

Chapter 7

Housing Privatisation, Housing Management and Public Housing

This chapter provides an overview of housing reforms and their impact on the existing housing with a particular emphasis on progress towards the establishment of a competitive system of housing management. This is one of the critical areas for policy intervention due to the high share of multi-family housing in urban areas across the region. The argument advanced here is that housing management has been particularly slow in adjusting to the new market reality, both in the private and public housing stock. The challenges are multi-dimensional – technical, social and financial, making the task difficult. The comparative analysis explores the changes in housing management systems and some of the constraints for their efficient operation in the housing sector.

7.1 Privatisation and Housing Management: A Troubled Relationship

Housing management in multi-apartment buildings in South East Europe is a major challenge. Some estimates suggest that in the region out of 20 million housing units 30% are found in multi-family housing, mostly concentrated in urban areas. The asset management of this part of the stock is critical for the sustainable provision of affordable housing in urban areas. Privatisation and restitution were important factors influencing the problems of housing management. Out of 3.5 million public housing units, 2.8 million were privatised to sitting tenants. This represents close to 15% of the total stock, 30–40% of the urban housing and 40–50% of multi-apartment housing (Hegedüs and Teller, 2003).

Issues related to deteriorating quality in this part of the stock, discussed earlier, as well as the scale of some multi-apartment developments poses a particular challenge in terms of developing a common strategy for management and renovation (Fig. 7.1). While this might have been easier under the socialist system of state/enterprise funding and command decision-making, the coordination and consensus building on priorities among more than 200 households could be insurmountable challenge today.



Fig. 7.1 Multi-apartment development: The gate of Chisinau

7.1.1 The Institutional Framework for Housing Management

7.1.1.1 Legacy of the Old System of Housing Management

Most of the countries in the region inherited a system where municipal (state owned) maintenance companies were managing both the public and private multi-apartment housing stock. The fees for day-to-day repairs and improvements were nationally regulated with little differentiation with respect to quality, location or price of the dwelling. Typically monthly charges were collected on the basis of a fixed rate per sq m of dwelling space with some adjustment for the type of construction and number of storeys in the building. A wide range of detailed regulations established life cycle assessment rules and schedules for investment in capital repairs, but in practice little work in that regard was carried out (Hegedüs et al., 1996).

Maintenance companies, mostly municipal or enterprise-owned, would typically divide the urban area and carry out a range of construction, utility repair and housing maintenance work. These companies were large and economies of scale were essential for their operations. Housing management and maintenance was not the core of their business; the activity was not self-funded and was subsidised by frequent transfer of funds from other businesses. In Croatia, before the transition, 70% of the total housing stock was maintained by publicly owned companies, while in Bulgaria this share was close to 90% (Council of Europe (CoE), 2003b).

In Former Yugoslavia the individual units were not registered in the Land Books, representation of tenants in management companies was not legally defined. In other countries, such as Bulgaria and Romania, if owners' associations existed they had no real control over management decisions and/or funding. The public maintenance companies collected the user charges for utilities from the owners and/or tenants for common areas as well as for the buildings where individual metering devices did not exist (Moldova and Albania). Since new housing construction was a priority, little was allocated for investment in routine maintenance and renewal.

The legacy of centralised extensively subsidised housing management had important consequences:

- no competition in the provision of maintenance services
- no control over management on behalf of private owners
- deferred maintenance and no reserve fund to absorb cumulative costs
- lack of financial discipline and cost recovery mechanisms.

7.1.1.2 The New System of Housing Management

Housing reforms across the region in the last decade have created new conditions for housing management. A series of legal, institutional and financial reforms have been carried out, but the transformation process has failed to define a system that is efficient. Essentially the transition from a centralised and excessively subsidised system to one based on market competition, private ownership and cost recovery for housing services has been particularly difficult.

Legal reforms introduced in the mid-1990s provided the legal framework for the organisation of owners, as well as procedures for the enforcement of rules and obligations. In certain countries (Romania, Albania, Moldova and Montenegro) the new associations could act as a legal entity, in other cases, the new institutions did not enjoy these advantages. The new laws defined with various degrees of detail rights and responsibilities of ownership, and the procedures of sharing common costs. Several barriers to the implementation of these laws exist. First, individual owners were reluctant to establish new organisations and assume a wide range of responsibilities without the appropriate legislation.¹ Second, the administrative procedure of establishing a condominium as a legal entity was quite complicated and costly. Third, the laws typically provided largely inadequate guidelines regarding voting procedures, cost-sharing mechanisms and enforcement possibilities.

The municipal maintenance companies also faced a different situation. The increase in user charges (electricity, water, district heating, etc.) and the decrease in subsidies were financially stringent. This problem crowded out the spending on regular maintenance and emergent repairs. Without state or enterprise subsidies, and poor collection of regular maintenance charges from owners, the typical reaction was 'low fee – no service' which accelerated the deterioration process in multi-apartment buildings. In some countries municipal maintenance companies were divided into smaller units, privatised, or restructured in accordance with construction sector policies. This forced institutions to seek internal efficiency gains in order to operate exclusively without subsidies, although reportedly some emergency grants are provided (e.g. in Podgorica, Chisinau, Belgrade). Housing maintenance is significantly under funded in the region; in some countries the tariffs cover only 20–40% of the costs required for proper maintenance (Council of Europe Development Bank, 2004).

¹The privatisation to sitting tenants preceded the Law on Condominiums (e.g. Albania, BiH and Moldova). In Moldova, during the privatisation period, the apartments were transferred into private ownership, whereas the buildings remained state owned. After 1997 also the building were transferred to the homeowners' associations.

7.1.2 The Evolving Legal Framework for Housing Management

Most countries in the region have introduced condominium ownership or its equivalent based on historical interpretation of multi-apartment ownership in existing property legislation. While there are differences on the theme, condominium ownership is based on the absolute ownership of a unit, plus an undivided interest in the ownership of the common elements owned jointly with the other condominium unit owners (e.g. roof, elevator, building land, etc). Each owner may have a separate mortgage for his or her individual unit and is individually responsible for making the payments and real estate taxes on it. In addition, owners contribute to the funding of common expenses for repair of structural elements, building installations and utility charges for common areas.

The matrix in Table 7.1 summarises the developments in the area of multi-apartment management in South East Europe. The new legislation typically defines *Homeowners' Associations (HOAs) or Condominiums* as the institutional entity which manages multi-apartment housing, meets financial obligations, initiates contracts and renewal projects. Most HOAs are not registered as legal entities, thus, behind every contract there are individual owners. Although the new condominium legislation in Albania, Moldova and Romania stipulates mandatory HOAs, only 20% of the condominiums in Romania and 15% of the ones in Moldova have established such associations as legal entities. In Albania, progress in that regard has been very limited (Box 7.1).

While costs are expected to be borne by the owners, it is important to state that the new *Condominium Laws*, or similar provisions in countries across the region, differentiate between decisions with low cost consequence and decisions on higher investments, such as renovations. The first requires normally a simple majority of votes, the latter a higher share of support (e.g. 67% of owners in Romania, 75% in Albania). In cases where HOAs have the right to sue the associated owners for non-payments (Moldova, Bulgaria, Serbia) they possess a tool to enforce the decisions, but the procedure tends to be very long and expensive.

The matrix in Table 7.1 indicates a diversity of experiences, however, most countries in the region have a significant involvement of public management and maintenance companies, in Serbia and BiH the process is even more regulated in terms of providers and costs. In Bulgaria, Albania, Romania and to some extent in Croatia, HOAs have the right to contract any companies or private person to carry out maintenance. In these cases competition has had a positive effect on the performance of the maintenance companies (public and private) with respect to prices and quality. In countries where the market was liberalised, there is an overall lack of professional management companies which are licensed to carry out technical assessment and asset management. The process is also challenged by the lack of organisational and managerial experience of the newly elected 'representatives' of the HOA or the lack of complete technical and engineering documentation of the buildings.

Table 7.1 Major determinants of housing management in South East Europe

Country	Legislation	Management responsibility	Maintenance	Costs/financing
Albania	Law on Condominiums 1993	Condominiums/ non-legal entity; compulsory	Contracted mostly to public companies/self help	Homeowners/ proportional share
Bulgaria	Regulation on management of condominiums (recent changes in 2002)	Condominiums	Contracted to private companies	Homeowners/ proportional share
Croatia	Law on Property and Ordinance on building maintenance, Law on Contractual Relations	Non-legal entity Co-owners	Public enterprises/ or registered private firms	
BiH	Apartment privatisation law	Co-owners under a contract with a public management company	Mandatory maintenance agreement A Public enterprises; mandatory maintenance	Homeowners/ regulated charges for maintenance
Romania	Housing Act 1996	Condominiums; compulsory	Contracted mostly to private companies	
Moldova	Condominium Law 2000 Government decision on repair, maintenance and payment for public utilities	Condominiums; compulsory	Contracted to municipal companies/self help	Homeowners/ proportional share
FYR Macedonia	Law on property and other landlord rights 2001, Housing Law 1998	Co-owners under agreement on Mutual relations Resident council mandatory	Private companies	Homeowners
Serbia		Co-owners; compulsory maintenance contract	Public maintenance companies/ regional differences	Homeowners/ minimum maintenance charges regulated
Montenegro	Law on floor property	Co-owners	Public maintenance companies/private in smaller cities	

Box 7.1 Managing Practices in Croatia, Bosnia and Herzegovina, Romania and Serbia

In **Croatia**, management and maintenance of apartment houses, including regular operation, improvements and other works, are regulated by the *Ordinance on Buildings Maintenance*. Maintenance of apartment houses is financed by the co-owners on the basis of the contract with public or private firms registered for house management and maintenance. Only registered companies can provide service for large buildings (Council of Europe, 2001).

In **Bosnia and Herzegovina**, the *Law on Privatization of Socially Owned Apartments* provides no guidance on organisation or management of apartment buildings after privatisation. Rather, it authorizes the cantons to pass regulations on the operation of housing after privatisation. The first such regulation has been passed in Tuzla and is expected to be a model for other cantons. It states that for a period of 3 years the new owners will pay a monthly fee to the former owner or seller for maintenance and repair of the common property of the building, and only the former owner can decide how to spend the funds. The system effectively strips the new owners of the right to manage their property (Rabenhorst, 2000).

According to the *Housing Act of 1996*, in **Romania**, the management of multi-unit buildings is the responsibility of the association of owners (HOA). The associations' rights and obligations are: approving and amending the budget, collecting financial contributions, imposing penalties in case of late payments, concluding contracts and most importantly, managing, maintaining, repairing, replacing and modifying the common parts of the buildings. The HOA also approves or amends decisions on rules and regulations, monitors the condition of the building and keeps the building's technical logbook updated. Legal or natural persons, associations, public agencies or specialised companies appointed by HOA can manage the condominium (ECE, 2000b).

In **Serbia**, in order to carry out the maintenance, the 'Owners Assembly/Council' can contract public or other companies for housing management and maintenance. If no maintenance is provided, the municipality will appoint a public municipal company charging the account of the apartment building or directly its tenants/owners through common bill for other public services such as rent for building land, garbage, ecological protection, central heating, water, sewerage and electricity in common areas. The supervision is delegated to the Municipal Housing Department. Penalties are fixed from 100 to 10,000 Dinars (from €1.7 to €167) for different types of violation (Council of Europe, 2003b).

In summary, recent experience across the region indicates that a fair amount of effort was directed to the improvement of the legal framework. However, without an efficient enforcement system its effects are questionable. Albania, Moldova and Montenegro are prime examples where ambiguity in the legislation, coupled with economic difficulties of the owners has created cumulative debts and no action to resolve the problems with asset management.

7.1.3 The Triple Challenge for Asset Management

7.1.3.1 Technical Conditions

The collective form of state and enterprise housing provision in South East Europe in the past has an important effect on housing management, not only in terms of institutions and legal challenges, but more importantly related to the technical conditions of multi-apartment housing. Every observer in the region concludes that the deterioration process in parts of the urban stock has reached a critical stage. Most of the buildings were constructed in the 1970s and 1980s to respond to rapid urban growth and migration to the cities. Panel technologies featured prominently in Bulgaria, Moldova and Romania, while former Yugoslavia experimented with industrialised methods of high rise construction. Although most urban multi-apartment housing is new, its initial quality was not very high. Subsequently, inadequate investment in maintenance as well as deferred capital repairs have aggravated the technical problems with leaking roofs, obsolete installations, elevators and poor wall insulation. Anecdotal evidence reports cases of falling walls, balconies, chimneys, etc. In some cases buildings have unsafe and hazardous conditions which clearly do not meet the Building Code requirements. The function of inspecting and initiating action is usually vested with central inspectorates (Romania, Former Yugoslav Republic of Macedonia, and Albania), in practice little is done to enforce these rules.

The quality of the multi-apartment housing in South Eastern Europe is mixed; there are no assessments or reliable information about the level of investments needed in the sector. A recent study carried out by the World Health Organization found there to be a high incidence of respiratory problems in panel-built housing in some transition countries, likely to be associated with poor housing conditions. The health of residents of multi-family housing may also be adversely affected by dwelling size and layout; internal air quality; temperature; infestation with pests; and exposure to noise. The condition of the housing stock is directly related to provision of public sector services such as water, heating, garbage collection. The funding gap for these companies gradually added up to lack of working and investment capital. Depending on the magnitude of the financial problems, the array of adaptive actions included reducing/eliminating expansion investments, postponing replacement, deferring maintenance, and reducing services. These strategies have had a detrimental impact on the quality of housing. The proper maintenance and renewal of the housing stock should be connected to the improved performance of utility companies (Figs. 7.2 and 7.3).

7.1.3.2 Social and Economic Constraints

In most of the cases multi-apartment buildings have a social mix, which is inherited from the previous system of housing allocation. Income and labour market inequalities in recent years have changed dramatically the socio-economic profile of these egalitarian societies. Differences in market prices of housing properties have



Fig. 7.2 Multi-apartment housing built in the early 1990s in Pristina with visible signs of deterioration

become one of the largest sources of inequality in urban areas – some owning an asset, others – a liability with large requirements for investment in renewal. A characteristic feature of the ‘nations of homeowners’ in South East Europe is the lack of debt related to their housing assets. .

The transition and the war in the Balkans have led to an impoverishment of the population. One of the reasons for the poor maintenance of multi-apartment buildings lies with the difficult financial situation of tenants and owners. In most cases, the cost of housing related services has increased in real terms, but quite unevenly: energy costs and central heating costs increased the most, crowding out other expenditures. The prices of housing related services increased at a period of economic decline, which in the absence of an adequate system for social support resulted in accumulated arrears. In the absence of support for housing and utility services, more affluent owners have continued to subsidise their neighbours and to finance urgent repairs. Others have just cut back on individual consumption, such as central heating.

Despite different coping mechanisms, arrears are wide spread and the lack of payment discipline – common (see Box 7.2). Studies have reported lack of respect for the law as well as refusal to pay regular contributions for the maintenance and modernisation of common areas in privatised residential buildings (ECE, 2002, 2005).

The problem of deferred maintenance is not only related to affordability (ability to pay), but also to weak willingness to pay, because many home owners who received privatised dwellings in the early 1990s do not understand that they have an asset that can increase or decrease in value. Many of them also fail to understand that ownership carries obligations as well as rights. Property values are



Fig. 7.3 Low income multi-apartment homes in Skopje

also affected by uncertainties about ownership of, and responsibility for, the building and the immediate environment.

7.1.3.3 Financial Constraints

Lack of adequate financing is considered a major constraint for asset management. While recent years have introduced a budgetary discipline and more transparent and accountable budgetary processes, chronic underinvestment in maintenance has left owners with major technical challenges.

As Fig. 7.5 indicates investment is cyclical and the requirements for major repairs and improvements after 10 years grow exponentially. In most of the cases multi-apartment buildings have reached this critical stage in the lifecycle assessment where a major infusion of capital will be needed to bring them back to standards. The buildings have poor quality and the current stream of revenues does not ensure sufficient

Box 7.2 Cumulative Debt for Utilities in Moldova

The level of payment for housing services in Chisinau is some 80%. The debts to service suppliers in 1998 exceeded 44 million lei. The number of ‘debtor-apartments’ registered and their distribution is presented in the chart below. The data analysis shows that the majority of debtors pay the services with a delay of 1–2 months, having debts up to 500 lei. There are categories that practically stopped paying for services accumulating debt in an amount exceeding 2,000–3,000 lei (Fig. 7.4).

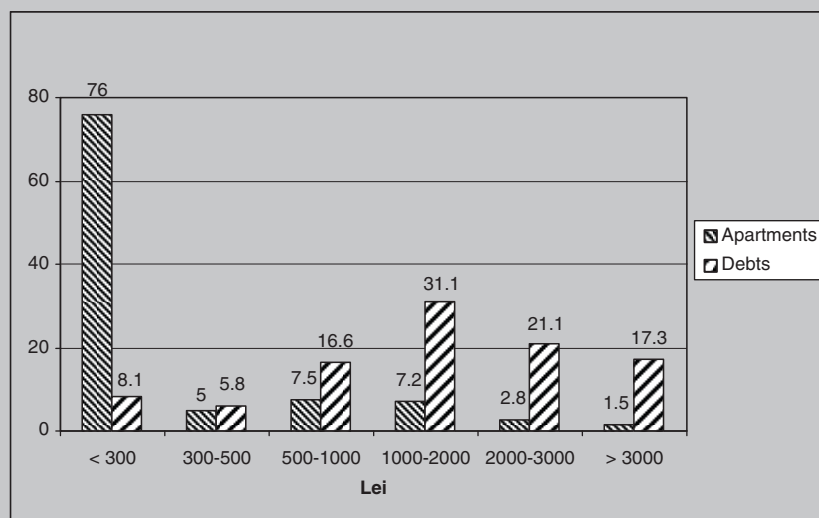


Fig. 7.4 Distribution of debts for housing services in Chisinau (%). *Source:* NAHRES Moldova (1998)

funds for renovation and improvement of installation and the building envelope (roof, foundations, elevation, etc). Renovation planning is also problematic within the context of unclear financial and management responsibilities. Furthermore, in addition to the traditional technical and organisational challenges, it is difficult to borrow funds for major improvements, which requires audited financial statements of the condominium and collateral.

Banks often request individual owners to sign a mortgage or a loan contract, which makes the process extremely cumbersome and costly. Lending institutions have not developed any products for renovation of multi-apartment housing and the high interest rates certainly discourage borrowing. The financing of rehabilitation requires specially designed credit lines and some incentives (tax exemptions, rebates, etc) to facilitate the process. The key issue is mobilisation of funds, savings (including intergenerational savings), loans and mortgages to pay for rehabilitation

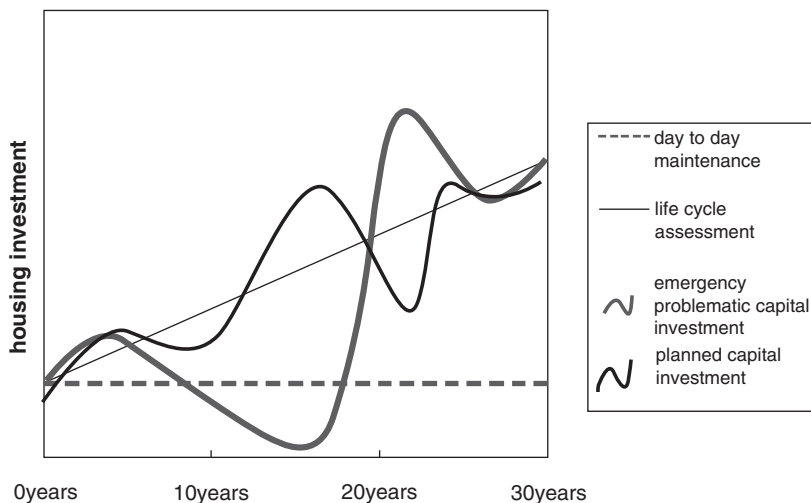


Fig. 7.5 Housing investment over the lifecycle of buildings

and renewal. Various mechanisms can be used to encourage financial institutions to develop competitive products (state guarantees, shallow subsidies, insurance). This needs to be complemented by targeted subsidies and reversed mortgages for low income owners to allow renovation measures to proceed at a large scale for the whole building.

In summary, arresting the cycle of decline in multi-apartment housing requires a cluster of policy measures that enable more effective asset management. Figure 7.6 stylistically represents the different stages in the cycle – poor technical conditions, social and economic difficulties of residents, overcrowding, poverty and deterioration of housing quality. All these phenomena feed into the next stages where poverty and deprivation becomes an attribute of particular neighbourhoods. There are signs that some of the housing estates in South East Europe manifest some of these features.

Prices have declined and more affluent owners fearful of theft and vandalism are moving away. This new phenomenon is associated with increasing segregation of marginalised people on housing estates. These manifestations of social exclusion are related to the creation of ‘social ghettos’, and correspondingly, the isolation of marginal communities in substandard housing. Efforts to combat social exclusion are essential for the vitality of cities and urban neighbourhoods across the region and need to be integrated in future housing and social cohesion policies. Specifically, it is important to prevent the marginalisation of weaker groups as a result of changes in the housing market and/or inefficient legal, institutional and financial framework to manage multi-apartment housing.

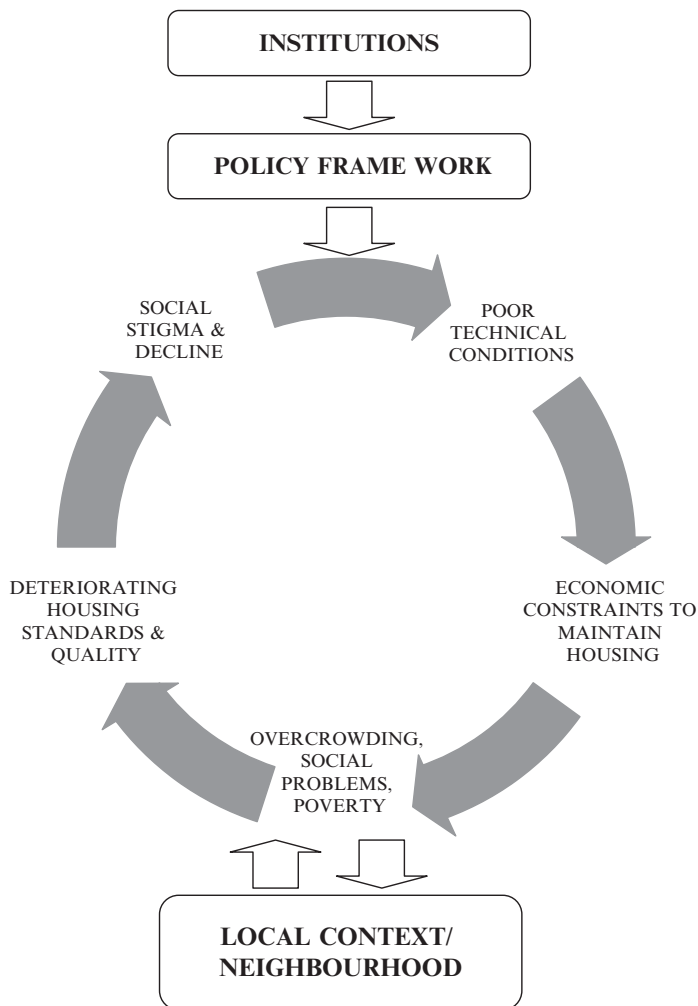


Fig. 7.6 Arresting the decline in housing estates through better asset management

7.2 Public Rental Housing: Challenges and Future Prospects

Countries in South East Europe have the legacy of a controlled ‘command’ housing system for the provision of public rental housing. The system was based on low housing costs, centralised production and state or enterprise control over housing allocation. The bureaucratic allocation was administered through ‘waiting lists’ for housing maintained by municipal housing authorities and, in the case of Serbia and Former Yugoslav Republic of Macedonia, by public enterprises. In the context of

this shift away from direct state intervention to market-based provision of housing services in the 1990s, municipalities have emerged as the new social landlords with major responsibilities for housing the poor and disadvantaged (ECE, 2001, 2005).

In most countries, as a result of mass privatisation, the size of the social rented sector has been reduced mostly through transfer to sitting tenants (free of charge, through vouchers or nominal fee). While these populist policies have been equally attractive across the region, governments have been reluctant to introduce less popular measures such as cost recovery of rents or deregulation of maintenance and management (Lux, 2003; Tsenkova, 2004b).

7.2.1 Regional Perspective on Public Rental Housing

Despite rapid privatisation, the public rental sector in the region includes 462,820 units. South East European countries have chosen different strategies to address major issues related to access, management and financing of social rented housing (see Fig. 7.7). While these strategies have not been explored in a systematic manner, there seems to be a consensus that the countries are moving in the same direction – towards residualisation. The term public housing is used to define the social rented sector. In some countries in the region (Romania and Serbia) social housing at the moment is a subcategory of municipal housing.

The analysis starts with a review of the three critical elements characterising the public housing sector – ownership, rent and allocation policies in a comparative perspective. These are summarised in Table 7.2.



Fig. 7.7 Tenants or owners: Illegal owner occupied housing in Kosovo/UNMIK

Table 7.2 Major characteristics of public housing in the region

	Public housing (% of total)	Number of units (thousands)	Management and maintenance	Allocation	Rents
Bulgaria	3.00	110.92	Municipal maintenance firms	Targeted based on four categories; tenants in rest. property have a priority	Locally controlled with some central guidance
Croatia	2.80	51.84	Enterprises with municipality as majority shareholder	Poorly targeted, previous tenants	Centrally controlled
Moldova	5.00	64.56	Municipal maintenance firms	Less targeted	Centrally controlled
FYR Macedonia	0.60	4.19	Central public enterprise for management of residential and commercial real estate	Less targeted, various categories including government employees	Centrally controlled
Romania	2.20	178.36	Municipal maintenance firms with some budgetary org. in larger towns	Targeted, mostly socially disadvantaged; tenants in rest. property	Centrally regulated, set at 25% of tenant income
Serbia	2.10	52.95	Municipal maintenance firms	Less targeted, various categories including young families, public officials	Centrally controlled

7.3 Changing Institutional Context

Historically municipalities, state institutions and enterprises have provided public housing in the region with the State playing a much more significant role in Moldova and Albania. Privatisation has reduced the size of publicly owned and/or socially-owned housing; in addition restitution in several countries (Albania, Bulgaria, Croatia and Romania) has affected the size of the sector placing a time limit on rental agreements under protective arrangements. With the exception of BiH and Former Yugoslav Republic of Macedonia, countries do not seem to have a moratorium on housing privatisation. In Serbia and Montenegro newly built units with capital from the Solidarity Fund continue to be privatised.

Ownership is vested with municipalities with the exception of Former Yugoslav Republic of Macedonia where public rental housing was transferred to a state enterprise – Public Enterprise for Management of Residential and Commercial

Real Estate. In the privatisation aftermath, most municipalities are left with housing stock of substandard quality, largely in need of extensive repair. Reportedly units are much smaller than the average (44 sq m in Romania, 56 sq m in Bulgaria) located in multi-apartment housing, often with mixed ownership.

7.3.1 *Rent Setting*

Previously highly dependent on central government control, municipalities have become the new social landlords in most countries across the region. The institutional reforms in the housing system, and the new financial regime for operation, allow more autonomy in decision-making but also imply a growing social responsibility to deal with poverty and to house the socially disadvantaged. Reforms in the legal framework in Bulgaria provide the opportunity to set rents locally²; in Albania,³ Moldova, Serbia and Romania, rents are controlled at the state level. In most countries rents are set below market levels, with 'flat' rent structures not reflecting the value or the location of the property. In Moldova, for example, rents are 0.2 lei per sq m per month,⁴ in Montenegro €0.01, in Serbia 2.18–3.5 dinars (€0.03–0.05) while in Romania rents are 25% of household income (10% in social housing). Furthermore, in Romania, Albania and Croatia the legislation stipulates that rent control is applied to housing subject to restitution.⁵ The policy of uniform rent constitutes a universal subsidy that is poorly targeted to households in need. Rent structures are not sensitive to demand and there is no mechanism for exit from the sector when the household's income increases above a certain threshold (Lux, 2003; ECE, 2001). Interviews with housing managers in Chisinau, Belgrade, and Skopje at the end of 2004 indicate that rents barely cover operation costs, but introducing cost recovery for housing services tends to be politically unpopular. Correspondingly, municipal maintenance companies carry out marginal upkeep and resort to patchwork maintenance and emergency repairs.

7.3.2 *Allocation*

A low rent policy and a rationing system through waiting lists continues to be the cornerstone of municipal housing policies. In Chisinau 60,000 households are in line. Most of them were selected on a needs basis: handicapped, military personnel, single parent

²However, the *State Property Act* recommends the basic rent per sq m to be BGL0.30 (US \$0.14). In practice most municipalities are using this benchmark with rent levels increased by 40%.

³In the case of Albania this refers to the denationalised housing stock. In future social housing projects rents will be determined locally using the methodology developed by central government.

⁴The standard rent ranges between 15–30 lei per month while payment for heating tends to be 300 lei per month.

⁵In Romania rents are regulated centrally; Government Emergency Ordinance 40/1999 establishes the protection of tenants.

households living in unacceptable housing conditions. Oddly enough, low income is not a criterion for receiving a dwelling through the line. In Romania municipal waiting lists for social housing are based on a point system designed in the *Housing Law* of 1996.

In most countries in the region, priority today is given to households with special needs: orphans, the handicapped, chronically ill, the elderly and single parents. Most municipalities have revised their housing waiting lists along these lines. Tenants in properties subject to restitution are given priority in Bulgaria, Romania and Croatia. Since tenant protection in public housing is still considered to be strong, there is little turnover and almost non-existent vacancy rate in urban areas.⁶ Despite the changes in the previous legislation, which provided life-long guarantee of tenant rights and provisions for inheritance of rental housing, tenant eviction for non-payment today is costly for the social landlord, takes at least 2 years to be enforced, and certainly appears to be politically unpopular.

7.4 Financial Support for Public Housing

In most countries in South East Europe, the state is almost invisible in social housing policy. In Bosnia and Herzegovina major responsibilities for housing are delegated to the entity level and correspondingly to the cantons and municipalities. Across the region direct housing subsidies from the state budget for new construction of public housing have been eliminated, although some ad hoc funding for pilot projects is provided (Romania is a notable exception). Municipalities have acquired autonomy in the management of public rental properties.⁷ This devolution in governance, essentially beneficial for locally appropriate responses to housing market conditions, has left a lot of unfunded mandates. Under the present regime of fiscal austerity, the practical implementation of social housing policies is essentially driven by what municipalities can afford, as opposed to rational responses to housing need. Surveys in Bulgaria and Romania have indicated that most municipalities have financial difficulties and refrain from investment in new provision (Lux, 2003).

In Former Yugoslav Republic of Macedonia the State allocates some funding for the management of state-owned housing; 25% of this annual amount is reserved for provision of housing to welfare recipients in accordance with the *Welfare Protection Law*. In Moldova and Serbia, despite some attempts to reduce housing subsidies, new programs for construction or purchase of dwellings for specific groups have

⁶In Croatia the *Law on Apartment Renting and the Law on Tenure* introduced the right of 'protected tenant' with the option to conclude an indefinite contract and pay uniform protected rent. Tenants in apartments subject to restitution also received the status of a protected tenant. Repossession by the owner is conditional upon the provision of a flat which can be privatised at the same conditions as the socially owned flats. Similar provisions were introduced in denationalised rental properties in Albania and Bulgaria.

⁷In Romania municipalities are obliged to house people with income below the national average. Public housing is financed by the local budgets with some transfers from the state.

been introduced.⁸ While the results have been limited, the subsidy ‘loading’ is not negligible and the targeting tends to be rather low (ECE, 2002, 2005). In addition, Moldova still keeps a detailed discount system of various benefits, including support for utilities. New Social Housing Programs in Kosovo/UNMIK, despite their limited scope, demonstrate the potential of public/private partnerships, as the examples in Box 7.3 and Fig. 7.8 illustrate.

Box 7.3 New Social Housing Program in Kosovo/UNMIK

The need for social housing and post-war assistance to needy families in Kosovo/UNMIK is great. Recent government initiative pioneered the development of social housing policy and two pilot projects – in Decan where 16 apartments (1,026sq m) were built, and in Skenderaj with 21 apartments (1,493 sq m). The average costs were in the range of €350–400 per sq m. Capital investment came from the central budget, municipal involvement and private/public partnerships. The projects have a mix of 25% commercial tenants (businesses and retail) and 75% social tenants.

The cost sharing of planning and infrastructure proved to be attractive to private investors. The pilot projects were an important source of policy learning and experimentation. The Ministry of Environment and Spatial Planning developed *Social Housing Guidelines* with technical standards for social housing projects and regulations on allocation, beneficiaries and rent, which will be the framework for further action.

Source: Stability Pact RRI/MAI (2002)



Fig. 7.8 New social housing in Kosovo/UNMIK

⁸ Recently Belgrade municipality initiated the construction of 100 flats intended for households based on social need. The tenancy of rental flats is limited to 2 years, with the possibility of contract renewal.

Despite the low level of rents in public housing – 5–10% of market rents on average – rent arrears have become a wide spread phenomenon creating a lot of pressure for the administration and management of housing. Reportedly in the large cities in Romania rent arrears account for one third of rent revenues, while in smaller cities the share is 25%, in Bulgaria – 20% (Lux, 2003).

7.5 Maintenance Practices

Maintenance practices are in the process of fundamental adjustment. The process of change is driven by the escalating costs for housing services and the lack of systematic approach to the mobilisation of funds for routine maintenance and capital improvements. The situation was further aggravated due to government withdrawal from the financing of public housing. Public landlords still employ lifecycle assessment where different elements need to be replaced in accordance with nationally set standards. While the technical requirements have moved towards harmonisation with European Union legislation, the major difference is that subsidies are no longer available and financial difficulties of tenants need to be taken into account.

Given the lack of supply-based financial support for the maintenance of public housing and inadequate assistance on the demand side, very few municipalities invest in housing renovation and improvement. Within the general policy framework of city-wide control and decision-making, the ‘day-to-day asset management’ appears to be the norm. It is characterised by a shrinking portfolio, transfer of management to homeowners, and phasing out of responsibilities. The emphasis is on operational management and efforts to balance the budget while avoiding major technical and social problems. Activities are performed very much on an *ad hoc* basis. As presented in Fig. 7.9, the ‘day-to-day asset management’ includes two components. The technical management component focuses on monitoring and supervision of local staff involved in emergency and routine repair, while the financial management component centres on revenue management, rent and arrears collection. Interviews with housing managers demonstrate the growing importance of financial management, particularly in the context of inflation and little to no subsidy for capital improvement and investment. The operational input–output model in Fig. 7.9, often applied in public housing, involves planning and provision of basic packages of routine maintenance services – *outputs* – in response to requests for repairs formulated at the level of individual dwellings and/or buildings – *inputs*. In addition, managers perform social and welfare functions advising tenants on social assistance and manage rent arrears (Box 7.4).

7.6 Conclusion

The institutional framework for housing management in privately owned multi-family housing reviewed in this chapter is a modest departure from the old socialist system. The legacy of publicly provided maintenance and management services, often by municipal companies with tariffs set below the economic cost of services, still

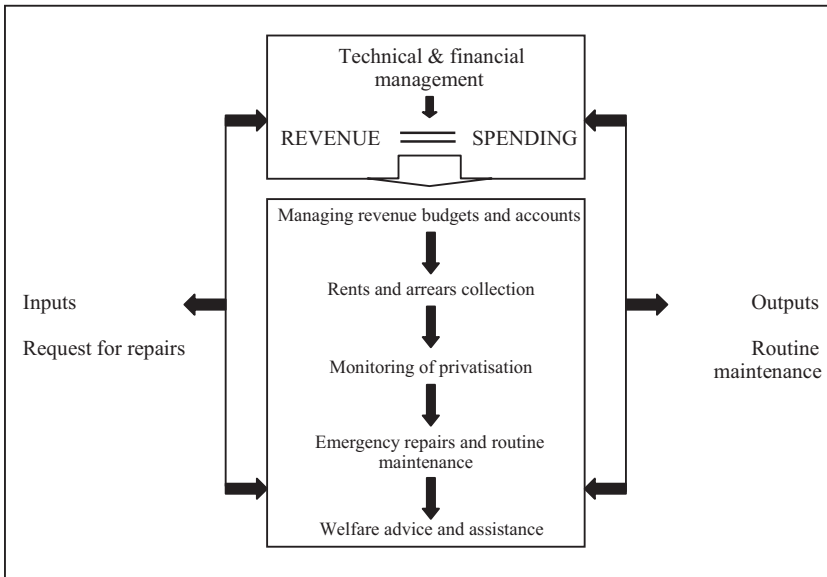


Fig. 7.9 Day-to-day asset management

Box 7.4 Moldova’s Problems of Quality, Management and Social Segregation in Public Housing

Most of the public housing in Moldova today includes dormitories. They were not designed for permanent residence and living conditions remain problematic in urban areas. As better-off families try to escape the small, crowded units equipped with minimal conveniences, dormitories tend to concentrate low-income families. The maintenance level is extremely low and the design does not allow improvements.

Former company-owned housing has become another place for socially vulnerable households because, just like dormitories, it was used to house workers temporarily and provided basic services. Tenants are reluctant or too poor to privatise the units. An additional set of problems arises from dubious ownership status; some buildings are owned by enterprises, which have gone bankrupt. According to the authorities of the central district in Chisinau, there are 90 company-owned residential buildings in a similar situation. Local authorities are hesitant to take over ownership due to massive financial liabilities associated with lack of standards and poor maintenance.

Source: World Bank Report on Millennium Development Goals (2005)

characterises the practice in most countries. Asset management of multi-apartment housing faces unique challenges – technical, social, and financial. The absence of efficient intermediaries (condominiums and homeowners associations) has led to deterioration of the stock. Poor performance of housing management is also related to affordability constraints faced by households and their strategies to cope with the escalating price of utilities and housing related services. The underdeveloped market for housing management restricts competition, which along with the uncertain legal framework makes it difficult to mobilise funds for routine investment in maintenance and renovation.

In the public rental housing, housing management still operates as a ‘command’ system where ownership and management is vested with the state and municipalities and pricing policies are not sensitive to demand or quality of housing services. Allocation decisions in the shrinking portfolio continue to rely on bureaucratic processes, although preference is given to socially disadvantaged households. Maintenance and management is still a municipal monopoly and public landlords manage most of the housing. Given the small size of the sector, public rental housing in the future will target low-income households, functioning more like a safety net. Even under these circumstances, it will be important to increase rents to reach cost recovery and to introduce housing allowances, which would ultimately seek to integrate the administration of all household welfare payments (e.g. including utility compensation payments and rent) within a common, simple, transparent, framework, which is exclusively targeted to the needy.