SOCIAL ELEMENTS IN THE RUSSIAN HOUSING SYSTEM – NEW VERSUS OLD SOCIAL RENTAL SECTOR

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Introduction

In 1990s the expression ‘housing policies’ was replaced by such terms as ‘the housing and utility sector reform’ and ‘winterization’. The state didn’t try to create a comprehensive housing policy at federal, regional or municipal level.

The aforesaid fully applies to the issues of development of socially oriented housing policy. Much to our regret, these issues are still addressed proceeding from the here-and-now interests, which are beyond our control or administrative influence.

Numerous key decisions have been set out in the new Housing Code (2005), e.g. the status of the social rental agreement. It is signed for an indefinite term and no changes in the financial status of a citizen entail its termination. Only economic mechanisms (e.g. possible increase of the rent) are applied, which serve as an incentive for citizens to look for a better quality housing to satisfy their housing needs.

The fact that the social rental agreement is signed for an indefinite term didn’t attract the attention it deserved. Nevertheless, this fact will affect the performance of the socially oriented housing sector for many years to come.

Up to 2010 the parameters of the social housing stock will depend, to a great extent, on the rate of the housing privatization process. Until 2010 the state and municipal housing will stay in the category of the housing, ‘which has not been privatized yet’, so the distinction between ‘the old’ and ‘the new’ social housing will continue to be flexible.

In the absence of comprehensive socially oriented housing policies the risks of adverse developments in this sector are becoming as obvious as never before. Let’s look into these risks.

The first one is associated with the absence of an adequate response to the emerging public demand for reasonable mechanisms of addressing the housing problem of minimum 50% of Russian citizens with moderate income, who have no access to the social housing in its present form. According to calculations, by 2010, even under favorable conditions, not more than 30% of families will be able to purchase housing under the mortgage lending scheme.

Secondly, the free-of-charge privatization without any strings attached to it gave rise to such a phenomenon as ‘a poor homeowner’, which is well-known in other East European countries too. There is an enormous risk that in a couple of years, or in a couple of dozens of years, when the existing housing will become unfit for dwelling, this enormous stratum of poor homeowners might demand from the authorities to facilitate them in the improvement of their housing conditions, and the authorities will be unable to meet this demand.

Finally, although municipalities are empowered to construct and purchase social housing for households with low income, the inadequacy of their resource base might result in the situation when we’ll be unable to make such housing available to the households which fell into the low-income category over recent years, not to mention meeting the obligations which we undertook in the Soviet era and during the period prior to the enactment of the new Housing Code.

The existing structure of social housing

By 'social housing' the Russian law means the housing which was provided under a social rental agreement. As of today, it accounts for almost 90% of the total state and municipal housing stock. The remaining 10% is the special purpose housing, first of all, boarding houses, and since recently – the housing provided under for-profit rental agreements or gratuitous use agreements. Special purpose housing, obviously, performs social functions and therefore can be categorized as 'social housing' in the broad meaning of this term.

The following table illustrates evolution of the structure of housing stock in St.Petersburg.

	2005		2006		2007	
Housing stock, total (mln.sq.m)	100		103		106	
Public housing stock (mln.sq.m)	31,0		27,7		25,6	
% of total housing stock	31%		27%		24%	
Including:	mln.sq.m	% of public housing stock	mln.sq.m	% of public housing stock	mln.sq.m	% of public housing stock
Social housing stock	28,1	90,5%	24,7	89,2%	22,7	88,9%
Special housing stock	3,3	10,5%	3,1	11,3%	3,0	11,7%
Including:						
Tied accomodation	na	na	0,1	0,3%	0,1	0,4%
Housing, provided under 'commercial' (non-subsidized) agreements	-	-	-	-	0,0	0,0%
Other (including dormitories)	na	na	3,0	10,9%	2,9	11,2%

However some 'traces' of social rented housing could be found also in other segments of the housing stock. First, housing that had been privatized during 1992-2007 (about 40 percent of total housing or 66 percent of 'eligible for privatization housing) which were not involved in any further transactions (about ½ of the privatized stock) till 2010 could be deprivatized at any moment thus returning to social rented housing. The magnitude of deprivatization is negligible at the moment but the situation could change significantly if certain decision in real estate taxation, insurance etc. are made.

Dynamics of demand and supply of social housing

The general idea of 'realistic' demand for social rented housing may be driven from the national household survey of 2003.[1] Of those not satisfied with their housing conditions (61%

[1] Nadezhda Kosareva, Natalia Rogozhina, Andrey Tumanov, Mikhail Yakoubov (2004) *Evaluation Of The Scale And Dynamics Of Changes In Effective Housing Demand And Housing Construction In Russia* (The project was implemented by the workgroup on development of an accessible housing market formed by the Center for Strategic Research. Vneshtorgbank Bank was the customer for the project, and Institute for Urban Economics (IUE) was the main contractor working in partnership with the Research Center of the Russian Marketing Association (RMA Research Center), the Center for Information and Economic Research in Construction Industry, the Development

households) 1/5 reported that they see no alternative to waiting for social housing being put on a waiting list.

Until 2005 any citizen who had less housing space than he was entitled to, had a ‘no-cost’ opportunity to apply for social housing. Obviously, this opportunity was nothing but a myth, which is proved by the fact that during 1995-2005 the waiting list for social housing considerably ‘shrank’.

	1995	2000	2001	2006
Number of households on the waiting list (as of the end of the year), million households	7,70	5,42	4,86	3,12
Number of households, which got housing and improved their housing conditions (per year), million households	0,65	0,25	0,24	0,14
Households on the waiting list as a proportion of the total number of households (%)	15	11	10	6

The Table shows that in 2001 the natural ‘shrinking’ of the waiting list amounted to 310 thousand households. It exceeds the number of households, which managed to improve their housing conditions.

After 2005 only low-income households could apply for social housing. However, the obligations to those who had already been put on the waiting list prior to 2005 were to be met, no matter what their income or financial status was. Obviously, given the current rate of discharging these obligations, the households currently on a waiting list will have an access to the social housing not earlier than in another 25 years.

Supply of social rented housing is to a large extent driven by the free privatization process which will last till 2010.

Ironically we have no national statistics on social housing construction. Data available for Moscow – 300 th/ sq. m (about 5 thousand housing units) or 6-7% of annual new construction. At the same time about 17 thousand households from the Moscow waiting list receive housing and improve their living conditions. The balance may be found under the following assumptions:

- there is a housing chain (size = 1,5), so 5 thousand newly constructed units may allow improvement of housing conditions for 7,5 thousand renters of social housing;
- government assistance schemes in housing purchase at reduced prices are actively used by households on a waiting list – about 9,5 thousand household took that opportunity.

Moscow is characterized by its extraordinary budget capacities and ‘social orientation’ of the budget. Thus one may suggest that nationwide not more than 5% of new housing construction goes to social rented housing. This gives us about 3 mln. sq. m in 2007 which is about 20 times less than annual privatization.

Center Economic Research Foundation, the Agency for Housing Mortgage Lending (AHML), and the AN SAVA Joint-Stock Company).

What is latest in the social housing sector?

1. The ongoing privatization of social housing is evolving in waves, because it is affected by the rumors about a possible final date of privatization. In 2002 the privatized housing amounted to 68 million m^2, in 2003 – to 42 million m^2, in 2004 – to 69 million m^2, in 2005 – to 89 million m^2. The geographic pattern of privatization has also been changing. For example, while in 1990s – early 2000s the share of privatized housing in Moscow (in the total housing earmarked for privatization) was bigger than the average for Russia (which could be easily explained by a rather high value of the privatized property), today it is smaller than the average for Russia. The reason behind this might be a relatively good condition of the housing stock in Moscow (explained by the considerable funds allocated for it from the Moscow city budget), as well as the fact that Muscovites, being a rather well-educated group of population, understand that the status of an owner envisages not only extra opportunities for the latter, but is also associated with additional responsibilities and risks, e.g. the responsibility for the capital repairs of the common property in a multifamily building.

2. In 2005-2007 most of the constituent entities of the Russian Federation approved regulatory legal documents, which defined the criteria for categorizing citizens as 'low-income', procedure of registering citizens and evaluating their financial status. In a number of the constituent entities of the Russian Federation efforts are made to provide state housing first of all to low-income citizens. As a rule, this is fraught with protests filed by oversight bodies or litigations.

3. Until 2010 municipalities won't have clear-cut incentives for the enhancement of housing construction volumes for subsequent social rental. Attempts are made to circumvent this problem with the help of surrogate schemes, such as providing state and municipal housing under agreements on for-profit rental, rental of special purpose housing, or agreements on gratuitous use. This also results in inability of municipalities to construct social rented housing 'in buildings'. Currently nearly all social rented housing consists of flats in condominium buildings. However housing legislation contains stimulating provisions for 'consolidation' of the existing municipal stock in future.

4. In some cities (e.g. in Moscow) attempts are made to create a non-profit (unsubsidized) socially oriented rental sector, which will target a wider circle of citizens (young families, public sector employees, etc.). These attempts are still on experimental stage (1 building in Moscow in 2008, two more in 2009). However, this housing is perceived both by the authorities and by tenants as a short-term rental housing.

5. Enterprises became aware of the growing role of housing as a means of attracting and keeping skillful personnel on their staff. Nevertheless, so far their actions are not supportive to creating incentives for the development of non-commercial rental housing.

6. An enormous gap (by an order of magnitude) between the payments made by the tenants of social housing and the payments at the housing market rate persists. Almost all tenants of social housing cover only the current expenses. Although the law provides for a possibility of including a part of capital costs in the payments made by those tenants who do not belong to the 'low-income' category, it hasn't become a practice.

Social housing policy agenda: an attempt at forecast

<u>Social housing stock</u>

State and municipal social housing stock will develop to the extent which will facilitate the housing supply to low-income households and other citizens who are on the ‘waiting list’ for improvement of their housing conditions.

Priorities set for the period up to 2015 could be as follows:

- Housing supply to citizens who had been put on the waiting list before March 1, 2005 and who didn’t make use of alternative tools of state support;
- Improvement of the physical condition of social housing stock, elimination of crumbling and unsafe housing in this stock.

It is also planned to approve laws which will establish, starting January 1, 2010, the priority right to housing supply for all low-income citizens under social rental agreements. This issue gave life to acute discussions, because it means that previously undertaken obligations are to be effectively cancelled. Moreover, it assumes that the rights of tenants to sublease housing premises, which they obtained under social rental agreements, will be restricted, which will augment the differences of social housing from other types of rented housing.

New social housing stock will be consolidated in specially constructed multifamily buildings and other types of buildings. This will launch the process of transition from the practices of allocation of apartments in multifamily buildings (commissioned by for-profit developers) to municipalities, to construction of housing intended exclusively as social rental housing. Taking into account the high deterioration of non-privatized housing, it is planned that by 2025 27% of the existing social housing should be replaced (at the average rate of 1.5% during 18 years). This will require the construction of approximately 170 million m^2 of social housing.

According to the assumptions, two thirds of households (out of total 3.1 million on the waiting list) will opt for faster improvement of their housing conditions with the help of other mechanisms (non-repayable subsidies, closed-type cooperatives created with state or municipal support, etc.). Construction of new social housing in the amount of 56 million m^2 will be required for approximately 1 million households.

Therefore, the volume of social housing construction aimed at addressing the above-mentioned issues over 2008-2025 will amount to 226 million m^2. It includes 136 million m^2 which are to be constructed by 2015 (on the average, 17 million m^2 per annum, or 6 times increase compared to the current level).

Almost 5 trillion Rubles (in the prices of 2007) will be required for the implementation of this task (on the average, 275 billion Rubles per annum). Obviously, local budgets in the foreseeable future are unable to sustain such expenditures. To enable them to do this, it will be necessary to increase the proportion of local budgets in the consolidated budget of the Russian Federation and to grant targeted assistance from the federal and regional budgets.

Local governments should, on the average, allocate 5% of their budgets for social housing construction, and the share of local budgetary support of social housing construction should amount to 50% of total budgetary expenses for the attainment of these goals.

As a result, the total volume of state and municipal social housing will be almost 650 million m^2 by 2005 (approximately 14% of the housing stock). If computed in housing units, the proportion of social housing will amount to almost 20%.

In the current situation, when only 18% of households can afford buying standard housing without state assistance, this is far from being enough. The assumption here lies with the continuation of the economic growth and the growth of real income of the population. It is forecasted that by 2020 as much as 55-60% of the total population will be able to purchase housing without anybody's assistance. In this case the above-mentioned social housing volume could prove sufficient.

We assume that by 2025 the volume of the social housing stock will make it possible to supply social housing to low-income citizens who qualify for the improvement of their housing conditions. This process will be facilitated by the suspension of free-of-charge privatization of state and municipal housing after 2010, which will promote the vacating of housing premises by those tenants whose level of income will enable them to purchase housing in ownership.

It is expected, that this will allow cutting down the period of queuing for social housing from current level of 15-20 years to 3-4 years by 2025.

Special purpose housing stock

In addition to the social housing, special purpose housing will be also further developed. Its fastest developing segments will be the so-called maneuvering housing stock (including the housing needed for the implementation of programs on upgrading the housing stock and reducing the risks associated with residential mortgage lending), and the housing stock used for preliminary settlement of migrants. It is advisable to single out the latter from the housing stock for refugees and involuntary migrants.

Housing in housing construction cooperatives and housing cooperatives supported by state authorities and local governments

As expected, the **housing construction cooperatives** will have considerable state support. Since the major goal of such associations is providing housing to the citizens-members of these associations, rather than earning profits, it creates prerequisites for the reduction of the housing cost via the exclusion of the developer's profits (who are, as of today, monopolists and therefore cannot be easily controlled).

In this connection, it should be mentioned that according to the current Russian legislation, once a member of a housing cooperative repays his stake in the cooperative, he automatically becomes the owner of the housing premises he occupies. This makes housing cooperatives an interim (rather than a stand-alone) organizational form, because after the repayment of the first installments by its members, the operations of such cooperatives should be regulated by the laws on the associations of owners. Meanwhile, in most countries cooperative ownership of housing is a backbone of the whole system: cooperatives are successfully used to meet the housing requirements of certain categories of citizens, first of all, low-income citizens. We deem it necessary to make certain amendments to the effective laws, which will help to restore the legal framework of 'fully-fledged' cooperatives (we use the word 'to restore', because a similar institution – the Soviet era housing construction cooperatives – functioned quite successfully in 1960s -1980s. This will significantly reduce 'costs', if compared with alternative options of developing the institutions which are an absolute novelty for out country).

It is planned to make certain amendments to the effective legislation, which will create new opportunities for the development of housing construction cooperatives (the relevant draft law has already been presented and is being prepared for the second reading).

Such ‘fully-fledged’ cooperatives (which are referred to as ‘closed-type’ cooperatives in the draft law) might be more attractive in terms of housing construction to certain groups of population with specific housing requirements (e.g. families with many children, disabled persons, aged citizens, certain professional groups). In addition, the housing units in the closed-type cooperatives will have low liquidity and, accordingly, low market value, when compared with housing privately owned by citizens. Therefore, such housing units will be less attractive both to speculators, and to investors. This creates the necessary prerequisites for the state support of such closed-type cooperatives.

Provision is made for the creation of specific closed-type housing construction cooperatives with the support of state authorities and local governments. For example, it is suggested that a closed-type cooperative created by those who are on the waiting list for housing and expressed their wish to found a cooperative, will get land plots for housing construction free of charge (in all other cases, except detached housing construction, the law envisages that land auctions must be held), and, moreover, that they should be subsidized (from the federal budget as well), which will be an incentive for them to take part in such housing construction cooperatives.

Housing construction cooperatives created with the support of state authorities or local governments can also be used for tackling housing problems of those citizens, whose profession is of great social value, e.g. teachers, doctors, other public sector employees.

Housing cooperatives will require not only financial, but various organizational support as well (e.g. in the development of multiple-unit housing construction projects; assistance in the process of setting a cooperative, organization of construction works and raising loans; development of standards of activities, which, if met, will enable such cooperatives and their members to obtain various guarantees and subsidies, etc.)

The countries with fully-fledged housing markets have specially created state housing cooperatives, which implement these functions. In the foreseeable future Russia is expected to either have a similar institution created, or to have relevant functions assigned to one of its already existing development institutions.

<u>Rental of state and municipal housing, non-profit rental</u>

Non-profit rental of housing by citizens with moderate incomes, who are not entitled to social housing rental, will be further developed. Such a rental should not be aimed at earning profits. However, unlike social housing rental, it must envisage the recovery of not only the maintenance expenses incurred by the owner of the housing, but of capital expenditures on construction as well.

One possible form of such rental is rental in municipal and state housing, which shouldn’t detrimentally affect the process of housing supply from social or special purpose housing stock.

The major objective in this field is the creation of a legal framework accounting for the specificity of the agreement on the rental of housing premises based on non-profit principles. Today the civil legislation envisages that one of material provisions of a rental agreement is its term – not more than 5 years. In spite of regulatory norms about the preemptive right to sign an agreement for a new term, this legal framework is fraught with serious risks for the tenants of non-profit housing.

Here we are actually talking about the establishment of a new institution with a place of its own somewhere between social and ordinary (for-profit) rental.

Legal basis and economic incentives for, as well as organizational support of non-profit organizations, which set the target of constructing, managing and renting out housing in the medium and bottom price ranges, will be provided. In addition to renting out housing, such organizations could provide for stage-by-stage buy-back of housing by tenants. Support of such non-profit organizations could be handled by a relevant state development institution.

It is expected that the practices of such organizations existing in Europe will be applied in full in Russia. However, we should take into account the fact that the European non-profit housing associations have a long historical record and rely in their operations on public institutions rooted in the past centuries. Since Russia lacks all this, we can assume that the process of creating such organizations will be very painful and prolonged.

<u>Policy towards legal entities – corporate housing owners with high social awareness</u>

At present some enterprises provide housing to their employees, including to those who qualify for the improvement of housing conditions, on terms similar to those of social rental or special purpose housing rental. With due account for this fact, the practices of signing trilateral agreements with the participation of relevant local governmental bodies/constituent entities of the Russian Federation will be promoted. Such agreements should focus on the observance of the housing rights and satisfaction of the interests of citizens who rent the corporate housing when the enterprise is declared bankrupt or when it starts getting rid of its non-core assets.

One can assume that in the foreseeable future such enterprises will become the founders of the above-mentioned non-profit organizations, which set a target of constructing, managing and renting out housing in the medium and bottom price ranges.

<u>Subsidizing housing rental</u>

At present subsidies granted to citizens for housing and utility services payments are calculated proceeding from the level of such payments in the social housing. As a result, these payments virtually do not include the expenditures on the compensation for capital costs. Non-profit housing associations rent out housing on non-profit basis with mandatory recovery of all costs. As such non-profit housing associations are developed, and as long as the volume of housing provided on similar terms from the state and municipal housing stock might increase, we might face the problem of affordability of such rented housing for citizens with moderate income. Such citizens do not belong to the category of low-income citizens and are not entitled to housing under social rental agreements. In addition, it is expected that the number of citizens who will try to address their housing problem via rental of housing at free market prices will be growing. To maintain and enhance the sustainability of the above processes it is advisable to introduce a new institution of subsidizing housing rental. During 2009 the regulatory legal framework for a new type of subsidies could be created, which would take into account the practices of the constituent entities of the Russian Federation, firstly and foremostly, those of Moscow.

Therefore, by 2020 the structure of the housing stock by type of use might undergo the following changes:

Type of use	**2007**	**2020**
Owner-occupied housing	65 – 67%	65 – 67%
Private rental housing	8 – 10%	8 – 10%
Corporate rental housing	0%	5 – 7%

Tenancy in housing cooperatives or housing construction cooperatives on terms of membership	0%	3%
Non-profit rental and rental in state and municipal housing on non-profit terms	0%	2 – 4%
Social and special purpose rental in state and municipal housing	25%	13%

Concluding remarks

1. Latent crisis.
2. New challehes
3. Political will