the department of architecture and urban planning the department of land resources consider the application and decide which sub-procedure to apply. Preparing the documentation without the preliminary approval of the location would be applicable to areas which are to be sold or rented on a tender basis and where sufficient and valid planning documentation exists. The second option would be applicable to all other cases. In both sub-procedures the municipal administration carries out the necessary preliminary urban planning works and land subdivision.

2. Specification of technical conditions. So far getting permissions and information about conditions under which the new construction can be connected to infrastructure networks has been the most troublesome part of the procedure for the developer. According to the Ivanovo procedure, obtaining all these permissions and conditions would be the task of the department of architecture and urban planning. It would be done on the basis of an agreement between the municipal administration

(the department of architecture), the developer and organizations managing infrastructure networks.

3. Preparing project documentation. This part of the procedure would follow only after the preliminary decision of the executive body of the municipal government. Depending on which of the sub-procedures listed in point 1 is applicable, it may be either the decision on “allocation of the plot for development” or the permission “for implementing a project on the plot of land sold or rented on a tender basis”. Preparing project documentation is the task of the developer. The project itself must be executed by a licensed professional.

4. The approval of the project documentation. According to the proposal from Ivanovo, the project documentation should be approved by the department of architecture and urban planning as well as by the civil defence body and several other institutions.

5. Issuing the building permit. Finally, when all previous conditions are fulfilled and finance for the construction is secured, the developer may apply for a building permit. The permit is prepared by the department of architecture and urban planning and signed by the head of the municipal government.

Further possibilities for easing the problem

This effort to simplify the building permit procedure is certainly worth further development

and wider dissemination. There are also other opportunities for smoothing the procedural path for new housing construction:

(a) Extend the range of construction works for which no building permit is needed and introduce a notification procedure for minor construction works;

(b) Abolish double licensing of construction companies and retain only personal licensing;

(c) Coordinate spatial planning and environmental impact assessment (EIA) procedures;

(d) Involve the institutions issuing partial permissions into the planning process.

6. The need for an active land policy

The apparent lack of discussions around the approval of new local spatial plans as well as the long permit procedures reflect the predominantly passive attitude of Russian local authorities to land management. It seems that their attitude to land is driven mainly by an instinctive fear of selling land into private ownership. Local authorities prefer to offer all kinds of leaseholds rather than full ownership rights. This situation must be changed if municipalities want to facilitate housing development.

Municipalities should work out and implement comprehensive land policies as a chain of concerted actions comprising: planning; land subdivision; provision of roads and utility networks; land privatization and development control.

Chapter XI

LAND MANAGEMENT AND REAL PROPERTY MARKET DEVELOPMENT

Housing policy cannot be seen independent from the availability of land. This chapter therefore gives an overview of recent developments in the Russian Federation's land market and real property system. Section A presents the basic government objectives with regard to land and real property development. Section B discusses recent reforms regarding land and real estate ownership and management, while section C reviews trends in the housing market.

A. Government objectives

A dynamic, viable and a well regulated market in real property (land, commercial and residential buildings, and farms) plays a critical role in developing business and in raising living standards. The main function of a real property market is to enable the efficient and optimal use of land and real property resources. A viable, functioning real property market enables the economy to use its existing potential in the most efficient way by channelling resources to their best use. The Government of the Russian Federation's strategic goal in its land and real estate policy is to create the right conditions for the efficient use and development of real estate in the interest of society at large, private entities and individuals.

The State Mid-term Programme for Socio-economic Development of Russia for 2003-2005 (15 August 2003) contains a special chapter on the development of infrastructure for the land and real estate market. The Government envisages abolishing the State's monopoly on land through three measures: (a) the transfer of ownership of land to the owners of the buildings and enterprises located on them; (b) the demarcation of land rights among different levels of government, including transferring the ownership of land within municipal boundaries to the municipalities; implementing legal zoning; (c) the privatization of land parcels and real estate units on them as unified objects. These measures are intended to increase the supply of real estate, promote the creation of new real estate and encourage a more

efficient use of real property through market transactions. A higher market supply is essential for the development of the production capacities of goods and services, lower cost for users and owners, and meeting the housing needs of the population.

On 21 April 2003, the Constitutional Court decided that a dishonest seller could not dispute in court a real estate transaction, if he had infringed the law in the course of the transaction. Until then if a court ruled that one of the transactions in a property deal had been invalid, all the consequent transactions related to it had to be reconsidered. As a result many honest buyers were deprived of their homes though they could not have known about past irregularities. The Constitutional Court admitted that these court practices were unfair and did not protect the rights of the honest buyer.

B. General review of the reform of land and real estate ownership and management

The policy pursued by the Government has led to a wide distribution of landownership. Approximately 50 million people and legal entities have acquired private ownership rights in land and by the end of the 1990s some 129 million hectares, or 7.6% of the country, was privately owned. Most of this land is agricultural and located in the regions with the most favourable climate and good soil. Some 92.4% of the land is in State or municipal ownership. Given the size of the country, the size of its population and its climatic conditions, it can be concluded that the Russian Federation's land privatization potential has diminished. Available data indicate a falling demand for land among individuals. The further transfer of land from the Government to private businesses will mostly be in cases where the latter are already occupying State land. At present, in the Russian Federation, there are about 5 million transactions with land plots registered annually. By 2002 the State cadastre valuation of all agricultural land had been completed and in settlements more than 40% of land had been assessed.

To support the transition process, the Government has concentrated on developing land market infrastructure mechanisms. By the end of the 1990s, the land cadastre system and the system of real property rights registration were operational throughout the country. Two government programmes support the real property market by emphasizing the need to establish efficient coordination between the cadastre and the real property rights register. The Federal Target Programme for the Development of the Automated System for the Maintenance of the State Land Cadastre and State Registration of Real Property Units for 2002–2007 concentrates on the development of the unified real property cadastre and is supervised by the Federal Land Cadastre Service. The Federal Programme for the Development of the System of State Registration of Real Property Rights and Transactions is carried out under the Ministry of Justice. Both programmes are in the initial stage of implementation. In addition, the Mid-term Programme of Social and Economic Development of the Russian Federation for 2002-2004 identifies the development of the State land cadastre as a basis for the unified system of registration of real property units, and as one of the main land policy issues. The uniformity of the land cadastre system creates a potential for the development of a viable real property market.

In recent years the following major legislative acts on the land and real estate market have been adopted: *the Land Code, the Law on Land Management and Land-use Planning, the Law on the Attribution of Public Land, the Law on the State Land Cadastre and the Law on Registration of Real Property Rights and Transactions*. These laws and others recent legislation have ensured the allocation and transfer of land into private ownership. They have also established a framework and defined procedures for the operation of the real estate and land market. However, the legislative framework for transactions in land and real estate needs further improvements. In particular, transactions (transfer of property rights) need to be more transparent and a comprehensive, unified system for transactions in real property units needs to be set up. The privatization of land on which enterprises and commercial buildings are constructed has not succeeded and only 0.5% of land in cities is in possession of legal entities, because the owners of

enterprises want a second stage of free privatization and are not willing to buy the land. According to the law, land under housing condominiums belongs to the condominiums, but in fact property ownership rights were never registered. From a housing market development perspective, adopting a new housing code (the existing Housing Code dates from 1983) is a priority, since the right to housing should be treated both in a public and in a housing market context.

The institutional set-up for land administration in the Russian Federation reflects historical and political developments. Some institutions were set up in the late 1920s, but in the early 1990s their functions were modified. A number of new institutions and functions have been created in the area of real property rights. As the reform is only a few years old, it is no surprise that there are conflicting goals, overlapping responsibilities and fragmentation of services.

The land cadastre and the building register are not integrated into a unified real property cadastre. The records are still kept by separate agencies without any exchange of information. At the local level, there are three organizations involved in real property and real property rights registration. They differ in their historical background, the way they are organized, their technical procedures and their level of computerization.

Cadastre chambers operate under the *Federal Land Cadastre Service*. They were established in the late 1990s but existed earlier as part of the land committees. Since the beginning of 2000 four compatible software products have been developed and certified, and they are now widely used by the cadastre chambers throughout the country. These systems cover both geographical and textual information on land.

The Russian Technical Inventory (Rostechinventorizacija) replaces the *Bureaux of technical inventory*, which were municipally owned companies under the limited supervision of the *State Construction Committee (Gosstroy)*. They were established some 75 years ago to monitor real property within the general policy of State control. They had developed their own identification system, usually based on addresses. They held comprehensive technical information on buildings and apartments in so-called technical

passports, which the client was required to obtain at the time of transaction. These databases also keep records of rights to real property objects attached to land parcels registered before 1998 (in 1998 rights registration was transferred to the Ministry of Justice). In September 2003 the *Gosstroy* abolished the Bureaux and from 17 September 2003 their functions and databases were transferred to *the Russian Technical Inventory*. However, at present, there are plans to abolish *Rostechinventorizacija* and to transfer its functions for valuation and real property inventory to the *Federal Land Cadastre Service*. Starting from 1 October 2003, all real estate units are given federal inventory numbers and the unified state register of all real estate in an electronic format is to be put in operation.

Rights registration chambers. The right to property, restrictions on these rights, their origin, transfer and termination are governed by the *Civil Code*, and the *Law on the Registration of Real Property Rights and Transactions*. These rights are subject to State registration in the unified State register of rights held by rights registration chambers. Although registration of real estate rights and transactions is governed by federal legislation, the chambers were established in 1998-2000 by regional authorities. The Ministry of Justice does not have direct control over them. It only appoints registrars in regions and provides methodological support for their operation.

In the Russian Federation, a real estate market as a major instrument of economic development has not been established yet. It is possible to indicate only that there is an irregular development of some of its elements. A comparatively fast market development is evident in the housing sector, while the commercial real estate market is weak and the industrial real estate market is almost non-existent. This could be explained by the fact that real estate owners do not have rights to land and insufficient security of tenure. At the same time, it should be noted that the rental market for commercial buildings is well developed and is on the rise. The rental land market (for 5-49 years) is also quite developed, in particular in major cities (Moscow and St Petersburg). Land for development is still mainly supplied through administrative methods and decisions.

Although the legal framework necessary for a functioning urban housing and real estate market is largely in place, there are still two major legal bottlenecks that prevent it from operating efficiently: (a) the division of real property ownership between the Federation, the regions and the municipalities is unclear and unregulated; the situation in Moscow is most complicated and there are no transparent schemes and normative acts to divide real property between the city and the federal level; and (b) there are no clear and transparent rules for the privatization of municipally owned land.

There is also a lack of clear land policy, in particular in the municipalities. Land policy refers here to the entire complex of socio-economic and legal prescriptions that dictate how the land and the benefits from it are to be allocated. A balance must be struck between the exploitation, use and conservation of the land as a resource in order to obtain the necessary level of sustainable development for sensible and orderly city development.

C. Trends in housing market development

Since the early 1990s, the Russian housing market has developed substantially. The main elements of the legislative basis have been established; the major elements of the housing market infrastructure has been set up; general information on market prices, as well as terms and conditions for real estate transactions are publicly available; more people can now afford housing. Market allocation of housing has increased sharply during the transition. The percentage of households that used market methods to obtain new dwellings increased from 43% in 1992 to some 70% in 2002. Those that received their flats through municipal waiting lists decreased from 40% to some 15% during the same period.

The social profile of a typical homebuyer has changed. During the early years of the housing market development buyers used to be mainly the very rich, so-called new Russians. Now most are middle-class buyers who want to trade up. Despite all these developments, there are no new financial mechanisms for acquiring housing on

the market. Because of a very low level of income, few people are in a position to take out housing loans under existing terms and conditions. Adequate forms of borrowing have not been developed so far. Experts estimate that not more than 10% of households can afford to buy a flat on the market, and improving housing conditions still remains a dream for most Russians.

The financial crisis of August 1998 was a heavy blow for the housing market in the Russian Federation. Its impact was not so strong in some cities where the prices for housing were based on dollars (Moscow, St Petersburg, Nizhny Novgorod, Rostov-on-Don, port cities like Kaliningrad, Vladivostok, Khabarovsk and some regional centres near Moscow). The crisis strengthened the differentiation of cities in terms of housing prices. In cities with dollar prices, prices on the housing market went down by 35% – 50%. In the other cities, housing prices fell by a

factor of 2.5 – 3. Housing prices in most cities dropped from US\$ 300 – 500 to US\$ 100 – 300 per square metre of total floor space.

However, since the financial crisis, housing prices on the primary and secondary housing markets of most cities have recovered both in roubles and in the dollar equivalent. Especially high market prices were registered in major cities, regional capitals with good potential for economic growth, financial and cultural centres, in towns that attract a large number of migrants, in resorts and regional oil and gas centres in Siberia and the far east. Housing is the cheapest in small towns (except in the region of Moscow and St Petersburg), as well as in the former industrial cities, especially those located in areas with an unfavourable climate. By the end of 2002 the urban housing market had fully recovered, and in 2003 prices rose above the pre-crisis level (see also table 16).

Table 16. Prices on the secondary housing market December 2002 (in bold cities of particular concern for this study) (in US\$/m²)

City	Average price	City	Average price
Moscow	1096	Nizhny Novgorod	365
St Petersburg	641	Tomsk	313
Ekaterinburg	519	Astrakhanj	286
Novosibirsk	470	Ivanovo	260

Moscow

To understand housing market development in Moscow, it is necessary to look at the city's economic and political role in the Russian Federation. Moscow produces some 80% of the country's financial turnover, and attracts some 40% of foreign investment. Moscow has close bilateral economic and social relations with other "subjects of the Russian Federation" and even with other States, which leads some analysts to say that Moscow is developing into "a State within a State". The city's budget for 2003 stipulates 293 billion roubles income and 315 billion roubles expenditure. The city can afford to run a 22-billion-rouble budget deficit because it is a big trade, industrial and financial centre, and tax revenues in 2002 increased by 40%. This financial basis makes it possible for the city to undertake huge investment programmes, mainly

construction, including housing development programmes. Housing development is a priority in the city's investment programmes. In the next eight years it plans to build some 36.5 million m² of new housing and demolish 5.6 million m² of derelict housing. In 2003 it planned to build 5 million m² of housing (up from 4.5 million m² in 2002). The city will finance only 1.6 million m²; the rest will be financed from private sources.

Moscow is undoubtedly the leader in the Russian real estate market. In the early 1990s, realtors estimated that Moscow's housing market represented up to 75% of the whole turnover of the Russian housing market. The number of sales on its primary market has been steadily increasing: from 8,800 housing units in the mid-1990s to about 30,000 by 2002. In 2002, prices increased by 17% compared with 35-40% in 2001. However, in the first half of 2003 alone,

prices increased on average by 15%. A new frame residential building costs about US\$ 900-1000 per m² (without internal walls in the dwelling, equipment and finishings), while the cost of construction is only about US\$ 250 per m². In a brick residential building prices are as high as US\$ 1,400-1,700 per m². In the elite housing sector in the city centre prices range from US\$ 3,000 to 10,000 per m² (profits in the elite housing sector can be as much as 1,000%).

The price also depends on the stage of construction at the moment of the purchase. So-called shared participation (*dolevoe uchastie*) in housing investment has grown rapidly (16,000 dwellings in 2000, 14,000 in 2001 and 19,000 in 2002). Agreements are concluded by private individuals who acquire new dwellings at the project stage or before their completion. The price of a dwelling in a finished building can be twice as high as at the initial construction stage. One of the main reasons why such type of acquisition is more favourable than taking out housing credits from banks is the fact that, with a bank credit, borrowers have to declare their income. With the present state of the labour and taxation legislation, most people and companies prefer not to do that. However, this system of new housing construction is based not on legal regulations, but simply on people's trust in investment companies. This type of acquisition is not defined in the Civil Code and courts are not willing to consider cases where individual investors lose their money.

Some analysts consider that there is a clear

relationship between the prices on the housing market in Moscow and the world prices for oil with a two or three month time lag. If world oil prices go up, so do housing prices and vice versa, particular for elite housing units. People who work in the oil and gas industry consider Moscow real estate as a good investment. Experts estimate that some 75% of housing in Moscow is bought by non-Moscovites, mainly people from gas and oil regions. In the Moscow region this figure is 40%. Most of these new dwellings go to the private rental sector, which in Moscow has increased to 20% of the total housing stock.

Another reason for the growth in demand for housing is the drop in the dollar. Many people kept their savings in dollars, and when the dollar went down they switched to investments in housing. However, some experts consider that the housing market in Moscow is overheated and the prices could tumble since the difference between construction cost and price is 4-fold, as a result of favourable world oil prices. This situation is also aggravated by the fact that most of the new housing is bought not for meeting housing needs but for investment purposes with the prospect of reselling in the future.

The total number of transactions concluded on Moscow's secondary housing market has remained stable in recent years at 70,000 – 80,000 per year. According to some estimates, starting with 1994 its turnover was worth US\$ 4 to 5 billion. The dynamics of average house prices on the secondary market of Moscow in 1990-2003 is presented in table 17.

Table 17. Average house price on the secondary housing market in Moscow, 1990-2003 (in US\$/m²)

Date	Average price	Date	Average price
12/1990	107	12/1997	950
12/1991	270	12/1998	890
12/1992	480	12/1999	710
12/1993	752	12/2000	720
12/1994	1121	12/2001	930
12/1995	1217	12/2002	1096
12/1996	1105	03/2003	1148

Prices on the private rental housing market went up too. The rent on a one-room flat of good quality is about US\$ 350 per month, while for a three-room flat it starts at US\$ 500 per month. Rents in the elite housing sector range from US\$ 1,000 to 20,000 per month depending on location and quality. The greatest demand is for elite dwellings with 130-160 m² of floor space. Normally these dwellings have two or three bedrooms and two bathrooms. On the market of villas outside Moscow, the greatest demand is for villas with a rent of US\$ 1,500-3,000 per month.

St Petersburg

Until now, prices in St Petersburg have been half those in Moscow. The demand for housing has not been so high as in Moscow, and in St Petersburg there is no strong correlation between world oil prices and prices for housing. Investment in housing comes mainly from the city budget rather than from the country's oil and gas regions. As there is less speculative investment, real estate market legislation is better developed than in Moscow and the number of transactions in relation to the total housing stock in St Petersburg

is higher than in Moscow (4% and 3%, respectively), although the city attracts fewer people from other regions.

The city's unified geo-information system in an electronic format is open to the general public. This system contains information for potential investors about specific areas in the city intended for particular types of development, information on particular development projects and reference information for developers. During the past two years major investments (US\$ 3 billion) have come to the city in preparation for its 300th anniversary celebrations.

The average price of a new dwelling (without finishings and equipment) is US\$ 500-600 per m² of total floor space; however, it is expected that by the end of 2003 the upper limit will reach US\$ 700 per m². As in Moscow, most new dwellings (more than 90%) are built with partial investments from future owners (payment to the general investor, at the initial stage of construction, of some 10-20% of the total price of the dwelling). The dynamics of prices on the secondary market is given in table 18.

Table 18: House prices on the secondary market in St Petersburg (in US\$/m²)

Number of rooms	August 2002	August 2003	Increase in prices since August 1998 (percentage)
1	599	790	170
2	546	708	112
3	512	668	84
4	493	647	67
5	496	652	64
6	498	657	86
7 or more	547	660	57

Nizhny Novgorod and its region

In the early 1990s Nizhny Novgorod, as well as its region was a pilot area and a leader for many market-oriented reforms. It enjoyed considerable financial support and investment, both domestic and foreign, to carry out these reforms. At the time, many construction projects were realized. However, since the financial crisis of 1998, the city's economic and financial regeneration has rather slowed and the local economic situation remains stagnant.

In 2002, in Nizhny Novgorod, housing construction accounted for 198,000 m² down from 223,000 m² in 2001. In the whole region of Nizhny Novgorod, construction stood at 496,000 m² and 525,000 m², respectively. In housing construction the region ranks 15th among 89 Russian regions ("subjects of the Federation"). The share of individual housing construction in 2002 increased to 40% of all new housing, and in the first half of 2003 it was 56%. Individual housing construction is mainly carried out with partial investment from the future owners, as is the case in Moscow and St Petersburg. Developers indicate that the absence of clear rules for the allocation of sites for housing construction is a major obstacle to housing and real estate market development.

There is a need to have efficient and transparent procedures for the local authorities to examine, approve or reject urban development projects. Such procedures should be based on the "one-door" principle, where one unit in the municipality has overall responsibility for a coordinated approach as well as for final decisions on project proposals. The necessary documentation to be provided by the developer should be clearly defined, and should vary in complexity depending on the size of the project. A reasonable link should also be established between the time and cost for project evaluation and the final approval or rejection of a project proposal. The present situation, where the cost of the documentation can amount to 15-20% of a project's total cost and approval procedures can take up to three or four years, is not conducive to an emerging urban real estate market.

Today, the lack of good laws is not the principal reason for the lack of sound land-use plans in

urban municipalities. The main problem is that the responsibilities for planning procedures, planning and building permits, implementation and control both at the federal and at the municipal levels are not clearly distributed. A legal clarification of these issues with principles and guidelines on practical planning procedures and flexible rules on implementation at municipal level is urgently required.

Ivanovo

The city of Ivanovo and its region are considered to be one of the most depressed areas in the Russian Federation. For several decades in the Soviet period the city was a centre of textile production, which was almost the only economic activity in the region. During the transition this branch of the economy was in great crisis, as was the city. Nevertheless, the city and regional authorities are optimistic about the future: the city is only 319 km from Moscow and there is a good potential for tourism development. In the historical areas of the city there are many traditional wooden houses and, if renovated, these could be of interest to tourists and bring related investment and services. In view of the poor financial situation of most inhabitants, the housing market is very weak and the Russian Guild of Realtors has no members from Ivanovo.

An analysis of the supply on the secondary housing market indicates that modern dwellings accounted for 50%; dwellings built in 1970-1980 represent some 27% and 50-storey block housing of the 1960s 16%. The price of these housing units ranges from US\$ 290 per m² for dwellings of a better standard to US\$ 200 per m² in the housing stock built in the 1960s. New housing units of very good quality (elite housing) costs US\$ 450 per m² (without finishings and equipment). The cost of construction is about US\$ 200-250 per m², which means that the profits of the developer is 2-3 times lower than in St Petersburg and Moscow.

D. Market operators and customer requirements

Organization of realtors

The Russian Guild of Realtors started its activities in 1992. Its members are 1500 legal persons

(brokers, developers, appraisers, etc) and 43 professional organizations working not only in the Russian Federation but also in other members of the Commonwealth of Independent States (CIS), Poland and Bulgaria. The aim of the Guild is to promote a real estate market in the Russian Federation through the creation of an effective system to increase the quality of brokers services and the development of legislation and a business environment. It has an educational and training centre. The Guild is very active in regional housing market development. Following the recommendation of the Guild and the prevailing practice, the system of licensing of realtors was replaced by a voluntary certification scheme. It is expected that, with this innovation, realtors' services will be subject to a qualitative assessment.

The Russian Guild of Realtors and regional guilds of realtors are involved in the implementation of different governmental housing programmes. In the Russian Federation, there is considerable internal migration, related to the economic and social transition. The Government initiated a number of housing programmes to provide social support to young families, families of former servicemen as well as pensioners moving from the north of the country to regions with more comfortable climate and living conditions. The participation of realtors in these programmes helped to channel government funding from the construction of new housing to the secondary housing market, which increased the efficiency and flexibility of these programmes. Steps were taken to establish an information system on the price of housing, employment opportunities in different regions and cities. This helped migrants to make a better choice about where to live. However, this system needs further development into a nationwide database on the real estate market.

Housing market and customer orientation

In comparison with the housing units built in 1960s-1990s, the housing quality of new flats has increased dramatically in terms of average space, internal design, finishings and installations. This is

partly explained by the fact that the market of building materials is now flourishing mainly due to the import of building materials and equipment from western countries and the orientation of the new housing market towards expensive, private housing units.

However, the high cost of new housing units is not a guarantee of quality of construction and related services. Most construction companies which work in all segments of housing construction economize on their workforce, project design and construction materials. Immigrants from Central Asia or Ukraine, with little or no qualifications, are often used as a cheap source of labour by both Russian and foreign construction companies. Sometimes developers deliberately increase the number of stories in new buildings (by lowering the ceilings of all stories compared to the original project), agreements signed with the city authorities are not strictly followed, and, as a result, the new owners receive housing units that do not fully meet their expectations. In cases of "shared participation", there can be problems with the registration of the property rights.

In Moscow, the housing market is oriented towards elite, high-rise construction (25-30 stories), which in many instances takes place very close to existing housing. As a result, such construction decreases the quality of life in the neighbourhood from an environmental point of view and also in because the existing engineering and social infrastructure was not designed for such residential density. The market price of housing in the existing buildings goes down by 20-30%. Another problem is that there is a lack of normative documentation, qualification and experience among construction companies for the construction of such buildings. Many experts doubt that the geological conditions in Moscow are suitable for such high-rise mass construction development. The future attractiveness of such housing estates is questionable, considering that they may not be safe and that people's general preference is for low-rise residential buildings.

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⁶¹ The bibliography only includes formal publications used. Informal papers/articles are listed in the annotations to the individual chapters.

