

**A Decade of Housing Reform in Russia:
The Case for Complementary, Bottom-Up Approaches**

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TABLE OF CONTENTS

1. INTRODUCTION.....	1
2. RUSSIAN LAND AND URBAN PROPERTY POLICY AT A GLANCE.....	2
3. THE SOVIET LEGACY.....	4
4. RATIONALE FOR HOUSING REFORM POLICIES (1992-1997).....	6
4.1. RATIONALE FOR HOUS REFORM POLICIES: FISCAL DISCIPLINE AND PRIVATE INCENTIVES.	6
4.2. HOUSING REFORM AS COUNTER-CYCLICAL STIMULUS.....	7
4.3. LEGISLATIVE BASES AND CHRONOLOGY OF REFORM MEASURES.	8
5. DECENTRALIZATION AND PRIVATIZATION.....	11
5.1. DECENTRALIZATION.	11
5.2. FEDERAL TRANSFER AND PRICE STANDARDS POLICIES, 1997-1999.	13
5.3. HOW FEDERAL HOUSING STANDARDS WORK.	13
6. PRIVATIZATION.....	15
6.1. HOUSING PRIVATIZATION.....	15
6.2. PRIVATIZATION OF CONSTRUCTION INDUSTRIES AND INDUSTRY TRENDS.....	16
6.3. PRIVATIZATION OF MAINTENANCE AND UTILITIES.....	20
6.4. PRIVATIZATION OF LAND.....	22
7. PRICE LIBERALIZATION: REFORMING RENTS, PRICES AND UTILITY FEES.....	23
8. CLARIFYING AND EXPANDING OWNERS' RIGHTS: REGISTRATION AND CADASTER.....	31
9. SUPPORTING INSTITUTIONS: MORTGAGE MARKETS, COSTS AND AFFORDABILITY, FISCAL INCENTIVES AND DISINCENTIVES, AND TARGETED SUBSIDIES.	35
9.1. MORTGAGE LENDING.	35
9.2. ALTERNATIVE FINANCIAL INSTRUMENTS AND REGIONAL SOLUTIONS FOR HOUSING FINANCE.....	37
9.3. HOUSING ALLOWANCES.....	46
9.4. TAXATION.....	48
10. THE BEGINNING OF BOTTOM-UP ALTERNATIVES: HOME OWNERS' ASSOCIATIONS 1992-1999.....	49
10.1. SELF-ORGANIZATION IN THE HOUSING SPHERE.	49
11. DIRECTIONS FOR THE FUTURE.....	53
11.1 CURRENT DISCOURSE: PUTIN GOVERNMENT CONFRONTS PROBLEMS, POLICY POSITIONS AND THE NEED FOR BOTTON-UP ALTERNATIVES.	53

11.2. FUTURE GOVERNMENTAL HOUSING POLICY..... 55

1. Introduction

If truth be told, today neither the government, the local authorities, the enterprises, nor the households have enough money to maintain housing stock in its present form. If reform of the housing sector is limited only to redistributing the burden of cost to different players, it cannot succeed. (Puzanov, 1997)

This working paper is a critical survey of the practice and discourse of housing reform in Russia. It summarizes the main trends in housing reform and introduces a critical perspective which argues for the need to wed governmental policy reform efforts to citizens' grass-roots housing improvement efforts. We argue in favor of a shift of emphasis of housing sector reform strategy, based on the facts that overall economic restructuring and household incomes have grown more slowly than expected, and that both housing finance and strategic behavior by local governmental actors and government-linked firms in the construction and housing service sectors are bigger constraining factors than originally anticipated. We argue that local-level resources in terms of citizen financial savings and labor effort, building materials and land area constitute underutilized resources which could be used much more intensively than they currently are. Legislation to address some of these issues has been enacted, but we argue that without complementary "bottom-up" efforts led by non-governmental citizen organizations, implementation of the intent of this legislation will be difficult to achieve and the sector will continue to fail meet the needs of the population.

The differences between the English-language and Russian-language literatures highlight the problematic of the sector—improvements in efficiency which do not harm equity are needed, and the puzzle is how to encourage policies and initiatives which permit the realization of both objectives at the same time. The Russian literature gives more emphasis to the housing sector as a social good and more emphasis to the desirability of regional strategies which directly link finance, employment and housing, while the English language literature gives more emphasis to housing as an economic good and the implications of unsustainable subsidization, uncompetitive service providers and inefficient techniques in construction and utility provision.

We believe that the bottom-up resident organization holds much of the solution to this puzzle. Three important areas are given relatively scant attention in the literature on housing reform. One area is the organizational and tactical dimensions of local politics, particularly the role of citizen organizations to lobby for their interests, and their ability of to "close the gap" between government and private business in the implementation of affordable housing initiatives. Another area is the relationships between urban property policy, local economic development and job creation. The possibility of the construction and housing industry as parts of a regional counter-cyclical strategy, and the potential for local agglomeration economies, while often mentioned, appear to have been relatively neglected in empirical studies. The third area is equity as a policy goal which is given substantial attention in the literature on Russian housing allowances, but the sectoral policy as a whole raises equity concerns which are key questions in housing sector policy

(Krotov [year?], Burawoy 1999). In our opinion more attention needs to be paid to pathways in which both equity and efficiency in housing provision can be enhanced.

These observations lead us to believe that Russia's housing issues call for increases in the efficiency of service provision and finance, which simultaneously reduce costs to the population and reduce local monopolistic control of service and land provision. A number of initiatives appear to be important non-traditional tools which can help solve problems of crowding, access to new housing, and building deterioration. Such initiatives include building maintenance by residents themselves, monitoring of municipally supplied services and promotion of private-public partnerships in lower utility costs by residents, facilitation of housing exchanges, utilization of alternative building materials and construction approaches such as the completion of unfinished buildings or the sale of unfinished apartments, and the creation of public-private partnerships to provide lower cost loan funding. These measures can help reduce costs of services, make fuller cost recovery more feasible, improve property tax collection, and, with appropriate financing, contribute to counter-cyclical stimulation of local service economies through increased spending on local materials and services.

Federally legislated reforms, which are attempting to "pull" the sector toward efficient management, also require a "push" from resident levels to encourage accountability, competition and equity. This combination of push and pull in the heavily subsidized housing sector could be able to both reduce overall subsidies while improving the material situation of many residents. In other words, the direction of required changes is now clear, but delays by interested parties and collective action problems have forestalled its implementation. State-led initiatives need to be complemented by citizen-led initiatives to be successful.

After a summarizing glance at the structure of the sector, the first part of this paper gives a brief description of the previous Soviet housing system and its long-term effects and discusses Russia's efforts to privatize and decentralize the real estate sector, along with related reforms of rents, owners' rights and supporting institutions. In the second part we discuss potential reforms in sectors related to housing.

2. Russian Land and Urban Property Policy at a Glance

In 1997 the population of the Russian Federation was 148.8 million. Of this population urban dwellers comprised 74 percent, with 19% of the total population living in urban agglomerations of one million people or more. There are about 35.3 million housing units and 45 million families in the Russian Federation. The land area of the Russian Federation totals 1.7 billion hectares, making it the largest country on earth. About 2.1% of this, 35.7 million hectares, is urbanized areas.

In 1990 the average overall floor space per person was 16.4 square meters of. (Kalinina 1992). By 1997 this had risen to 18.5 square meters (Titov 2000). Western countries typically average 30-45 square meters of floor space per person (72 square meters in US).

The number of families on waiting lists to receive subsidized housing at the end of 1997 was 6,760,000 or 13% of the population.

Housing and related services (i.e., utilities, maintenance and trash collection--often called housing-communal services in this literature, abbreviated HCS) include more than 50,000 enterprises, 20 percent of which are state or municipal enterprises. The value of these fixed assets is estimated to make up 25% of fixed national capital. The sector provides work to 4 million employees. Subsidies for housing and related services amount to 4% of GDP and account for about 40% of municipal budgets (World Bank 1998).

Problems of maintenance in the sector are severe. Forty percent of buildings are estimated to require major repairs (60% in some regions). It is estimated that half of urban underground systems are out of date. Around 50,000 kilometers of pipelines are in a state of emergency and 300,000 kilometers need immediate capital repair. Between 1992 –and 1996 Russia lost 40 million square meters of housing because of decrepitude. An estimated 12-15% of housing experiences shortages of heat and water. Only 45% of urban sewage is treated according to stipulated standards.

Housing policies instituted since the breakdown of the Soviet regime have focused on privatization, decentralization of management to local authorities, and the introduction of competition in the construction and building maintenance industries. Complementary policies have operated to create a real estate and mortgage market, as well as to target the lowest income households for housing subsidies. While these policies have been partially successful, the problematics of the sector—crowding, physical deterioration and lack of access to other options, have not diminished. Russia needs to build new housing and rehabilitate older structures on an affordable basis.

Private markets have quickly emerged, but they fail to work for most Russians. Currently in big cities 1.5-2% of privatized apartments are involved in transactions annually. But the costs of transactions are high and they make up significant share of the costs of housing. There are significant regional differences in prices in the primary market. For example the average price per square meter in St. Petersburg is around \$360¹, \$220 in Ekaterinburg, \$186 in Tver, and \$250-\$656 in Moscow. These prices are only slightly lower than housing costs in Western Europe while incomes average [an order of magnitude less??].

The early optimism for rapid change in the urban sector has yielded to a more varied mixture of perspectives which recognize the difficulty that the post-Soviet policies are encountering in providing solutions to problems the majority of the population—middle and lower income groups who continue to live in small spaces and deteriorating structures—are facing. Improvements in the urban landscape now appear to be on a trajectory which will require a generation to consolidate. Local level organization and activity is a key missing link to move more rapidly toward achievement of the promise of the initial, but incomplete reforms. Accelerated housing sector growth can have

¹ Unless stated otherwise, prices are quoted in US dollars.

positive spillovers for the macroeconomy and for the development of democratic governance.

3. The Soviet Legacy

During the Soviet era, the housing sector was socialized and highly centralized.² The federal government owned about 80% of housing. The initial situation in the housing sector at the beginning of the post-Soviet reforms had four principal characteristics (Starodubrovskaya 1997):

- dominance of state ownership
- high level of management centralization
- artificial monopolization of markets
- high level of subsidies.

Table 1 depicts the dominant role of state ownership, through both productive enterprises and local governments, in the ownership of housing.

Table 1. The Structure of Housing Ownership in the Russian Federation, June 1990

Ownership	Percent
State-owned housing including:	79
local Soviets	35
enterprises and organizations	44
Publicly-owned housing (for example, by collective farms)	1
Housing Construction Cooperatives (HCC)	5
Individual private property	15

Source: Starodubrovskaya 1997, p. 61.

In some cities, such as Moscow, St. Petersburg, Ekaterinburg, and Novosibirsk state ownership reached 80-90%. It is important to note the degree (44%) to which enterprises were responsible for housing. Individual housing, which remained the personal property of citizens, was mostly concentrated in rural areas and small cities. For a long time it was prohibited to build individual housing in cities with a population of more than 100,000 people. Housing cooperatives made up a relatively insignificant share of the housing fund; their share was significant only in a few large cities.

Highly centralized management structure

The Ministry of Housing and Communal Services centrally regulated all of the main activities in the housing sphere offering services on a monopolistic basis. Like other economic branches, HCS institutions survived the period of active organizational changes

² There is a literature in English that deals with the Soviet legacy in the urban property sector: Andrusz 1992 and 1993, Kalinina 1992, World Bank 1995, Renaud 1995, Struyck 1996, and Starodubrovskaya 1997).

in the post-Soviet period and the Ministry was transformed into a committee. At the regional level, instead of management entities, territorial-production amalgamations were formed. But the functional relationships among these entities was not greatly changed.

Subsidized housing prices

Prices for housing were intentionally kept at extremely low levels and 80-90% of housing costs were subsidized by the state. Taking into account payments for communal services the share apartment fees in 1990 made up around 2.5% of an average income of worker or employee. The low level of housing fees was considered one of the most important social achievements of the Soviet system.

Technical decisions based on central management

Technical decisions in building design and communal services were oriented toward the convenience of centralized management. Preference was given to large, concentrated technical solutions, such as centralized district heating systems. The potential advantages of decentralized heating were not considered. As a result one of the principal problems was the enormous energy loss in these large heating networks. Up to 30% of heat and up to 20% of water are lost at the building level. Buildings were not built for the use of individual meters measuring heat and water consumption in apartments.

Housing policy within the Soviet system was also characterized by three tendencies which have made reform difficult (Tarasov 1997):

- The mobilization model of the Soviet economy, oriented toward the “super goals” of industrialization, reclamation of virgin land, and development of defense industry, led to chronic underinvestment in housing. The financing of housing and other social service sectors was ultimately conducted on the basis of the “remainder principle”.
- Housing was an important instrument within the system of social paternalism. For example, the trade unions were formally responsible for the allocation of housing within enterprises, but in reality the directors were the final decision-makers.
- Housing allocation and its quality reflected the double standards of Soviet times: especially provocative were the grants of prestige housing to members of the Central Committee, the Counsel of Ministers, and the Oblast Committee.

In spite of long waiting periods and crowding, the Soviet system had a relative appeal. The Soviet state significantly improved upon housing conditions of the pre-Soviet era by guaranteeing universal housing at very low rents and providing basic utility services. Subsidized housing had a progressive effect on the distribution of income in Russia.³ But

³ In fact, this progressive effect was especially important in the first few years of reforms. According to Buckley and Gruenko (1997), the transition to a market economy begot a “rapid upsurge in income inequality.” They figure that the state’s subsidization of housing served as a “cushion against the consequences of the transition.” For example, without public housing, the

the housing subsidies became burdensome over time, contributing to the federal deficit which grew to unsustainable levels in the late 1980s (11% of GDP in 1988). Housing maintenance budgets were sufficient to cover only 25-30% of the estimated required costs in 1992, so housing units fell into disrepair as maintenance was deferred (Kalinina 1992). The Soviet system created the expectation of low-priced housing and services, and embedded this expectation into the “social contract,” resulting in a lack of local and sub-local citizen organization around housing. The centralization and bureaucratization of the system permitted only a minimal space for private action in the sphere of urban development (cooperative and owner-labor construction programs), and virtually no space for organization outside of the state’s administrative-command structure.

4. Rational for Housing Reform Policies (1992-1997)

4.1. Fiscal Discipline and Private Incentives

Given this legacy, urban property reform has faced a double challenge in post-Soviet Russia: to improve the housing stock and associated services for its large urban population within the framework of short-term economic deterioration and long-term structural change. Facing this challenge has involved the attempt to move real costs onto residents, thus imposing fiscal discipline on public budgets and creating private incentives for maintenance and investment. Privatization of ownership, decentralization of public administration of urban property, quasi-privatization and de-monopolization of housing service provisions, and the creation of a legal/institutional and business framework to support private urban property markets have thus been the main planks of reform policy.

The main arguments put forth for privatization were the increase in the willingness of tenants to invest in their own properties, thereby reducing the need for state subsidy, and the stimulation of a private housing market, which was assumed to increase access to housing through greater volume of transactions (Kosareva and Struyk 1994) The fundamental fiscal and microeconomic problems which the the package of reform policies sought to change were Renaud (1995):

The large and direct impact of subsidy pressures on central and local government; the severe constraints on labour mobility and employment location linked to the system of state allocation and very long waiting lists; the inappropriate economic burden which housing places on enterprises; and the inefficient internal operation of Russian cities caused by the structure and location of the housing stock.

Other justifications for the set of policies adopted points out that the two “core economic reasons for housing privatization are to remove the large pricing distortions and to eliminate most of the pervasive ‘principal-agent’ failures in a sector where the degree of

poor would have been paying 60% of their incomes on housing during the 1990s, rather than the 20% that they did pay.

capital intensity and specificity is low and sound contractual relationships are paramount” (World Bank 1995). Under state-ownership, governments or state enterprises “have strong incentives to pursue their own interest rather than maintain buildings and preserve their capital value.” Pricing reform similarly seeks to make prices reflect the real scarcity of these things in the economy. The results of housing reform so far have accomplished privatization but not removed price distortions, and have changed the legal status of service providers and building owners without resolving the principal-agent problems.

We argue that while the reason behind the reform policies was essentially correct at the beginning of the transition period, assumptions about the macroeconomy and local political relationships were flawed. The potential for delay in structural economic reform, principal-agent problems between residents and local administrations, and rent-seeking by local administrations was not adequately factored into reform plans. Assumptions about employment, income, and prices have proved incorrect, with reform policies failing to foresee and respond adequately to inflation and industrial contraction and its associated effect on demand. For these reasons, bottom-up supporting policies (in cooperative financing, owner-housing construction, low cost technology, facilitated exchanges, as well as in regional job creation, progressive property taxation and political accountability, among others) which could aid in helping localities meet these challenges have been slow to develop. There is evidence that these types of activities may now be gathering strength, mostly outside of federal policy.

4.2. Housing Reform as Counter-Cyclical Stimulus

The intellectual underpinnings of the housing reform policy, while correct insofar as they went, failed to theorize contingencies or adaptations for the atmosphere of declining real income which occurred in the 1990s. They also de-prioritized material improvement in favor of fiscal discipline. Whether this represents the best sequencing from a macroeconomic standpoint is the subject of some debate. One of the main arguments in favor of intervention to stimulate housing markets from below is the macroeconomic role of the sector and the strength of multiplier and agglomeration effects from spending in the sector. Observers differ with respect to the strength of this effect (Kosareva and Ulyukaev year??). At one extreme are opinions which believe that the housing sector may become a locomotive of economic growth as a whole, and can ensure the growth of investment activities in other sectors and ultimately the improvement of living standards of population. At the other extreme is the view that, without securing general economic growth, the development of production, and the increase of real income of population, it will not be possible to reform the housing sector beyond a limited scale.

The truth is likely to be found between two poles (Kosareva and Ulyukaev year??). Structural economic reforms are interconnected. Many believe that Russia has now succeeded in stabilizing its economic situation, taking control over the basic macroeconomic processes, and outlining the directions of gradual restoration of economic growth. However, they caution that unresolved problems of such seemingly “secondary” sectors of the economy such as housing, education, and health-care will not

only impede the given process, but may also become insurmountable obstacles on this path. There is therefore a missing area in the literature on housing reform. If expenditure effects of construction are high, either at local or national levels, then there is a justification for stimulating this effect with soft loans. Renaud (1995), attempting to depict the housing sector's importance in the macroeconomy, makes the point that both the asset market and commodity market facets of real estate must work together to create a robust sector. But such a linkage is precisely what has yet to become widely operational in Russia—the asset market has yet to connect with the commodity market on a broad basis in the real estate sector. By locking out housing and land assets from the financial sector, Russian banking remains focused on tradeables (raw materials and import-export), weakening its ability to promote inward investment for economic restructuring. Risks of nonrepayment, administrative interference, and high transaction costs have discouraged the financial sector from involvement. This is exactly the type of situation which therefore calls for bottom-up efforts to mobilize savings and lengthen loan periods through cooperative funding and lower transaction costs through specialized bodies which do this for their memberships.

By the late 1990s diverse, regionally specific strategies for re-igniting economic activity appear to be more the actual development model than a nation-wide, integrated, industrial-financial-labor market transformation. The developments in labor markets and industrial organization which have occurred—low labor mobility except in regions of out-migration such as the north, and region-specific industrial re-structuring coupled with decentralization to sub-federal government structures--implies a much closer relationship between local institutional and fiscal arrangements and housing outcomes than the national housing policy instruments of the initial reform period had assumed. Decentralization in housing policy mirrors a larger macroeconomic phenomenon of decentralization. Thus regional politics and socioeconomic developments have become necessarily relevant to housing policy outcomes.

4.3. Legislative Bases and Chronology of Reform Measures

Much legislation has been passed since 1991 regarding real estate property rights, housing, and taxation.⁴ A summary of this legislation is offered in Table 1. Two basic points must be made about this legislative framework. First, in most cases urban land has remained under the control of local government regardless of the privatization of structures constructed upon it. local governments are given broad powers to register land and property rights, tax, restrict buildings, and allocate vacant land.

⁴ Kosareva and Ulyukaev (year??) and Starodubrovskaya (year??) offer summaries of the reform policies and legislation, Titov (2000) and O'Leary (1997) provide detailed discussions, and an exhaustive compendium of early legislative initiatives is found in the World Bank's paper on housing reform (1995).

Table 2: Essential Federal Legislation for Real Estate Reform, 1991-1999

Legislation	Date	Main Objectives
Land Code	1991	allows individual landowners to use their land freely, so long as the owners do not violate others' rights or harm the environment. ⁶
Law "On Privatization of the Housing Stock in the Russian Federation"	1991	Allows public housing to be privatized.
Law "On the Fundamentals of Taxation"	1991	(1) defines the general principles for the formation of the tax system, (2) lists what taxes are federal, regional, and local, (3) outlines the rights and obligations of taxpayers. (Not directly related to real estate.)
Law "On Payment for Land"	October 1991	(1) mandates that land owners and users must pay real estate taxes, (2) establishes basic procedures for calculating and collecting land taxes, (3) sets average land tax rates. ⁷
Law "On Fundamentals of Urban Planning"	July 1992	introduces three new concepts: "(1) planning is a local function rather than one imposed by central government; (2) planning documentation is available to the public; and (3) planning documents are considered legally binding." ⁸
Law "On the Fundamentals of Federal Housing Policy"	December 1992	Mandates housing subsidies for poor households.
Program for Housing	June 1993	Amplifies previous legislation and sets vague goals for housing reforms, with a special focus on promoting housing construction.
Russian Federation Constitution	December 1993	Establishes the general principles and legal basis for land ownership for individuals. ⁹

⁶ According to O'Leary (year??, p 16), the Land Codes is the "fundamental legal document governing land relationships." The Land Code, however, is unclear regarding private enterprises' land rights.

⁷ "Localities are permitted some flexibility in assessing land taxes by dividing the city into various tax zones, provided the zones correspond to the economic value of the territory and Master Plan and collectively do not exceed the average tax rate for the region" (O'Leary and Kaganova year??, p. 13).

⁸ O'Leary (year??) p. 18.

⁹ This includes allowing individuals to sell, give and exchange land that they own. However, the Constitution is unclear regarding what rights private enterprises have for owning land.

Civil Code	1994	(1) Clarifies the rights of private landowners; (2) lists conditions for when the government may withdraw those rights; ¹⁰ and (3) regulates land transactions.
Tax on Personal Property	May 1995 (?)	Establishes the legal basis and procedures for assessing and collecting personal property taxes, including taxes on housing and buildings.
Resolution No. 753 “Your Own Home”	June 1996	Sets organizational, legal and financial conditions to: (1) increase financing for construction and (2) reduce the costs of construction.
Decree No. 425 “Conception of the Reform of the Housing-Communal Sector of the Russian Federation” ¹¹	April 1997	Focuses housing reform on: (1) de-monopolizing housing-related services by way of regulations and encouraging competition, and (2) reforming housing management. ¹²
Urban Development Code	May 1998	Grants most authority over land control and development to local governments. ¹³ Permits local governments to implement “legal zoning” consisting of zoning maps and use/building standards.
Law on Registration	1998	Establishes a unitary registration system (not yet fully implemented)
Law on Mortgage	1999	Establishes a comprehensive law on mortgage lending

One of the most important pieces of economic reform legislation that remains under debate in the State Duma is the Land Code. When enacted, the Code will firmly establish real estate ownership rights in civil law.

During 1998-1999, several advances were made that contributed to consolidating the institutional and legal framework to stimulate privatization of the real estate sector:

- the property rights registration system passed into law and began, slowly and unevenly, to be implemented throughout the country,
- the mortgage law passed,

¹⁰ This second provision was not yet enforced as of mid-1997 [Malcolm, can we say as of mid-2001?? otherwise the footnote should be reworded or deleted.].

¹¹ Cross-listed with Table 10 (Subsidies) [Malcolm, Table 10 is actually called something else—the number needs to be checked in any case after we do the major editing.].

¹² Some observers call Decree No. 425 “the most important document, determining the course of the reforms in [the housing] sector” (O’Leary (year??), p. 50).

¹³ However, the federal government remains responsible for general policy goals of land use and planning. The Code also directs local governments to ensure that land use regulations and decisions are accessible to the public and to allow the public to participate in the decision-making process.

- the federal government licensed the first title insurance companies, and
- experimental property tax reform laws were adopted (*D. Greer, BISNIS Bulletin, April 2000*).

The next sections review the main thrusts of the reform policies in more detail.

5. Decentralization and Privatization

Housing and urban property policy in Russia has been focused around the dual processes of privatization and decentralization. Decentralization seeks to shift costs from the federal level to local level. Local governments in turn immediately seek to shift this cost onto its population. People in most parts of Russia, however, simultaneously have seen incomes and savings destroyed by inflation, devaluation and de-industrialization and is thus in a weak position to absorb these costs directly. The share of housing costs in the household budget has been forced to rise dramatically, from approximately 2% of average income in 1994 to 9.2% in 1996 and an estimated 32% in 2000 (Talonov 2000). In a political sense, the key question from local and federal government standpoints, is: “How rapidly can this share rise without social resistance?” In an economic sense, the key question is, “Can the housing stock be barely maintained at current levels of expenditure?”

5.1. Decentralization

In 1991 the federal government began turning over ownership of its housing units from the federal government to the municipal governments. Therefore, those units that have not been privatized by their occupants now belong to municipalities or state and private enterprises. Enterprises also have been turning over their units to the local governments, albeit at a slower pace (Struyk et al 1997).¹⁴ In addition to gaining ownership, municipal governments have gained more control over decision-making during the 1990s. While municipalities have gained property and autonomy, decentralization is a double-edged sword. Financial support from the federal government for the housing sector has all but disappeared.¹⁵ The section on taxation later in this paper discusses how local governments have attempted to increase their revenues in the absence of federal support.

The decentralization process began in 1992 with emission of the Law on Fundamentals of Urban Planning, which delegated urban planning from the federal to the municipal governments. In 1995 the Law on Local Self-Government established that municipal governments have the authority to regulate zoning and development of their respective land. The latest legislation, the Urban Development Code of May 1998 further expands

¹⁴ During the Soviet era, state enterprises often owned and managed apartment buildings so as to house their own employees. [I think this footnote could be placed earlier in the text, when the first reference is made to housing being constructed by productive enterprises, in Section 3, on the page where Table 1 is.]

¹⁵ Only certain groups, such as retired military officers and victims of the Chernobyl disaster, still receive federal support (Kosareva and Struyk 1997).

municipal government authority over land use and planning. Still, the federal government retains control over federal land and the Ministry of Construction administers some regulations that all municipalities must theoretically follow (O'Leary 1997). Furthermore, the contentious question of federal transfers to regional and local budgets continues to undergo regular modification.

As municipalities have faced budget crises, they have been forced to make unpopular decisions, even during pre-election campaigns. Expenditures for other social services such as education, health-care, have been "eaten-up by housing subsidies." At the same time, the collection of housing payments, in real terms, was growing very slowly. This collection rate is a result of: (1) more privileges have been granted, (2) mass non-payment of salaries, and (3) residents' defaults. These topics are treated in more detail in Section 7 in the discussions on raising rents and on subsidies.

Decentralization is far from complete. Sometimes the existing legislation only vaguely distinguishes the responsibilities of the federal government from those of the local governments (Kaganova year??). It is also important to note that decentralization has not occurred uniformly throughout Russia. Russian cities are highly differentiated according to pace of development, directions, and complexity of housing reforms.

Some Russian observers are sharply critical of decentralization and its linkage to continued federal financial support. Kryukov (1997) sees a linked problem of effective demand and decapitalization of the housing market as essentially a failure of federal finance, beginning from the premise that a significant state presence in property ownership and management is a historical fact largely unchanged by decentralization. He uses Moscow as an example of how continuing state management in the real estate sector should be managed. Kryukov's main point in highlighting the Moscow experience is that urban property reform can only move forward as part of a local economic reform package which seeks to find a balance across incomes, finance opportunities and housing costs. If local governments are not in a position to play this role, then a federal presence may be preferable.

5.2. Federal Transfer and Price Standards Policies, 1997-1999

To make the federal policies of decentralization work, the federal government has made financial transfers to the 89 oblasts and regions of the federation. Since 1997 federal policy to support decentralization has been linked to cost containment through standardization of cost parameters. Federal transfers are now being used more explicitly as a method to reward regions which are conducting policy in line with federal priorities. The reform¹⁶ introduced a new conceptual approach for granting financial assistance to local and regional governments of the Russian Federation from the federal budget which seeks to “pull” local and regional administrations into conformity with federal priorities.

Before the approval of federal standards, the basic principle in the distribution of federal transfers was the equalization of the level of regional budget support. This system reinforced the inefficient financing of HCS. The subsequent policy of distribution of federal transfers among regions is based on requirements for budget expenditures for HCS determined in accordance with established federal standards. The following documents were approved dealing with the further development of this policy:

- Program of De-monopolization of Housing-Communal Services, approved by the resolution of the Government of the Russian Federation No. 1613 of 1997;
- Resolution of the Government of the Russian Federation “On Federal Standards of the Transition to the New System of Payments for Housing and Communal Services” No. 621, dated March 26, 1997. This resolution determined clear indicators for the determination of efficient cost for housing-communal services and financial sources for regional and local administrations;

This federal strategy is being pursued because of 1) the limitations on the available measures open to federal authorities to influence the reform of HCS, as power over HCS is concentrated in local and regional governments and local self-government bodies; 2) the necessity to increase the economic efficiency of these resources and their equal distribution.

Regional and local governments control the implementation of housing-communal reform including budget expenditures. At the present time expenditures for HCS often represents more than 50% of municipal budgets. As a result under equitable federal inter-regional budget allocations, the situation arose in which unreforming regions were being implicitly subsidized by reforming regions.

5.3. How Federal Housing Standards Work

The initial federal standards for marginal costs of HCS were differentiated according to economic regions of Russia (apart from territories of the Far North and similar regions). Standard costs were calculated on the basis of an average of existing costs for HCS in

¹⁶ Decree No. 621, “On Federal Standards of Transition to the New System of Payment for Housing and Communal Services”, was approved by the government of the Russian Federation on 26 May 1997.

different regions. Analysis has shown substantial cost differentiation within economic regions. This key parameter stimulates the reform in HCS in the direction of the reduction of total resources for HCR through de-monopolization of activities, implementation of resource-saving technologies, and the strengthening of control over natural and local monopolies. From this point of view, the analysis demonstrates great regional opportunities for cost reduction. Resolution No. 621, dated 26 May 1997 established federal standards for 1997 as shown in Table 3.

Table 3: Federal Standards for for Housing and Communal Services Payments in 1997.

Social norm for housing space	
Single persons	33 square meters
Family of two	42 square meters
Family of three or more	18 square meters/person
Percent of communal housing services costs paid by Citizens'	35%
Maximum permissible share of citizens' own expenditures for housing payment ¹⁷	16% of aggregate family income
Marginal costs of communal housing services by economic regions (average for Russia)	8,200 rubles per month per square meter

Source: Kosareva n., Ulyukaev A., (year??) p.64.

The share of payments from the population for communal housing services under 1997 federal standard is 35% on average. Regionally, these payments range from 15% in Kursk and Ulyanovsk oblasts and 17% in Moscow to 69% in Samara oblast.

The amount of payments by the population for a standard apartment (including communal services) differs across regions by as much as 200%. Higher payments for apartments are determined not by the higher share of the population's coverage of costs, but by the higher level of the costs themselves. Thus, for example, in Tver and Yaroslavl oblasts, where the financing of costs by the population is 23% in both places, the cost of a standard apartment and of communal services in Yaroslavl oblast is 21% higher. A comparison of Tver oblast and Moscow reveals an even greater contrast. At the same time that share of costs covered by population in Moscow is considerably lower (17% versus 30%), Moscow residents actually pay 40% more for the standard apartment and communal services than do residents of Tver.

In the future standards will be calculated annually. These standardized measures of cost are thus key parameters that are intended to stimulate the implementation of HCS reform in the direction of lowering total costs of communal housing services through de-monopolization, development of competition, introduction of resource-saving technologies, and tightening control over natural and local monopolies.

¹⁷ This percentage reflects social norms and communal services consumption norms.

In summary, decentralization has effectively removed primary responsibility for housing and communal services away from federal government and onto local governments and residents. This development has been a fiscal savings to the federal government, but has rarely improved management and incentives. Local governments have proved to be slow to change in protecting monopoly rights on land allocation and local monopoly providers of housing services, including utilities. New policies for federal standards and budget transfers attempt to pressure local bodies on these areas exerting a “pull” towards reform. Bottom-up initiatives, however, to exert local pressure to “push” in these same areas, remain in their infancy.

6. Privatization.

6.1. Housing Privatization.

Privatization officially began in 1991 in tandem with decentralization. Units of buildings and land have been privatized separately. Privatization of apartments and buildings proceeded much more rapidly at the beginning of the transition, then leveled-off after 1995. Estimates vary, but it appears that by now about 54% of all public housing units have been privatized. Table 4 gives some indication of how privatization has progressed over the decade. Privatization was practically free of charge, especially after 1992 when the original voucher scheme which charged for space above a given norm was replaced with a costless privatization for entire living units. It was a voluntary process, and has no time limit.

For the time being additional privatization on any large scale appears unlikely. Compared to renting under highly protected conditions the relative benefits of private ownership may be outweighed for many by the risks of large potential maintenance charges and tax burdens in the future. Further privatization is anticipated in those cases where the tenant wishes to pass on the unit in inheritance, move to a new location, rent to another party, or take greater control of the apartment for rehabilitation and repair.

Units in privatized and in municipal ownership often share the same building, complicating reform of service and utility arrangements. It is probably opportune for local governments to consider the option of subsidizing purchase arrangements. This step would encourage additional privatization and move maintenance costs to the privatized owner. While still a charge on the municipal budget, it would be a finite and known amount, as opposed to the open-ended and unknown amount of future subsidization of rental units.

Table 4: Cumulative privatization of public housing

Year	Units Privatized (000s)	% of Housing
1990	53	0

1991	175	1
1992	2,790	9
1993	8,590	24
1994	10,960	32
1995	12,500	36
1996	13,690	39
1998	14,800	42
1999	[????]	54

(Source: Puzanov and Koutakova 1997, p. 48; Titov (year??), p. 105)

Privatization of housing has been uneven geographically. It varies between 30 and 95% of the total stock in different cities (Kaganova 1998). Several analysts attribute this variation to a lack of clear federal guidance; without such guidance, rates of privatization depend on the policies and institutions of different municipal governments. For example, privatization occurred more rapidly in Moscow than in most other cities because the municipal government there had more liberal transfer laws and it actively promoted privatization to the public (Kaganova nd). Despite much regional variation, Kosareva and Struyk (1993, p. 91) assert that Russia generally has “acted boldly to effect rapid privatization”. Uneven privatization, however, dilutes the goals of privatization to give investment and maintenance responsibilities directly to those who benefit from them. Instead, the patchwork of private, municipal and enterprise housing creates a complicated set of incentives to pass costs around or to seek rents.

As for the privatization of land, Stephen Wegren (1997) asserts that “an important achievement of land reform was to put a large number of land plots into individual hands, even if the total area of these plots was not very significant.” In the city of Kostroma (the focus of Wegren’s research), over 95% of land purchases were by individuals (and the rest by enterprises). These were very small purchases - on average about 0.05 hectare (or 50 square meters) – but it shows that many people are willing to participate in the real estate market.

Struyk and Daniell (1995) found certain instances when housing units are more likely to be privatized. For example, residents living in expensive apartments are more likely to privatize. Since all units are privatized at little or no cost to the future owner regardless of the value of the unit, there is much incentive to privatize the better units that later could be sold or rented privately for a substantial profit. Also, in cities where housing prices are high relative to incomes, people are more likely to privatize. The incentive is modest, however, because it is offset by other constraints, such as distorted prices, vague ownership laws, and inadequate institutional support (Struyk and Daniell 1995).

6.2. Privatization of Construction Industries and Industry Trends

Construction industries in the Russian Federation have been largely privatized. This does not mean that a competitive and thriving construction industry has emerged. In many

locations a small number of construction firms dominate the local industry. The share of housing built by state and municipal enterprises and organizations decreased from 80% in 1990 to 20% in 1998.

The housing construction industry of the Russian Federation now is much smaller in size compared to the last years of the former Soviet Union. In late 1990s the industry produced 32-34 million square meters compared to 72-73 million in the late 1980s. But on the other hand the industry underwent significant changes and reacted in the direction of the demand of private investors. Capital repair also experienced a slowing trend: in 1992 around 22 million square meters were repaired compared to 4.9 million in 1998.

Table 5. Housing Construction, 1995-1999

	1995	1996	1997	1998	Jan.-Sept. 1999
Housing construction, ml sq meters	41.0	34.3	32.7	30.7	16.7
% change compared to previous year	104.6	83.6	95.3	93.8	117.9

Source: Voprosy Statistiki 2000, N1, p. 62

According to various estimates, construction companies are working at 60-80% of their capacity (Gritsyna and Edlarov year??). This under-utilization is a result of the decrease of financing of HC from the federal and local budgets and by insufficient housing demand in comparison to the level of production capacity of the construction industry. The downturn has caused the outflow of skilled labor force from construction enterprises and substantial depreciation of equipment and production assets. Labor productivity has decreased commensurately. Construction technology and projects have not yet focused on cutting costs and increasing investment profitability. The existing difference of housing prices between the primary and secondary markets, relatively high costs, and long periods of construction continue to make the industry less attractive for private investments (Gritsyna and Eldarov year??).

The reason for this situation is largely due to the fact that price liberalization related to macroeconomic reforms resulted in drastic price increases for various building materials and hence a raise in the cost of construction (Daniell and Struyk 1997, Renaud 1995, Belkina 1994). For example, in 1993 housing construction costs increased by 800% in Moscow. The mean housing price rose sharply as well, but only by 700%. As a result, the ratio of new home sales price to construction costs declined from 3.0 in 1992 to 1.3 by the end of 1993 (World Bank 1994). In 1997 in the city of Pskov, the average cost of newly constructed housing was \$432/square meter, while pre-existing housing was selling for anywhere from \$210-350/square meter (Kaganova 1999). Such low price-to-construction cost ratios make new housing unprofitable for developers; there is little incentive to build new units. To make matters worse, municipal governments often have charged high fees and taxes on construction. The World Bank 1994 report estimated that municipal levies were equivalent to a 220-340% value added tax on housing construction.

As a result of high construction costs and taxes, new housing construction declined sharply in the early 1990s, to just 60% of what it was in the late 1980s (World Bank 1994). Use of alternative construction technologies is limited, partially by restrictive building codes.

Owner-built homes, completion of abandoned construction projects and constructing buildings without complete interior furnishings are all strategies which could reduce construction costs to increase the supply of affordable housing. The literature on the privatized construction industry tends to focus on these and on the need to increase competition. Suggestions include the splintering of large, integrated companies into multiple firms, and promoting competition for large constructions projects such as those managed by local governments. (sources).

Small construction companies are still in an embryonic stage, but trying to increase their volume of production without skilled workers, specialists, and appropriate assets. Nevertheless, the growth of smaller construction firms will be crucial for lowering overall costs through increased competition and for introducing cheaper, alternative building techniques and greater reliance on local materials. Citizen mobilization to reduce exaggerated municipal fees and red tape can further cut new construction costs.

Private construction of own housing has resurfaced as a basic means to achieving housing solutions in many areas. Construction activities by individual developers increased from 22% in 1995 to 39.4% in 1998 of total construction activities, and the share of construction enterprises and organizations decreased respectively from 78% to 60.6%. Besides the North Caucasus economic region, where the volume of individual housing construction is traditionally high, this method of improving housing conditions for the population is gaining importance in the central part of Russia and in the regions with strongly developed national traditions. The distribution of the area of individual housing built by the population based on the provided credits according to economic regions is presented in Table 6:

Table 6. Regional Distribution of Owner-Built Housing, 1995-1998.

Regions	Percent in the Russian Federation		Percent of total housing construction	
	1995	1998	1995	1998
Russian Federation	100.0	100.0	22.0	39.4
North	2.0	1.9	13.6	32.6
North-West	2.1	2.4	10.3	20.5
Central	14.2	17.3	15.5	26.2
Volgo-Vyatka	5.1	5.1	22.8	38.4
Central-Black Earth	7.6	7.2	27.5	43.8
Volga	10.5	16.7	21.9	47.1
North Caucasus	26.6	24.0	52.0	73.4
Urals	16.4	13.5	26.4	40.3
Western Siberia	6.7	6.1	14.0	27.6
Eastern Siberia	2.6	2.9	11.3	31.8
Far East	5.8	2.5	27.3	37.9
Kaliningrad oblast	0.4	0.4	12.5	26.3

Voprosy Statistiki 2000, N1, p. 63

In 1998 in 25 regions of the Russian Federation more than half of the constructed housing area was built by its occupants:

- 50-60% in the Republics of Karelia, Mordovia, Bashkortostan, Chuvashia, Udmurtia and Kabardino-Balkaria, Altai krai, Arkhangelsk, Moscow, Belgorod, Tambov, Orenburg, Magadan oblasts;
- 60-70% in the Republic of Buryatiya, Stavropol krai, Rostov oblast;
- 70-90% in Republic of Kalmykia, Sakha (Yakutia), Altai, Adygeya, Krasnodar krai, Jewish autonomous oblast;
- 91% in the Republic of Dagestan;
- 100% in the Republic of Ingushetiya.

While owner-built housing is one path toward affordable housing, a more comprehensive approach is needed to make housing cheaper. According to the First Assistant Head of the Gosstro (Construction Ministry), S. Kruglik, there are several ways to achieve this goal (Segodnya, 06.05.2000):

- There is no working regulative system for the development of cities. Rational determination of the location of housing construction, its type the location of industrial enterprises will allow a savings of 10% of resources.
- Currently it can take 2.5 years from the time of application for construction till the time of getting permission for a land plot. On average, at the regional level it is necessary to get 40-50 permissions, and in capital cities up to 250. This procedure

makes up 10% of construction costs. It is necessary to reduce the time to 20 days and to give applicants the opportunity to do it at a single place.

- The share of new technologies and materials in the costs of housing is 65-70%. It is necessary to overcome the stereotype that everybody is looking for brick houses. There are already a lot of variants of light skeleton buildings, and monolith-housing building is coming back to Russia. About 80% of domestic brands for materials correspond in quality with European standards. Unfortunately the prices are only 10-15% lower compared to imported materials.

The goal of the Federal Target Program (1996) to achieve to costs per square meter of general area equal not more than 2 months average money income per capita of population through the application of more efficient construction technologies has not been achieved yet. In Russia the price per square meter in the primary housing market in the second quarter of 1999 represented 4.6 monthly average incomes. To implement the policies which Kruglik calls for, the key ingredient of citizen groups mobilized for housing improvement must become more widespread.

6. 3. Privatization of Maintenance and Utilities.

The emergence of competitive enterprises to manage the maintenance and utility operation of Russia's urban housing sector is another area in which the Russian Federation is making a gradual attempt to foster cost-containment and efficiency through competition. Authors under review have tended to focus on different aspects of this issue. Several analysts focus on the mechanics and results of competition for service contracts while others focus on the creation of district housing agencies and the evolution of the oblast housing authorities. Common across these analyses is concerns about anti-competitive tendencies, lack of clarity between the roles of municipal government as customer and service provider, tax implications, and pricing policies in such enterprises. In each case proper monitoring of the maintenance and utility provider is crucial to ensuring performance. To carry out this monitoring, improved residents' organizations are called for. Neither federal government nor municipal government will have the incentives nor be in a position to effectively monitor maintenance activities. Reform in this area, however, is actively resisted by threatened interest groups in many cities. Without organized pressure from residents, it is doubtful that these cities will rapidly alter their structures, prices, or quality of maintenance services.

Lee et al. (1997) focus on the experience of Moscow in organizing competitive bidding for service contracts where customer satisfaction with the competitive maintenance providers increased somewhat between 1992 and 1995. By 1997 Moscow had managed to put about 30 percent of municipal housing stock under competitively awarded maintenance contracts. Most other Russian cities have put little of their housing stock under competitively awarded maintenance contracts, even though experiences in Moscow and Cherepovets have demonstrated costs savings of about 11 percent through such contracts. Lee's tables show that by the end of 1996 only about 450,000 (1.5%) of housing units in the Russian Federation were under maintenance by competitively chosen

contractors. The analysis by Lee et al. (1997) concludes that introducing competitive relationships into maintenance services will be a slow process, and offers several implementation suggestions including clarification of customer and provider roles, initiation of contracting for well-defined and easily monitored tasks, contractor performance monitoring (by municipalities, not residents), rigorous payment schedules, and standardized fees.

Kryukov (1997), analyzing maintenance systems in St. Petersburg, makes many similar points as Lee but focuses more on the oblast-level housing authority. The process of separation of functions of customers and subcontractor (housing maintenance, contractual relations) was the major thrust of maintenance reforms in St Petersburg in 1997. The establishment of district housing agencies in particular became an important component of intensive reform of city HCS. According to reports of Gosstroy (Ministry of Construction) of the Russian Federation, at the end of 1997 more than 1,000 such customer agencies were functioning in the country. They ordered around 40% of all works and services of this branch of the economy, but much of this was ordered from subcontractors under the control of the same municipal authorities, and the separation of functions, flow of funds, and accountability between them often remains obscure.

Changing housing management is a painful process which ultimately pits the interests of various social and professional groups against each other at the municipal level. Final decisions are usually the result of complicated compromises, and do not necessarily conform to purely cost-minimizing criteria. In some cases the customer agency is established as an additional link without any changes in the existing management system of the branch, in particular with the remaining housing trusts (e.g., in Orenburg, Cherepovets). There are as yet no official guidelines available from the federal level to deal with the organization of customer agencies (i.e., legal form, structure, personnel structure) (Kryukov 1997).

Another key obstacle in the implementation of management reforms is the VAT problem. Once the functions of customer and subcontractor have been separated, a value-added tax (VAT) applies to their transactions. This situation does not occur in a single organization like a housing trust, because the services within the category “payment for apartment” (maintenance and current repair) are VAT exempt. The federal government prepared an appropriate law to modify this, but did not protect it actively enough in the Duma and so the VAT remains. Even more obvious is the decision to not include VAT exemptions for housing services in the new Tax Code. In spite of this obstacle, Kryukov points out that price reduction as a result of competition is often more significant than the additional VAT charged. In 1997 there was a significant increase in the competitive selection of subcontracting organizations in Moscow and Nizhnii Novgorod (50% of the housing stock is now covered). In S. Petersburg competitive bidding was conducted in nearly all districts during the fourth quarter of 1997. Despite these successes in the “three Russian capitals” the development of this process in other cities continues to be very slow (Kryulov 1997).

In a slightly different analysis than that of Lee et al. (1997), Kryukov (year??) blames the oblast level management structure for preventing the spread of competitive contracting. In at least half the Federation subjects (i.e. oblasts, krays, etc.), the remains of the previous vertical management structure, the Oblshilkommunkhoz (Oblast Housing Communal Economic Units), continue to operate. According to law these entities must provide support to municipal housing enterprises, but in reality the Oblshilkommunkhoz are continuing to manage the housing enterprises. They typically create obstacles to the transfer of heating stations and other infrastructure into municipal ownership, instead of maintaining them under the ownership the subject of the Federation.

Salient characteristics of the Oblzhilkommunkhozes are:

- they combine economic functions (procurement, utility operation) with functions of administrative management (preparation of normative documents); approximately 1/3 of their personnel is financed from oblast budget independently from the results of their activities;
- they retain a monopoly over the supply of materials and technology to housing and communal enterprises;
- they are direct, although informally manage much municipal property (but they are not oriented on municipal interest);
- their interests contradict the development of competitive relations in the housing sphere (because new subcontractors prefer other supply sources) as well as in consulting and other services.

Municipalities, through municipal housing enterprises, continue to finance the activities of the Oblzhilkommunkhoz more as a tradition (considering them as a part of the old vertical management) than out of need for their services. Until now only oblast centers have broken this dependence. Kryukov (year??) believes that it is feasible to transform the Oblzhilkommunkhoz into structures which will specialize in new kinds of services (such as assistance in the legal and regulatory framework, personnel training, feasibility studies for resource- and budget saving projects) to local authorities, municipal housing organizations and enterprises. This process is already taking place in some regions. For example, in Nizhnii Novgorod oblast there is a state enterprise “Oblkommunservis (Oblast Communal Service) which concentrates its activities on this set of functions. The logical continuation of such reformation could be the financing of such organizations through the oblast budget with concrete orders of oblast administration or on the implementation of pre-defined strategic goals (for example, the reduction of subsidy share for HCS in the consolidated oblast budget)

6.4. Privatization of Land

The new Constitution of the Russian Federation established the rights of citizens and their associations to hold land in private ownership. According to the Constitution (part 2, article 36) owners may have free ownership, use and possession of land, if it does not damage the environment and does not violate rights and legal interests of other persons. Decree of the President No. 1767 (October 23, 1993) “ On Regulation of Land Relations and the Development of Agrarian Reform in Russia” gave citizens and legal persons who are owners of land plots the rights to sell, inherit, transfer as a gift, mortgage, exchange, and transfer land as a contribution to the capital base of joint-stock companies, partnerships, cooperatives, including enterprises with the participation of foreign capital. The Decree of the President No. 2287 (24 December 1993) “ On the Correspondence of Land Legislation of the Russian Federation with the Constitution of the Russian Federation” made significant changes in a number of previous laws dealing with land relations and changed a significant part of the Land Code to accommodate private ownership.

In spite of this legislation, the rights of legal entities to own land remain somewhat ambiguous which complicates ownership rights in multi-unit housing. While privatizing enterprises can clearly own land, the Constitution and Civil Code do not explicitly state that legal entities can own land. The procedures for transfer of land by legal entities are also not clear. Chapter 17 of the Civil Code which deals with land transactions will not be valid until the new Land Code is enacted. In practice this means that the land under most multi-unit buildings has remained municipal property, and even when a building or homeowner association is formed, the building’s underlying land area remains municipal property.

7. Price Liberalization: Reforming Rents, Prices and Utility Fees

Together with privatization and decentralization, the third main plank of housing reform in Russia has been raising rents, prices, and utility and maintenance fees toward market levels. There are two main reasons for doing this: (1) to eventually cover the total cost of public housing units in order to ease the fiscal burden on federal and local governments, and (2) to stimulate the private housing market since raising rents increases the value of a unit, thus spurring sales (Kosareva and Struyk 1993).

During the Soviet era, the housing sector was heavily subsidized. The Soviet state was able to afford this until the 1970s, when inflation and the low quality of housing construction together combined to increase the costs of maintenance. The state responded by increasing subsidies rather than raising residents’ rents and fees. In fact, fees for housing maintenance (including repairs) and utilities remained unchanged since 1928. By the early 1990s, only 2% of housing costs were covered by residents’ payments. By 1996 this figure had risen to 9.2% (Talonov 199? *Rossiski Ekonomiki*, No. 8) of their incomes for housing (including maintenance and utilities). Nevertheless plans are in place to move to full deregulation of rents by 2003.

With increasing costs for maintenance and utilities and shrinking budgets, municipalities have been unable to care properly for the public units. In December 1992, the Law on Fundamentals of Federal Housing Policy authorized municipal governments to raise rents and utility fees to fully cover costs. This increase was supposed to occur gradually, over a five-year period. In 1996 the law was amended to extend the transition period to ten years, until 2003. This extension is intended to compensate for macroeconomic problems, such as declining real incomes and widespread wage arrears, which inhibit the residents' ability to pay and galvanize popular opposition to higher rents.

From late 1992 to late 1995, housing payments (rent plus utilities) across Russia rose by about 230% in real terms. Meanwhile, average real household income stayed nearly the same or even dropped slightly. For some cities, the increase was even more drastic. For example, in Moscow rents as a percentage of income rose 730%; the rent-to-income ratio grew from 1.3% in 1992 to 9.5% in 1995. The poorest quintile of the population was especially hard-hit. Their rent-to-income ratios rose from 2.5% to 18.6% during those three years.¹⁸ The highest quintile's rent-to-income ratio rose only from 0.5% to 3.8% (Boby and Lee 1997).

By 1996, the share of costs covered by the renting population (without overhaul maintenance and heavy repair) increased to 20-40% (up from 2-3% in 1992). By the end of 1997, the average level of housing communal expenditures for a standard apartment in Russian cities was 160,000 rubles per month (about \$32). It is important to note, however, that price liberalization has occurred unevenly across regions. Prices may vary by as much as 155,000 rubles from one oblast to the next.¹⁹ Some regions, such as Karelia Republic, are spending 70% of their budgets on housing (Vilenskii and Domnina 1999). In Cherepovets rents more than doubled in November 1995; another big increase followed in August 1996. Now the level of cost coverage by population here is 40%. Approximately the same level of coverage was reached in Petrozavodsk and Orenburg, and in Samara it is significantly higher.

Table 7.. Types of Housing Policy and the Amount of Housing Payments by Regions (IV quarter of 1997).

Region	Policy of growth containment of payment for housing and communal services	Policy of accelerated growth of payments for housing and communal services
Regions with relatively low housing maintenance	55-75 thous, rubles:	160-210 thous. rubles:

¹⁸ If it were not for housing subsidies, the rent-to-income ratios for these poorest households would be 31.3%. [this footnote is the first hint that in addition to subsidized rents, utilities, and maintenance fees, there are also other housing subsidies. this fact should be discussed/mentioned in the text, not introduced in a footnote???)

¹⁹ Intra-regional differences also are significant. In the North, Northwest, Central-Chernozem, Volga, Ural, and Siberia, households in one city may pay 2-3 times more for housing than in a nearby city with comparable conditions.

expenditures (North Caucasus, Central Chernozem, Volga)	Ulyanovsk, Kursk, Penza	Nal'chik, Lipetsk, Stavropol'
[Moderate expenditures?] Central zone of Russia (Northwest, Central, Volga-Vyatka)	70-90 thous. rubles: Bryansk, Tula, Smolensk, Orel, Ryazan	165-210 thous. rubles: S.-Peterburg, Pskov, Novgorod
Regions with relatively high housing maintenance expenditures (North, Urals, Siberia, Far East)	85-125 thous. rubles: Perm', Barnaul, Krasnoyarsk, Izhevsk	More than 210 thous. rubles: Yakutsk, Blagoveshchensk, Yuzhno-Sakhalinsk, Khabarovsk, Petropavlovsk- Kamchatskii, Vladivostok, Birobidjan, Norilsk

[Source?]

Compared with individual income levels, the expenditures for housing and related services are especially high in Moscow and Leningrad oblast, Vladimir, Ivanovo, Petrozavodsk, Rostov-on Don, Blagoveshchensk, Khabarovsk, Vladivostok, Petropavlovsk-Kamchatskii. Meanwhile, in Bryansk, Ulyanovsk, Ufa the share of expenditures for housing communal services made up a relatively small share of family budgets (see Table 9).

Table 8: Changes in Costs and Prices of New Housing, 1992-1995 quarterly, US\$ per square meter)

	Average Prices per square meter	Construction Costs per square meter, Brick Buildings	Construction Costs per square meter, Wooden Buildings
1992, I quarter	245	52	40
1992, II quarter	265	80	61
1992, III quarter	108	48	37
1992, IV quarter	175	82	62
1993, I quarter	185	58	44
1993, II quarter	194	61	47
1993, III quarter	314	205	159
1993, IV quarter	380	221	168
1994, I quarter	410	286	201
1994, II quarter	415	328	215
1994, III quarter	400	299	193
1994, IV quarter	420	269	203
1995, I quarter	400	255	190
1995, II quarter	450	334	250
1995, III quarter	500	465	339
1995, IV quarter	550	508	364

Source: Maksimov Il'ina 1998, p. 13

Table 8 shows that in 1993-1995 the costs and prices for new housing increased significantly. After 1995 there was no significant growth of costs and the prices remained practically level. The calculation of average costs was based on construction indexes, which were used by construction organizations since 1984. More sophistication in the calculation of costs would allow for adjustment of indexation to more realistic levels.

Table 9. Housing Payments as a Percentage of Average Household Income for Various Regions of the Russian Federation²⁰ (September 1997).

Percentage of Average Family Income Paid for Housing and Communal Services	Per Capita Income in Regions Compared to the Average		
	high (more than 120%)	medium (80-120%)	low (less than 80%)
Low (up to 5%)	Moscow, Tyumen', Magadan, Khanty- Mansiisk, Anadyr'	Tula, Krasnoyarsk, Opel, Perm'	Smolensk, Bryansk, Kursk, Ulyanovsk
Below Average (5.1-7.0%)	Murmansk, Tomsk oblast, Komi, Kemerovo, Petropavlovsk- Kamchatskii	Kaluga, Ryazan, Yaroslavl', Kirovsk, Nizhnii Novgorod, Volograd, Samara, Belgorod, Saratov, Petrozavodsk, Syktyvkar	Kostroma, Penza, Leningrad oblast, Izhevsk, Ufa, Krasnodar, Voronezh
Average (7.1-9.0%)	S.-Peterburg, Novosibirsk	Vologda, Lipetsk, Omsk oblast, Novgorod , Blagoveshchensk	Orenburg, Vladimir, Moscow oblast, Cheboksary, Tambov, Astrakhan', Vladikavkaz, Chelyabinsk, Gorno- Altaisk, Kaliningrad
Above Average (9.1-11.0%)	Arkhangel'sk, Vladivostok, Khabarovsk, Yuzhno-Sakhalinsk	Pskov	Ivanovo, Tver, Kurgan, Chita, Yoshkar-Ola, Stavropol', Barnaul, Ulan-Ude, Abakan
High (11.1 and more)	Yakutsk		Maikop, Kazan, Makhachkala, Nal'chik, Kyzyl, Kudymkar, Nazran', Cherkessk, Elista

Source: Housing Reform, 1998, p.113.

Rapid price liberalization occurs mainly in less-subsidized regions that have relatively high costs of housing. This suggests that the administrators of these less-subsidized regions liberalized prices because of pragmatic concerns – reducing municipal financial burdens – rather than any ideological commitments to reforms. As such, these

²⁰ According to payment rates for housing communal services in an apartment with three residents, a total area of 54 square meters, and a full package of communal services. .

administrations tended to liberalize prices without other important complementary measures to facilitate a full, thorough transition to a market-oriented real estate sector.

Even with such draconian rises in rents and fees (see Table 2), municipalities have been unable to cover the total costs of public housing units. This in part is because the costs of providing utilities and maintenance are rising more quickly than rents and fees (Puzanov 1997).²¹ But the increase in rents is causing the increase of non-payments. It is typical in many regions that up to 30% or more families are behind in their rent payments. Often this situation is used as an argument against the increase of rental rates. Those cities which are taking this problem seriously have achieved significantly better results. In Novgorod this indicator has been maintained 16%, in Orenburg at 10% or less.

Price liberalization has been especially problematic for the Far North regions. Residents in these regions are facing an unfortunate combination of unfavorable circumstances. On the one hand, these regions have a relatively high proportion of socially vulnerable groups after massive closures of their industrial and raw materials industries. On the other hand, these groups live mostly in public housing served by monopolistic maintenance and utilities suppliers that set high prices. Meanwhile, local administrations are rather weak and unable to regulate these monopolistic suppliers.

Mass non-payment of salaries was one of the main problems of the Russian economy in 1996-1998. As a result, local authorities had to offer citizens grace periods to pay for housing and maintenance/utilities services. An increase in the incidence of non-payment has also occurred in those regions where local authorities tried to make “savings” on the program of housing subsidies. Default also is related to the underdeveloped system of penalties for non-payment for housing and maintenance/utilities services. Non-court measures such as notary notifications and real estate inventory are ineffective. Meanwhile, local authorities are supposed to evict residents who have not paid for over 6 months, but authorities are reluctant to do so because they lack legal experience in doing so.

Popular opinion says that the non-payment problem is because of high maintenance/utilities service rates that make housing unaffordable for low-income families. [Author] contends that this view is largely wrong. For evidence he notes that St. Petersburg has the highest housing rental rates in the European part of Russia, but also one of the lowest levels of non-payment. [Author] emphasizes that local governments must distinguish those households that really cannot pay because they are poor from those who do not pay because they think they have impunity. For example, a significant portion of non-payment cases are for maintenance/utilities services for vacant apartments which people have purchased on the secondary market; local authorities must

²¹ A similar problem exists for nonresidential property. In five cities, Kaganova (1999) found that rents for public land plots rented out for commercial uses were \$9-18 per square meter per year in 1997. This is anywhere from 14-29 times lower than rents for privately owned land in those cities.

force these persons to pay. [Author] also says that local authorities must be willing to punish violators; this includes using eviction as a last resort.

There was a noticeable slow-down of absolute payment increases in the last third of 1997, although households may have been paying more. This was probably because of the results of the “first wave” of audit and expertise of tariffs of communal enterprises. The analysis showed that most cities would be able to increase housing payments without harming most households. (On average, Russian families with medium income spend about 6-7% of their income on housing.) This led many local governments to increase the share of housing costs covered by residents without increasing the absolute amount of payments.

Table 10. Increases in Rental Rates and Utilities Fees, 1991-1996.

Services	Payment Rate, in rubles		Growth Index Dec. 1996 to Dec. 1991
	December 1991	December 1996	
Rent for Public Housing (per sq m)	0.165	404	2,448
Water Supply and Sewerage per sq m)	0.56	6,052	10,807
Heating (per sq m)	0.1	703	7,030
Hot Water Supply (per month per person)	0.8	7,393	9,241
Gas Supply (per month per person)	0.4	1,184	2,960
Electricity (per kwt-hour)	0.04	120	3,000

Source: Denisov 1997, p.73.

Denisov (1997) argues that raising rents and fees will be a self-defeating endeavor. He believes it will lead to a significant decrease of living standards for approximately half of all Russian households, leaving them on the brink of poverty. This will constrain demand for domestically produced durable goods and thus hinder overall economic recovery. Denisov suggests that it would be better to raise the fees for some utilities, while keeping others low. There are certain expenditures which cannot be reduced because of their importance such as heating and garbage removal. The abrupt increase of payments for these services may lead to serious negative consequences. On the other hand, the consumption of electricity differs highly according to incomes and life style of residents. Rich people consume more electricity (indirectly at the expense of low income families). Currently the population is covering only 30% of its real costs of electricity. So, it is feasible to increase the payments for electricity to the level of its real costs.

Denisov also advocates for gradual price liberalization, to allow people time to adjust to the increases. This gradual increase in prices should coincide with the increase of

incomes, so people do not experience a decline in their standards of living. Also, the gradual increase should be differentiated according to household income, so richer households that are able to pay more for housing will do so. Income growth, however, tends to remain “external” in this view.

Another problem with raising rents and fees is that it may affect regions differently depending on their income levels. In 1996-1997 the average income per capita in wealthy regions of the Russian Federation were 2-3 times higher than in poorer regions like Bryansk, Vladivir, Ivanovo, and Penza oblasts (see Table 11). Furthermore, northern regions are more dependent on heating, so they will be more affected by increased fees for heating than their southern neighbors.

Table X. Average per Capita Income in Some Areas of the Russian Federation

Region	Average per Capita Income, November 1997, (in 000 Rubles)
High-income	
Moscow	3,163
Tyumen' oblast	2,093
Murmansk oblast	1,314
S. Petersburg	918
Samara oblast	957
Perm' oblast	942
Low-income	
Vladimir oblast	539
Ivanovo oblast	539
Bryansk oblast	520
Kurgan oblast	515
Penza oblast	454
Altay kray	439
Chuvash republic	404
Narii El Republic	400
Depressed	
Tyva Republic	371
Dagestan	328
Ingush Republic	302
Kalmykiya	365
Ust-Ordyn Autonomous Okrug	217
Aginsk Autonomous Okrug	330
Chita oblast	486

Source: Denisov year???, p.74.

As mentioned earlier, the second main objective of increasing rents, prices and fees is to stimulate the private housing market. Puzanov (1997) asserts that more transactions ultimately will result in more efficient allocation of housing. For example, he posits that “overhoused” elderly residents will sell their apartments to larger families and move

themselves into smaller units. However, the current practice of elderly persons privatizing their apartments only to hold on to them for future generations portends that this more efficient allocation may not always occur.

Overall economic stagnation and instability have decreased people's real incomes, so they are less able to afford rent and fee increases. Hence, problems of inequality have worsened. It is no wonder, then, that many Russians oppose raising housing rents, prices and fees. Obviously somebody has to pay the subsidy which is being given to Russian housing. The question is whether redistributive measure like the allowances program have been broad enough in their coverage, and whether taxation policies have been effective enough and progressive enough to help fund such programs. Finally, the connection to employment and industrial transformation needs to be researched. Raising fees is extremely difficult without raising incomes, but the possibility of linking industrial conversions and regional employment policies with housing policies have been little examined in the reform period.

By the summer of 2001, the government of the Russian Federation had backed away from the commitment to raise residents' housing fees to 100% of cost by 2003. Nevertheless, individual cities were announcing rate hikes of 100-300% for various services. It appears that willingness to pay increased rates will depend on the perception of real change by residents. That change requires public/private partnership to improve competition and accountability.

8. Clarifying and Expanding Owners' Rights: Registration and Cadaster.

In most regions urban regulations and land use planning is still characterized by complicated administrative procedures to obtain rights to land plots, uncertainty of rights during the lengthy process, lack of concrete procedures for allocation of rights to plots for development, and the separation of ownership rights and documentation for land and buildings. To address this situation housing reform policies have moved, albeit haltingly, in the direction of clarifying and expanding the rights of owners. Most significantly is the new property registration law passed in 1998. This law is only beginning to be implemented, however.

Because certain key rights have been retained by administrative agencies, there are still practical obstacles in the way of transparent exchanges with low transaction costs and construction of new housing; these obstacles impede the development of an affordable housing market. A handful of important laws passed in the early 1990s set the foundation for homeowners' rights (which had existed in limited form during the Soviet era). The Law on the Privatization of the Housing Stock in the Russian Federation (1991) and the Land Reform Law of the Republic of Russia (1992) officially abolished the state monopoly on ownership of urban land and housing. The Law on Fundamentals of Federal Housing Policy (1992) permitted private owners to form homeowners' associations and thus to take over management and maintenance responsibility for their buildings. However, the Law articulated a very narrow view of private land ownership

rights, explicitly imposing restrictions on usage and transferability (Baev 1994, O'Leary 1997). In addition, a number of jurisdictional problems among the various levels of government and the definition of the legal authority and responsibility of each level of government have sometimes thrown the implementation of these laws in question.

Through the 1995 Law on Municipal Self-Government, Russian Federation cities gained the authority to adopt regulations governing the use of land, the location of different types of development projects, and the methods and procedures for approving construction projects. The Land Development Code of 1998 further extends these rights and gives local governments the right to implement legal zoning in their territory.

While the aforementioned legislation provided a foundation for owners' rights, the variety of local interpretation and implementation of the legislation meant that vague and inappropriate rules remained widespread at the beginning of housing reforms. Most land legislation was designed for agricultural land, so it was not readily applicable to urban real estate. Another problem arises from socialist law, which makes a distinction between land and other immovable property (i.e., the buildings constructed on that land). This division runs contrary to the property traditions of Western-style market economies, which typically considers both the land and the building jointly as "real estate" (Limonov and Renard 1995). For example, a tenant may have full ownership of a building but can only rent the land on which the building stands. This dualism has discouraged investment in property and inhibited private housing transactions. Also, differences in land and property legislation cause confusion about registration and taxation, which has discouraged the private housing market even further. These legislative and administrative uncertainties inhibit efficient allocation of real estate (Bertaud and Renaud 1994, 1997).

In the mid-1990s, amendments and municipal laws ameliorated some areas of vagueness and further expanded owners' rights. However, there has been a general lack of knowledge about these new laws. Bertaud and Renaud (1994) emphasize that the federal and municipal governments need to publicize owners' rights more aggressively. In other cases, there is uncertainty simply because new draft laws are not ratified. The aforementioned Land Code is one such example (Wegren 1998).

The government is also deliberating on a revised Housing Code that would clarify and expand several owners' rights. Most importantly, the new Housing Code intends to provide procedures for the eviction of tenants. Generally, economists praise the federal government for articulating the owners' rights to evict, but Russian legislators seem less enthusiastic. Sheila O'Leary (1997) notes that one draft of a Housing Code – which intended to strengthen owners' rights – received "much criticism...from subject-level governments and branches of the federal government" after it was published in the mass media. Passage of the Land Code also appears to be delayed because of "a fundamental reluctance on the part of many legislators and policymakers to embrace the concept of private urban land ownership" (O'Leary 1997, p. 16). It appears that the legislators' reluctance reflects popular opposition to expanding owners' rights. This concern has obvious justifications. Until a more flexible housing market comes into being, and until

the social safety net is reconstituted, evicted tenants potentially face unacceptable circumstances of homelessness.

A robust housing market requires thorough and accurate registration of real estate. Without such registration, there may be doubt about ownership and it is difficult to make reliable appraisals. Confusion about ownership and prices makes transactions more risky so potential buyers and sellers are reluctant to participate. Russia's housing market lacks complete and accurate registration.²³ O'Leary (1997) reports that "the quality of the [registries'] records varies among locations, although it is safe to say that there are few registration agencies that can boast sufficiently detailed and accurate records..." (p. 17). In the early 1990s, Bertaud and Renaud estimated that over half of Russia's land users did not have adequate documentation of their claims to title.²⁴ For example, none of the six cities in the Real Estate Monitoring Project have a unified system of registration (Kaganova, 1997). Even those who possessed such claims seldom had the boundaries clearly delineated in their claim. Furthermore, valuations of housing were based on old and inaccurate Soviet-era estimates, which had little relation to market prices (Bertaud and Renaud 1994, Lowry 1992).

Probably the most important factor inhibiting better registration is what Bertaud and Renaud (1994) call "bureaucratic fragmentation." For example, in the early 1990s Moscow had six different agencies with overlapping responsibilities and superfluous procedures. This fragmentation is exacerbated by the fact that most municipalities traditionally have had separate registration agencies for land and for buildings. In 1994, the federal government called on the Ministry of Justice to establish one unified state registry. However, the Ministry – lacking experience and any detailed law for guidance – has done little so far to create such a registry (B,REV). Without a unified registry, the registration problem persists today. So the extent of registration varies greatly from one city to the next. For example, Kaganova found that in Tagarog over half (58%) of the city's land was documented, but in St. Petersburg less than one-tenth (8.5%) of the land was documented. The lack of registration has discouraged potential buyers, thus inhibiting REM growth.

The division of land rights between property and buildings is also maintained in the recording of spatial data which supports registration. Systems of registration require some physical description of property location. In the Russian Federation, this description is usually provided for buildings through the Bureau of Technical Inventory, and for land through the state cadaster under the The Committee of the Russian Federation on Land Resources. Kozlov and Saltanov (1994) give a detailed account of state land cadastre.

Essentially maintaining the same structure as in Soviet times, the Committee of the Russian Federation on Land Resources (Roskomzem) is responsible for the land cadastre

²³ See Kosareva and Struyk 1993; Renaud 1995; Renaud and Bertaud 1994; Liminov and Renard 1995; Kalinina 1995; Kosarava and Struyk 1995; Bertaud and Renaud 1997; and Suchkov and Klepikova 1997.

²⁴ Bertaud and Renaud's estimate may have been optimistic. According to Limonov (year??), in 1994 only about 10% of sites in St. Petersburg (then a vanguard in real estate registration) had been registered (15--page?? number??).

activities. The responsibilities of this Committee include the inventory of land resources in the 89 local and regional areas and subordinate district and urban committees (more than 2500). The Roskomzem system also includes the Russian Research and Design-Survey Association, specialized in use of land resources (Rosniizemproect), the All-Russian Institute of Agricultural Air-Geodesic Surveys (responsible for cartographic production), five institutes of land monitoring, and the Russian Center for Scientific Support of Agricultural Reform (Rosnits "Zemlya"). The Zemlya Center with its subdivisions is responsible for the establishment of an automated system of land cadastre. More than 200,000 thousand specialists work in the Roskomzem system.

Playing its part in the overlapping system of registration and land records, The Land Cadastre in Russia has three subsystems:

- registration of land plots and rights to plots;
- land quality and quantity records;
- land evaluation data.

Registration of land plots (not including buildings attached to them) is kept in a land book (paper or electronic record). A note containing the registration data from the land book (registration number, date and information about registration office) is to be included in the documents that confirm a landholder's rights. Without a registration mark these documents are not valid (Decree of the President on 10.27.1993 " On Registration of Land Relations and the Development of Agrarian Reforms in Russia"). These documents (sometimes called certificates which confirm ownership or indefinite permanent use) are State Acts. Lease rights and temporary use rights of land plots are confirmed by notes in registration book and contracts.

The State Act has an annex which contains a drawing of the land plot boundaries. These drawings are prepared by the committee or on its behalf by a corresponding enterprise within the system of Ros Niizemproect. The drawing can be produced by other organizations licensed by Ros Niizemproect. Land plot transactions (buying-selling, gifts, exchange, mortgage, lease, inheritance transactions) are considered valid only after their registration in the land resources and development committee. Information registered on land-cadastre documentation are conferred legal status, and thenceforth are considered as the only legal information for courts, taxation, banking and other bodies, enterprises, organizations, institutions and citizens.

Land quality recording is an integral part of land cadastre and is one of the forms of economic recording. The specific methods of record-keeping are determined by the peculiarities of land in each jurisdiction.

The third component of the state land cadastre is *land evaluation*. Land evaluation is based on both physical and economic characteristics through a system of categories which take into account target use and, when possible, rental value. Evaluation of urban land is based on density of development, location, prestige, social and transportation infrastructure, ecological situation, profitability of usage and other consumption qualities.

For technicians within the Roskomzem system, the main problems of the state land cadastre are related to the volume of work to be managed and the lack of precise boundaries of land. In their opinion it is necessary to make the transition to digital methods of cadastral production using air-photo and space surveys, systems of satellite navigation, modern technologies of image processing, and electronic tacheometry. From the standpoint of citizens in need of affordable housing alternatives, it appears that Roskomzem is yet another complex bureaucracy with a vested interest in maintaining its place in the maze of documentation necessary to carry out real estate transactions. Until the legal framework recognizes the functional unity of land and the buildings attached to it, this situation will continue.

9. Supporting Institutions: Mortgage Markets, Costs and Affordability, Fiscal Incentives and Disincentives, and Targeted Subsidies.

9.1. Mortgage Lending

The mortgage market is rapidly developing in Russia, although up until now this development remains limited primarily to the higher-end of the housing market. The passage into law of the Law on Mortgage in 1998 has facilitated this development. The limitations to the extension of this market toward middle and lower income groups include the combination of stagnant wages and incomes on the demand side, supply side constraints from rising housing prices, continuing inflation/devaluation risk and banks' interest in short-term, high-return portfolios. Penetration of Russian mortgage markets by foreign lenders has been hampered by currency convertibility rules and banking restrictions.

Vorob'yev, Karavaeva, and Skrobov (year??) point out some of the main problems inhibiting the expansion of mortgage lending:

1. Functional guarantees and procedures for enforcing contract conditions have not been established. Credit risk is high because of the lack of legal mortgage collection procedures and mechanisms for efficient execution of corresponding court resolutions
2. State or private insurance for mortgage credit for land (with direct participation of the Central Bank) is not developed. Proposals exist to finance mortgage insurance through local government funds, formed on the basis of land taxation.
3. Mortgage credit must be accessible not only to potential large investors, but also to ordinary individual consumers.

The existing situation in Russia does not stimulate the development of long-term credits, and consequently "financial deepening" which could play a role in the economic stabilization of the country is occurring very slowly.

In addition to the problems associated with using property as collateral, there are two additional reasons for the lack of long-term lending:

- tax legislation and customs tariffs have been changed many times during recent years making it difficult for banks to predict the profitability of investments with long time horizons;
- general instability in the economic situation of the country has forced banks to accept only liquidity secured by hard currency mortgages, which significantly narrows the basis of mortgage crediting.

Federal and municipal governments and the banks themselves have sought solutions to these problems. First of all, many banks have indexed their interest rates to foreign currencies such as the US dollar to protect depositors against inflation. Other banks have devised monthly repayment schedules; some banks are working through realty companies, which serve as guarantors for loans. As for liquidity, the federal government has called for the creation of an Agency for Mortgage Lending to act as a liquidity facility; this agency would be similar to the Fannie Mae in the United States (O'Leary 1997). Currently, little research is available on the Agency for Mortgage Lending; it is uncertain if it even has been created yet.

The above changes suggest that mortgage lending will be more attractive to banks in the future. But right now many banks have turned their attention to more immediately lucrative investments, such as speculation on foreign currency, import/export deals with quick repayments, and lending to the raw materials sector. A 1995 survey found that less than one-third of banks were providing mortgages, and most of those mortgages were short-term (often less than one year) with high interest rates and other conditions that made the mortgages unaffordable for over 90% of the population. Therefore, mortgage lending has been limited mostly to luxury apartments and offices (Suchkov and Klepikova 1997). Olga Kaganova (1998, p. 32) explains:

By mid-1996, only about 5,300 mortgage loans had been issued to home buyers across all of Russia. These loans were predominantly short-term (more than 60 percent were up to one year), with loan to value ratios around 30 to 50 percent, and an annual interest of 90 to 140 percent in ruble or 25 to 45 percent in USD.

Using 1995 data, Bobyr and Lee (year??) estimate that: "With mortgage financing, an additional 7.6% of households wishing to move are able to purchase a new unit" (p. 124).²⁵ Bobyr and Lee's estimate corroborates the assertion that mortgage lending does not benefit the majority of Russians. Kaganova (1998, p. 32) concludes: "A workable mortgage system still does not really exist."

In addition to a dearth of mortgages, most banks have also been reluctant to lend to developers. As with mortgages, the banks view such lending as risky. Typically, developers can obtain bank loans only for project completion, perhaps to finance the final 25-30% of the project. Consequently, developers have devised several innovative

²⁵ This estimate was based on 30% interest for mortgage loans.

alternatives to finance their work. Such innovations include share participation projects, where several investors and/or buyers contribute money into the construction project while it is in progress.²⁶ Another approach is for developers to issue bonds, bills or other securities (Suchkov and Klepikova 1997). While innovative, such schemes leave the buyers vulnerable. According to the World Bank 1994 report, these methods “raise questions about the integrity of the financial institutions that have launched them.” Already a few instruments, highly publicized on TV by fly-by-night financial institutions, have robbed people of their savings

There is recent evidence that the mortgage market may finally be developing. According to the operators of mortgage credit companies, growth in mortgage credit began to accelerate in April of 2000 caused by (Kommersant-Den’gi, 07.19.2000):

- a) stabilization of economic and political situation after presidential election,
- b) better information and advertisement,
- c) growth of personal income, albeit slow,
- d) active marketing by providers of mortgage credit programs .

9. 2. Alternative Financial Instruments and Regional Solutions for Housing Finance

Table 12 presents the experience of some government-led initiatives to make affordable housing credits available. Most combine usage of available subsidies with a credit mechanism, or capitalize on existing debts to state organs to provide liquidity for housing credits. We believe that variations on these themes, if supported by a variety of local-level citizen-led initiatives to mobilize existing savings and capacity for payment, offer some of the most promising avenues for overcoming the elite bias in housing finance and creating dynamism in the housing sector that can help speed structural economic change.

Many of the mechanisms found in regional innovations are present in the relatively successful regional reforms in the Chuvashiya Republic . During the period 1993-1999, Chivashiya was one of the leaders in housing construction in the Russian Federation, competing with Moscow and Tatarstan in annual volumes of construction (Moskovskaya Pravda, 07.07. 2000). Chuvashiya was placing 30% of all investments in housing construction. Chuvashiya budget expenditures for housing construction was more than 10% of all state expenditures.

According to Fyodorov (year??), there are several directions to help people in need for housing: annual subsidies for people who wish to build their own housing on the basis of participation in the financing and free extraordinary cash assistance to individual builders. The Republic is compensating 70% of expenditures by rural populations for electrification and gasification.

²⁶ Sometimes the construction company deposits that money in high-yield investments to leverage the amount invested.

Republic is keeping and developing the construction of free housing for low income people on the waiting list, for people with certain benefits, and for employees of the budget sector. There are special programs of housing construction for low- income citizens. The difference between the price of apartment and the sum of subsidies the buyer is paying back through the purchasing in a bank of state housing bonds. So, a citizen this way can pay only 14-30% of the price of an apartment.

Chuvashiya like other regions faces a shortage of financial resources. One solution it found is to finance housing programs by utilizing budget debt obligations of enterprises. Enterprises are paying their debts in kind by transferring their products to the construction groups building housing. This way the region is resolving the problem of non-payments and stimulating the housing construction sector.

Chuvashiya also adopted laws providing tax benefits to construction enterprises if they reinvest their profits in the development of the real estate market. Benefits in tax rates on profits are granted to commercial banks if they provide long term credits for housing purchase. Consequently, this type of credit is a profitable business in Chuvashiya.

According to Chuvashiya's President, it is necessary to change federal policy in certain directions (reference???):

- a) To remove many housing benefits provided to certain categories of people such as employees of the court system and police.
- b) To simplify procedures for housing construction in Chuvashiya: out of 49 procedures necessary for a contractor, 43 are federal and only 6 are local. Now in the areas of intensive housing construction the costs for this paper work makes up 10-50% of all construction costs. In Chuvashiya this indicator makes up 1-2%.
- c) To stimulate housing construction, it is necessary to cancel the VAT on construction costs, including project design activities, capital repair, reconstruction of housing stock, and the construction of heating and water nets. In Chuvashiya in 1999 the volume of construction reached 1.2 billion rubles, and the VAT was 200 million rubles or 20%. This money would be better spent for additional housing construction.
- d) In order to stimulate the mortgage credit system, it is desirable to allow borrowers could be exempted from paying income tax on credits.

Table 12: Financing Sources for individual housing construction and purchase of housing into private ownership

Source of Financing	Purpose and Conditions	Subjects of the Federation , Cities
Housing Loan	Used primarily to complete unfinished housing. The loans are issued by local administrations and less frequently by banks. Acquisition of obligations at nominally indexed price. The contract for the purchase of a flat is signed after the necessary packet of obligations is issued. Non-monetary actives can be used to pay for the obligations. The payments of obligations by housing or money with interest added.	Udmurtia, Saint Petersburg, Samara, Toliatti, Ulianovsk, Ufa, Novgorod, Volgograd, Uchta, Syktyvkar, Krasnodar, Novosibirsk, Tichoreck
Family Housing Savings Accounts	The most common variants: (1) a contract between a buyer and a contractor to transfer resources over time according to an agreed-upon timetable. (2) banks open savings accounts for its shareholders and gives out credits for up to five years after the accumulation of 30% of the apartment cost.	Sacha Republic (Yakutia) and Komi, cities Vladimir, Belgorod, Moscow
Housing Certificates	Issued for a specific group of houses. The nominal price is 0.1-0.25 square meters of housing. Period of accumulation—5 years. Apartment is transferred into ownership after its full cost is paid.	Cities Moscow, Kaluga
Housing Contracts	A contract is completed after 12-60% of the housing cost is paid. The buyer moves in after a specified period of time and becomes an owner after paying the full cost of the	Cities Moscow, Ekaterinburg, Nihii Novgorod

	apartment.	
Free Subsidies	Offered primarily to public sector employees or large families that are in need of improved of housing conditions; covers 40-70% of housing cost calculated on the basis of a social norm per family member; funded from local budgets.	Sacha Republic (Yakutia), Moscow, Nizhnii Novgorod, Samara, Irkutsk, Rostov on Don,
Subsidized Credits out of Local Budgets	Intended primarily for public sector employees who receive subsidized credits for the construction of housing.	Sacha Republic (Yakutia), Sverdlovsk region
Subsidized loans from the individual construction fund	Given to individual builders for a period up to 15 years at 2% annual interest rate and paid by deliveries of agricultural production.	Belgorodsk region
Mortgage credit	Mortgage banks give credit that covers up to 2/3 of the apartment cost. The collateral is the apartment.	Moscow, Yaroslvl
Value of current housing when purchasing new housing.	The exchange of an old apartment for new housing with payment of the difference at market value.	Moscow, Cheliabinsk
Table 13: Regional and Local Funds for Development of Housing Construction		
Organizational Form	Goals of the Fund	Type of Activity, Mechanisms for Attracting and Distributing Funds
Non/Extra-Budgetary	Accumulation of resources from enterprises	Four types of contracts with legal

Fund Based on the Rights of Legal Subject	and citizens for the construction of apartment buildings	entities and persons. The first installment is 5% of the apartment cost and monthly installments are no more than 15% of the family income. Full payment over the course of 20 years. For those who are not registered the first installment is 30% and the remaining sum is paid when the apartment is occupied.
Specialized, Commercial Credit Organization	Support of individual builders in villages through subsidized loans.	Loans with 10% interest given out over two years to village residents who are involved in supplementary production; payment of the loan in the course of 10 years in the form of agricultural.
Commercial Extra-Budgetary Fund for Housing Construction Development	Attract resources from the population for the building and purchase of housing	Construction of new housing, purchase of unfinished houses and apartments that need reconstruction. Installments are paid in parts. When unfinished houses are sold, builders receive compensation in the form of apartments or money.
Non-Commercial Investment Fund	The construction of housing using resources from citizens who are provided interest-free loans paid for by an enterprise.	Enterprise worker pays 50% of the housing cost and the remainder is paid in the course of 6-10 years. Old apartment can be accepted as payment for the loan.
Extra-Budgetary Fund of the Regional Administration	Programs to supply housing to families that are being resettled from the Far North regions.	Mixed form for attracting resources (savings accounts, housing contracts, housing loans). Subsidized loans and credits, advance payments for purchases of building materials.

Table 14: New Organizations for Housing Construction by Regions		
Organizational Form	Goals and Principles of Operation	Regions
Association of Individual Builders	Construction of cottages and country houses paid for by the builders. Associated buyers resolves questions regarding allotment of land plots, development of project documentation, hiring contractors and handing over housing to users. Construction of external infrastructure is financed through the budget.	Moscow region, regional administration and the government of Moscow
Financial-Building Company	Construction of apartment buildings for legal subjects and persons. Sources of financing—purchases of shares???. Contract is signed after payment of 50% of square meters of housing, and then—in increments. Forms of contract: direct—a concrete house, targeted—specific apartment.	Cheliabinsk, Cheliabinsk building-financial company
Join-Stock Company Oriented towards specific investors	Housing construction of finished apartments. Participants in the process: city administration, investors (enterprises) and a construction company. Involvement of private shareholders in the stages (process) of house construction. Lowering of the costs of apartment construction by 15-20%.	Novosibirsk, Joint stock company “STB-1”
System of Housing Construction in Installments	There are three variations: dolevoe ucastie—payment of the apartment cost at the time when the house is handed over for usage; housing debt obligations—sale of 25% of	Ekaterinburg, Industrial-Building Company

	square meters of housing; housing for the company shareholders—purchase of packages of shares relative to the size of the apartment; participation in housing lottery.	
The “Housing Investment” System	The builder makes the initial installment in the amount of 5% of the cost of the apartment and then by monthly installments. The apartment acquisition depends on the payments of its cost.???? 12% of yearly interest is added to the installments.	Belgorod, Joint-Stock Company “Plant BK-1”
“Kombinvest” Program	Housing is distributed according to a schema: registered persons that receive subsidies—15-16%, builders (using their own resources)—10%, the rest is sold on the market. The amount of subsidies—40-70% of the cost of housing.	Moscow, “Housing Initiative” Corporation
Housing Savings Account	Share participation by city residents in the construction of housing. Transfer of private resources into the budgetary account of municipal management of capital construction in installments.	Vladimir, MP “Vladstroizakazchik”
Mixed Form of Financing	Building company constructs monolithic (prefabricated?) housing, sells housing obligations to the population and receives a low interest loan from the bank. The result—decrease of housing cost up to 60%.	Volgograd, Joint stock company “Konsortium Universalstroj”
Building-Financial Company	Attracts savings of the population under the guarantees of regional administration and participating banks. Cost of housing decreases as a result of in house production of materials and interest-free bank credit.	Volgograd, Building-financial company “Aleks”

Governmental Support of Public Sector Employeeds	Regional Administration assisted the formation of AO “Stroikredit” for the consolidation of the citizens’ resources, subsidies and bank housing credits. The city administration allocates targeted resources to specific persons (70% of the apartment cost) paid for by enterprise tax arrears in the form of industrial production. Future residents contribute 30%.	Tula, Cheliabinsk
Systemic Approach to Liquidation of Damaged Housing	Program of reconstruction of city locations with dilapidated (decayed) housing (increase and upward extension of buildings, reconstruction of balconies, replacement of mechanical equipment of housing).	Kazan, city administration

9.3. Housing Allowances

The movement to raise rents and fees puts an increasingly heavy burden on the poorest sectors of society, and therefore necessitates some sort of compensatory mechanism to protect these households. Most analysts agree that housing allowances should accompany rent and price increases to assist the poor who may suffer unacceptable burdens from such increases.²⁷ The federal government concurred and in 1996 amended the 1992 Law on Fundamentals of Federal Housing Policy to ensure that tenants with incomes below the subsistence level do not spend more than one-half of the federal minimum monthly wage for rent, maintenance and utilities (Puzanov 1997). The most comprehensive review of the housing allowance program is offered by Puzanov (1997).

The government began giving housing allowances two years before the 1996 amendments when the rent increases began. But the housing allowance program got off to a slow start, with low rates of participation among the eligible households. According to Struyk et al (1997), this primarily was due to a lack of publicity. For example, in 1996 about 43% of the eligible households in Vladimir and Gorodetz were unaware of the housing allowance program.

The federal and municipal governments, however, have shown some resolve to make the housing allowance program work. Municipalities have improved their publicity efforts. In 1996, the federal government increased funding for the program, allocating 2 trillion rubles for 1996.²⁸ Consequently, the subsidy amount that each household could receive increased (Suchkov and Klepikova year??). The amounts vary by city, but Vladimir and Gorodetz (year??) give some indication of the increase: in both cities housing allowances in 1996 were about 11% of the recipients' average monthly income, almost double what it had been in 1994 (Struyk et al 1997). In surveys, most respondents said that this amount was financially significant (Puzanov 1997).

With better publicity and bigger allowances, participation in the housing allowance program has increased. In Moscow about two-thirds of eligible households received allowances. Meanwhile, rents have increased and real wages have declined so that more people need these allowances. By 1997, about 7% of all Russian households were receiving allowances (Puzanov 1997). Again, there is much regional variation. In some areas, subsidies are rare and only 1-2% of households receive them. In other areas, up to 32% of households receive subsidies.

Even with the increase of costs and a participation rate of up to 40% of the population the cost of the housing subsidies program is only 7-10% of the total payments by renters (without debts). In some cities where up to 60% of the population are eligible for the program, the share of subsidies has increased to 17%. In several cities, housing subsidies

²⁷ See Andrusz 1992; Struyk and Daniell 1995; Kosareva and Struyk 1993; Struyk et al 1993; Limoniv and Benard 1995; Struyk et al 1997; and Puzanov 1997.

²⁸ This was equal to US\$425 million at the beginning of 1996.

are functioning successfully, serving 20-30% of families. According to Denisov (year??), overall 30% of families will apply for subsidies by the end of reforms.

Table 15: Implementation of the Housing Subsidies Program in Several Cities of the Russian Federation (spring 1997)

Cities	Payments for Standard Apartment* (rubles)	Families Receiving Housing Subsidies (%)	Maximum share of family income allowed for Housing** (%)
Moscow	148,890	11.4	12.5
Niznii Novgorod	114,738	8.4	12.5
Ryazan	78,150	1.2	15.0
Novocherkassk	135,750	13.0	15.0
Novgorod	166,431	4.8	16.0
Petrozavodsk	148,194	18.5	5-10-15 (depending on level of family income)
Samara	218,547	32.0	10.0
Cherepovets	160.000	2.0	15.0
Orenburg	138.300	9.8	10.0

* Standard apartment has a total area of 54 square meters inhabited by 3 persons, who consume 150 kwh of electricity per month.

**Housing costs include rent, utilities, and maintenance fees.

Source: Material of the “Institute of Urban Economics “ Fund; Starodubrovskaya, p69.

Researchers report that so far implementation of the housing allowance program has been inexpensive and efficient. Struyk et al (1997) conducted surveys in two Russian cities (Vladimir and Gorodetz) in 1994-95 which helped to assess the quality of the housing allowance program. The study found high levels of customer satisfaction (84-88%); time spent doing paperwork and waiting in line was minimal.

The housing allowance program is Russia’s first nationwide social support program based on household income. Subsidies directed at the poor should be much less expensive than the previous Soviet program, which financed the entire population. Therefore, housing allowances should facilitate housing reforms in two ways: (1) by smoothing the transition to higher rents and (2) by decreasing the overall cost of subsidies (Puzanov 1997). Meanwhile, the subsidies are paid to the tenants – not directly to the owners – so the tenants have a choice of where to live. In this way, the allowances do not inhibit (and perhaps even encourage) private transactions in the housing market (Struyk et al 1997).

9.4. Taxation

As a part of decentralization, the federal government drastically reduced funding to municipal governments in the early 1990s. As a result, the city governments have had to raise their own revenue. Many economists have asserted that real estate taxes – especially for private transactions of housing units - are a fair, effective and feasible way for municipalities to raise such revenues. Taxes can also discourage land hoarding (Bertaud and Renaud 1994). The federal government – which has primary control for establishing and regulating the tax system - introduced real estate taxes in 1991. Russia had little experience with real estate taxes throughout the Soviet era and so the program got off to a slow start (Liminov and Renard 1995; Kosareva and Struyk 1993). As of 1995, urban land taxes still were “extremely primitive” and producing little revenue (O’Leary and Kaganova 1998).

Researchers have noted several problems that help to understand this inauspicious beginning. First of all, the real estate tax system was not based on market prices; instead, tax rates were set by the federal legislature (Liminov and Renard 1995; Wegren 1997). Generally, these federal tax rates were too low; for example, the property tax rate was set at just .1% of the assessed value of the property in 1992 (Lowry 1992). Then this rate was devalued by high inflation (Bertaud and Renaud 1994). Furthermore, the city governments’ assessments of real estate (to which the tax rates were applied) were too low.

The problem of low tax rates was exacerbated by the fact that most residents were not paying those taxes (Liminov and Renard 1995). Some persons were exempted by various government laws, others evaded taxes illegally. In his study of the city of Kostroma, Stephen Wegren notes that the buyer and seller often colluded to lower the official price of a transaction to avoid paying tax on the full transaction price. The buyer then paid the rest of the true price of the unit under the table, untaxed. Wegren also suggests that sometimes the buyers and sellers bribed government officials to overlook the tax evasion. The problem has existed for commercial property taxes, as well. In 1996, Moscow brokers estimated that up to 90% of all commercial leases were understated in order to lower the amount of taxes paid (Kaganova 1998).

Another problem has been that real estate taxes were bifurcated; land and buildings were taxed separately. This has complicated record keeping, which in turn has discouraged private housing transactions. As mentioned before, other constraints such as vague property laws and inadequate registration systems also have discouraged people from buying and selling their units (O’Leary 1997). Of course, without such transactions, the transaction tax is not realized.

Because of low rates, few payers, and few transactions, Russia’s real estate tax revenue was almost negligible in the early 1990s – a time when the municipalities were desperately short of money (15, 21). But the situation appears to have improved considerably in the last few years. Olga Kaganova (1999) found that property tax accounted for 6-18% of total budget revenues for her six cities in 1997. All real estate

taxes plus revenues from leasing out state property for commercial purposes accounted for about 10-32% of revenues for those cities. Although there is much regional variation, Table 16 does show some impressive tax collection rates on real estate property in some cities.

Table 16:

Total Taxes and Collection Rate, on Land and Property, 1997

City Dollars Collection Rate (%)

St. Petersburg 1,944,80098

Samara 715,20056

Ryazan 181,21086

Vologda 117,57991

Taganrog 118,64261

Pskov 34,703119

(Source: Kaganova 1999, Table 2-1)

On-going reforms to tax legislation at the federal level promise to further improve the real estate tax system. The most recent draft of the new tax code greatly simplifies the system, reducing the number of taxes from 150 to 30. Furthermore, the draft allows regional governments to combine taxes on land and buildings into one. The draft still leaves some questions unanswered. For example, it does not address how property values should be assessed (Kaganova nd). Still, the draft represents significant progress for real estate taxation.

10. The Beginning of Bottom-Up Alternatives: Home Owners' Associations 1992-1999.

10.1. Self-organization in the Housing Sphere.

Since 1995 the ownership structure of the housing fund remained relatively stable. Around 54% of housing units are in private property. As a result the housing mobility of population is growing, especially in Moscow it has increased by 2 times since 1992. At the same time the housing privatization process only partially simplified those possibilities of housing management.

In reality for the majority of residents, who privatized housing, the changes in the form of property ownership were largely formal and did not stimulate the formation of the psychology of an owner. Tenants and owners have equal conditions (terms) for payment for housing- communal services. But the decisions in housing management and maintenance, including places of common use, are made by basically the same officials from state enterprises and local self-government.

The year 1997 was supposed to be a time of mass development of Home Owner Partnerships on the basis of the law "On Partnerships of Housing Owners", adopted in the middle of 1996. It did not happen: the number of HOPs--even in cities which actively

promote them—has reached only a tiny fraction of residents. Only in Novocherkassk (Rostov oblast) and Gus'-Khrustal'nyi (Vladimir oblast) is the share of multi-apartment residential buildings under the partnerships management more than 5%. There are practically no cases of the transfer of land p-lots into ownership of HOPs, as envisaged in the law.

According to the Bureau of Economic Analysis (p. 101) there are following reasons for such slow development of HOPs:

1. The housing owners do not understand fully advantages of partnerships and of use of rights, they have. It is possible to guess that with the increase of housing component in housing-communal payments the wish to participate directly in decision making processes and control over resource allocation in connection with housing maintenance will grow.
2. Lack of professional market of real estate managers.
3. Lack of transparency in expenditures for housing maintenance, made by managing and servicing municipal organizations: owners face difficulties in estimation of economic feasibility of independent building management with the use of current municipal subsidy.
4. Lack of support and even direct counteraction of local authorities in the most part of municipal formations: they do not adopt the necessary local normative acts dealing with the procedure of introduction of federal legislation; discrimination of partnerships in the sphere of allocation of subsidies from municipal budget compared with the analog municipal buildings as well as in the sphere of reimbursement of housing subsidies to needy citizens.

At the same time, the economic analysis of existing HOPs proves their high efficiency. According to the data of Velikii Novgorod administration, the maintenance costs for 1 square meters of housing space under HOP management is 29% lower compared with municipal housing. With the same amount of expenditure for housing services, HOPs covered 60% of expenditures compared with 40% in municipal fund. This statistic gives reason to hope that in the future the population and municipal authorities will change their attitude toward partnerships. One of the signs of this trend is the fact that in V. Novgorod the privatization process was accelerated. During first 10 months of 1998 around 320 square meters of housing space were privatized compared to less than 100,000 square meters of housing space in 1966 (housing reform. p. 102)

While brokers are private actors who can facilitate housing transactions, another group of private actors can ensure proper management and maintenance of housing after it has been sold. This latter group is the members of various home owners' associations. According to Puzanov and Koutakova (1997):

No one can better monitor the maintenance and use of the building than unit owners living there, particularly as member of an association. They will make sure that basements, attics and other areas inside and outside the building are effectively used, and that all owners observe the association bylaws on the use of residential and nonresidential premises, common areas, and grounds around the building (p. 50).

Hoping to promote on the effectiveness of homeowners' associations, a 1993 Presidential Decree (Provisional Regulations on Condominiums) served as the basis for creating, registering and running the associations. The Presidential Decree was a promising start, but it left many issues unresolved. Three years later, the Law on Associations of Homeowners provided more detailed and comprehensive guidelines. The Law specified procedures for the registration of condominiums and associations, secured certain rights and obligations for the associations, guaranteed social protection of homeowners' rights and established property management rules and norms. The Law also leaves some issues unresolved, such as the proper delineation of plot boundaries, but still it represents progress for promoting private management and maintenance of housing.

The Law of the Russian Federation "On Housing Owners Partnerships" allows owners of privatized housing to form homeowners' associations. These associations are to be formed on a voluntary basis. They have the same rights as municipal housing, including equal access to municipal subsidies. Homeowners associations pay the same amount for utilities and maintenance as do the DEZs.

With such legislative support, homeowners' associations have begun, very slowly, to be formed. By the end of 1996 there were about 600 associations throughout Russia. They might have spread more rapidly, had they not been hindered by some constraints, such as complicated registration procedures, over-taxation and inexperience among homeowners. Also, as discussed earlier, many residents oppose privatization because of the concurrent rise of rents and utility fees and the new threat of eviction (which is virtually unheard of in public housing) (Puzanov and Koutakova). Obviously privatization is a prerequisite for homeowner associations. Furthermore, this situation creates the potential for antagonism between many residents and the owners who have the ability to raise rents and evict tenants. Given this last point, policymakers should take a moment to consider if promoting homeowners' associations truly is in the best interests of most Russians.

Table X:

Number of Registered Homeowners' Associations

Year		Number of Registered Homeowners' Associations
Apr. 1996		397
Oct. 1996		617

(Source: Puzanov and Koutakova 1997, p. 52)

The federal government planned that 1997 would be the year of mass development of HOPs, The 1996 "Law on Partnerships of Housing Owners was meant to facilitate this

development. However, little happened. The number of HOPs even in cities with pretty active attitude to this problem, includes only tens, and in other places we can talk only about separate cases (first of all in newly built houses. Only in Novocherkassk (Rostov oblast) and Gus'-Khrustal'nyi (Vladimir oblast) the share of multi-apartment residential buildings under the partnerships management is more than 5%. There are practically no cases of the transfer of land plots into ownership of HOPs, what is envisaged in the law.

At the same time, a small but intensely NGO sector has emerged in Russia. A subset of NGOs has focused on housing issues. Some of these organizations are neighborhood associations of HOPs, others are advocacy groups. We simply mention a few here to illustrate the range of specialized concerns and variety of origins of these organizations.

The Institute for Urban Studies was founded in 1995 by a group of specialists in housing policy. It has worked on a variety of programs with USAID on urban property reform. The Institute is currently active in the formation of housing owner associations throughout Russia. As Tatiana Kutakova of the Institute puts it: "There are two aspects to housing reform: reform of the relations of property and reform of the management of property." (Asihouse.htm 2000) . Speaking about the "Law on Partnerships for Housing Owners, Kutakova says, "One law is very little, what is needed is the initiative of the property-owners themselves."

In Moscow the Moscow City Association of Organs of Territorial Social Self-Management, founded in 1991 provides consulting, organizational and financial help to organizations engaged in self-management of housing. The Association promotes means-testing for payment of services within a self-managed building and focuses their efforts on the lowering of maintenance and repair costs which can be achieved through self-management and partnership with local government service providers.

The Council of Social Self-Management "Piyatnitskoi" named for the street where its original members live, unites almost a hundred legal entities. The Council provides advocacy and legal protection for the housing problems of its members and has successfully bargained for improvement of garbage collection services for its members. The Council also assists its member associations with building-level business plans for services, repair and financing.

The People's Fund, working through the neighborhood association "Neopalimovka" created in 1994 the Active School of Citizen's Initiatives. President of the People's Fund Igor Kokorev explains his point of view that: "All housing funds must belong to the united residents—rents, subsidies to the poor and budgetary donations. These funds should go into the account of the united residents' association. Residents themselves should decide what the best way to spend these funds is. In the end residents themselves can organize repair and maintenance or give that function to a firm. So far, most people do not want to risk uniting in a housing association and take on themselves the responsibility for maintenance, capital repair, elevators, sewers, etc. What is needed is a massive education of leaders and activists of housing partnerships and action of those who are ready to take on themselves housing management."

Similar associations exist in Moscow, such as the Council of Social Self-Management “Sivtsev Vrazhek” which has taken on the complete management of a number of buildings, and the Committee of Social Self-Management “Kuntsevo 38” which administers 15 member buildings in the eponymous micro-rayon.

In Yekaterinburg there are two active associations of homeowners, the Ural Regional Association of Homeowners and the Noncommercial Partnership for Support of the Housing Sector. The Ural Regional Association of Homeowners unites around 30 separate housing partnerships and provides information, consulting and other support for homeowners. The Association suggests that citizens should be willing to pay 100% of housing costs, if they can manage the funds entirely themselves.

11. Directions for the Future.

11.1 Current Discourse: Putin Government Confronts Problems, Policy Positions and the Need for Bottom-Up Alternatives.

In this final section of the survey we present and summarize some of the current discourse over the reform of HCS, and the future developments according to the latest programs developed by the Center for Strategic Developments (German Gref). The nature of this discourse reveals that national strategic plans will be hard-pressed to achieve their goals without a much greater expansion of citizen-led initiatives which create localized social pressure for cost reductions and expansion of financing.

During 2000 the new Russian government held a series of high-level meetings to discuss the housing problem: in January the Conception of the Development of Mortgage Crediting; in March- the Strategy of State Housing Policy in 2001 and in the Future; in April- the problems of the reforms in HCS. In May the suggestions for tax reform were directed to State Duma. During the first meeting of the government after Putin’s election the program of the development of communal-housing sector in 2001-2005 was discussed. The Head of Gosstroï, Anvar Shamuzafarov, representing the position of the Center for Strategic Development (this Center is responsible for the design of the new economic program) stressed the continuity of the Putin government’s philosophy with that of the previous program (designed under B. Nemtsov): communal services must not be paid by government through inefficient subsidies and the large companies (for whom the necessity to keep the departmental housing stock is a barrier for the future development) but citizens themselves. The government should only be responsible for targeted social assistance to separate sectors of population. Currently such assistance makes up only 1% of all governmental subsidies (there are plans to increase it 15 times).

In a similar conference more than 5,000 leading specialists in construction from 83 regions participated in All-Russian Meeting of Builders “Housing Policy: Main Directions, Strategy, Prospects” (May 26-27, 2000, Moscow), including Head of Gosstroï

A. Shamizavarov, the mayor of Moscow Y. Luzhkov, Head of Moscow Duma V. Platonov, vice-premier of Moscow V. Resin.

Shamuzafarov pointed out some of the most important problems the development of housing construction and HCS:

- a) The federal budget now if financing only 5% of construction. But without budget assistance the housing stock is deteriorating and is becoming less and less attractive for investment into maintenance. The population is now paying much more of its share for housing and communal services (80-90%), but the state budget in this sphere is fulfilled only by 50%. The housing sector may begin to be a reason for budget-financial crises and it has started to be a source of non-payments in the economy.
- b) The current legislative basis creates a very low capability for the migration of the population, which slows down structural reform of the economy. Migration can increase if the housing crediting system will be created.

According to Shamuzafarov continuation of strategic policy in the housing sector will be connected with the increase of affordability of housing and services based on the effective demand of the population, social protection of low income families, safety of housing, provision of quality of living environment according to basic standards, and settlement of problems dealing with the establishment of stable economic turnover of real estate.

The most important directions of housing policy and changes in the future include: provision of housing rights of citizens based on the design and new wording of the Housing Code, reconsideration of laws and other normative-legal acts, improvement of the system of housing management, development of urban infrastructure, the own-construction basis and construction industry, regulation of land use based on new principles, increase of accessibility of land for construction and inflow of investments.

In Shamuzafarov's view, the establishment of a financial mechanism for resolution of the housing problem will require coordinated actions by the government of the Russian Federation, State Duma, Counsel of Federation and Sberbank of Russia. What is apparent from Shamuzafarov's remarks is that while these ambitious changes can be enacted from above legislatively, in almost every case the only viable mechanism for implementation is through local level organizations and public-private partnerships operating at local levels. Almost all of these arrangements require redefinition of the relationships among residents, construction and utility enterprises, and local government which are unlikely to materialize without organization by residents.

In the same conference, Mayor of Moscow Yuri Luzhkov pointed out several serious problems, which can potentially become dangerous:

- a) There is a danger of systemic bankruptcy of the sector. According to his calculations even if the city will try only to cover the needs of new

families and people on the waiting list from previous years and to compensate the degradation of existing housing stock, the construction annually will be short in the amount of \$ 0.5-0.7 billn. This shortage could not be covered through other budget sources. The resources of the population can only soften, not erase, the problem.

- b) The distribution of the incomes of population. Internationally the housing problem is characterized by Index of Housing Affordability (IHA). This index shows the share of population earning at least an average salary which can afford to buy housing. It is considered that if the index is less than 80%, the situation is dangerous. In Russia because of the large differences in incomes this index makes up around 10%. That means that there are real problems with the effective demand.

According to Luzhkov the strategy of housing policy must envision the following interrelated measures:

- a) It is necessary to rapidly implement modern construction and energy-saving technologies. This will dramatically decrease the costs of construction and maintenance of housing.
- b) The costs of new housing depend on the local infrastructure. Architectural and land allocation decisions based on comprehensive design, complex development of an area and appreciation of residents' preferences can save a significant amount of resources.

According to Luzhkov, it is possible to achieve these goals in Moscow. Beyond Moscow, the support of federal authorities can accelerate this process and can make it possible to apply these experiences in other regions. What is so far impossible to settle on the regional level is the reform of the population's income. According to Luzhkov it is desirable to keep housing money in the pockets of citizens and to implement normal capitalist stimulus like the natural self-limitation in housing demand (i.e., deferral of purchase and construction), decrease of construction costs and increase of construction quality. The second component of the reform of population incomes is the transfer to the people of a so-called national dividend, obtained on the basis of resource, property and land rent. Luzhkov's other main demand is for the wider development of mortgage crediting. In order to do that it is important to decrease the interest rates of mortgage credits and to increase the period of their payback.

11.2. Future Governmental Housing Policy.

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In the social development program elaborated by the Center for Strategic Development (German Gref) reforms in HCS are among the main directions of the reforms in the social sphere contemplated by the Putin government (*Gazeta. Ru*).

One block of issues in this program deals with the strategy of housing policy and the development of HCS. It includes the declaration of main goals and implementation directions of state housing policy (<http://www.kommersant.ru>- 05.15.2000):

- Development of legislative and normative basis, determining the housing rights of citizens;
- Reforms in the sphere of housing stock management;
- Development of communal infrastructure in the housing sector;- Housing construction and the basis of construction industry;
- Land and Real Estate in the housing sector, regulation of land use and development (city regulation);
- Financial Mechanisms in the housing sector and
- Development of housing market infrastructure.

According to this program “ the strategic goal of state housing policy is the creation of conditions for the realization of the rights of citizens to the housing according to their effective demand and social standards of housing conditions; the guaranty of freedom of choice for living location; the maintenance and development of quality standards, construction and maintenance of housing, which will provide safety and comfort of living”.

In order to achieve this strategic goal it is necessary:

- By 2003 it is necessary to accomplish the radical turn from the support of producers of works and services in the construction industry and HCS to target support of the consumers;
- By 2003 it necessary completely get rid of gross subsidies for communal services, which will lead to the decrease of tariffs for communal services for enterprises-consumers and to the decrease of their costs;
- By 2005 it is necessary to provide conditions for the attraction of private investments to housing sector and the establishment of credit and loan mechanisms of their usage by citizens, developers, municipalities.

According to this program in order to achieve the strategic goal it is urgent to implement the complex of measures in following main directions:

- ***Security of Housing Rights of Citizens.*** This task will be settled on the basis of more clear separation and protection of property rights and different forms of property leasing of housing, development of mechanisms of long-term mortgage crediting of citizens for obtaining of housing and crediting of developers for housing construction. It is envisioned to accomplish of free of charge housing privatization of housing stock till December 2002. It is also necessary to develop the system of quality standards for housing construction and maintenance, as well as the mechanisms of their implementation;
-

- ***The Strengthening of Targeted Social Support of Population.*** Along the abolishment of cross subsidies for HCS the housing allowances (compensations) will partially cover the expenditures for housing and communal services to low-income families and will guarantee that the expenditures of families for payments for housing and communal services according to the established social standard will not exceed 20%. At the same time if families with low-incomes will live in housing below the established standard, then their expenditures must be compensated according to the size of social standard (so, that means, that part of families will have housing for free).

In the first stage housing compensation will be financed by the federal budget through targeted federal subsidies to the subjects of the Russian Federation. Later necessary organizational-technical infrastructure develops, these budget resources will be directly transferred from the federal budget to the accounts of targeted citizens;

- ***The Improvement of the Housing Management System.*** The settlement of this problem will require the transition to the competitive selection of the organizations for the management (including services) of municipal housing stock, establishment of HOA, legal settlement of condominium status, stimulation of the development of private rental housing sector.
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- ***Development of Communal Infrastructure of Housing Sector.*** This will include the system of measures on municipal level in the field of regulation of tariffs of enterprises of HCS, which are local monopolists. It is necessary to get rid of the system of cross subsidies of tariffs for communal services and to conduct the transition to the practice of the conclusion of concessional contracts dealing with the management of the objects of communal infrastructure.
- ***Development of Housing Construction and of the Bases of Construction Industry.*** The measures in this direction include the development of the system of the legal zoning of the territory, the provision of developers for guaranteed long-term property rights to the single property object (land plot and the object to be constructed), the simplification of the system of the preparation of design and construction documentation as well as the strengthening of anti-monopolistic regulation in the given field.

President Putin is preparing a special Decree dealing with housing problem. It will include the establishment of single rules of project expertise and the allotment of land plots for the construction. The idea is to connect the housing market and land market. In case if the objects of real estate will include land plots it will be easier to attract new investors (*Moskovskiye Novosti*, N 23, July 13-19, 2000).

The importance of housing problem was stressed in other document “Priority Goals of the Government of the Russian Federation in 2000-2001 in the fulfillment of “ Main Directions of Social-Economic Policy of the Government of the Russian Federation in Long-Term Prospects (06.26.2000) prepared by the Center of Strategic Development (G.Gref)(<http://www.kommersant.ru/docs/>).

According to this document in order to achieve the strategic goal of state housing policy (“creation of conditions for the realization of the rights of citizens to housing according to their effective demand and social standards of housing conditions; the guaranty of freedom of choice for living location; the maintenance and development of quality standards, construction and maintenance of housing, which will provide safety and comfort of living”) the following measures will be implemented in housing and communal sector of the Russian Federation in 2000-2001:

- Strengthening of targeted social assistance to the population. In the process of getting rid of cross subsidies in the HCS housing compensations will guarantee partial compensation to low income families for housing expenditures for housing and communal services which must not exceed 20% of household income.
- In order to secure the housing rights of citizens and to protect ownership rights, more strict separation of different types of property renting will be provided.
- The mechanisms of long term mortgage crediting of population and crediting of developers in housing construction will continue to be developed.
- The measures to stop cross subsidies to communal services till 2003 will be implemented, which will lead to the decrease of communal tariffs for enterprise-customers and their costs.
- The necessary conditions for the attraction of long term private investments to the housing sector and the creation of credit and loan mechanisms of their usage by citizens, developers and municipalities will be created.
- Free of charge housing privatization will be accomplished in December 2002.
- It is necessary also to develop the system of quality standards in construction and maintenance of housing and the mechanisms of their implementation.
- The necessity of the improvement of housing management system will require the transition to the competitive selection of organizations dealing with management and service of municipal housing stock, establishment of HOPs, legal procedures of condominium existence, and creation of stimulus for the development of private rental housing sector.
- In order to develop communal housing infrastructure the system of measures at the municipal level for the regulation of tariffs for enterprises of HCS, representing local monopolies, including the beginning of implementation of the conclusion of concession contracts on management of objects of communal infrastructure.
- Measures in the field of the housing construction and the basis of construction industry include the introduction of the system of legal territorial zoning, security of long term property rights of developers to a single real estate object (land plot and the object under construction),

simplification of paper work dealing with city-planning and project documentation).

The strategic goal of state policy in the sphere of the development of land and real estate market is the provision of conditions for the efficient use and development of real estate in order to meet the demand of population of the society and citizens. Priority measures in this field include ("Priority Goals of the Government of the Russian Federation in 2000-2001 in the fulfillment of " Main Directions of Social-Economic Policy of the Government of the Russian Federation in Long-Term Prospects (06.26.2000), prepared by the Center of Strategic Development

(G. Gref) (<http://www.kommersant.ru/docs/>):

:

- Establishment of a single object of real estate based on rights to a land plot;
- Allocation of land plots under buildings, structures, enterprises in ownership of those persons, who own these objects;
- Guarantee of legal opportunities for a civil turnover of single real estate objects;
- Reliability of the registration of rights to real estate, trust to the Single State Register of rights, and in the future-the transition to the principle of full protection of property rights of reliable owner by state;
- Transfer of lands of cities and towns into the ownership of municipal formations, separation of lands between the Russian Federation and the subjects of the Russian Federation;
- Development of mortgage crediting with land plots and other objects as collateral.

President Putin is preparing a special Decree dealing with housing problem. It will include the establishment of single rules of project expertise and the allotment of land plots for the construction. The idea is to connect the housing market and land market. In case if the objects of real estate will include land plots it will be easier to attract new investors (*Moskovskiye Novosti*, N 23, July 13-19, 2000).