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**WORKSHOP ON MANAGEMENT OF THE HOUSING STOCK**

Report prepared by the delegation of the Russian Federation  
in cooperation with the secretariat

**Introduction**

1. The Workshop on management of the housing stock took place in Moscow (Russian Federation) from 23 to 25 November 2003. It was organized by the State Committee of the Russian Federation for Construction, Housing and Municipal Economy (Gosstroy) in consultation with the UNECE secretariat and the Housing and Urban Management Advisory Network of the UNECE Committee on Human Settlements.
2. Representatives of the following countries participated: Armenia, Austria, Azerbaijan, Belarus, Canada, Finland, Germany, Kazakhstan, Latvia, Netherlands, Norway, Republic of Moldova, Romania, Russian Federation, Slovakia, Slovenia, United States and Uzbekistan. More than 220 participants attended the Workshop, mainly representatives of regional and local authorities, non-governmental organizations and agencies from the Russian Federation. A representative of the UNECE secretariat also participated.
3. Mr. N. Koshman, Chairman of Gosstroy, delivered the welcome address and outlined the main problems and challenges facing the housing sector of the Russian Federation and particularly the management of the existing housing stock.

4. Mr. S. Kruglik, First Deputy Chairman of Gosstroy described the existing housing situation, especially the reform of the housing sector, its management and the main elements of the housing policy.

5. Mr. G. Vinogradov, of the UNECE secretariat, reported on the activities of the UNECE Committee on Human Settlements and, in particular, on the assistance which the Committee provided to countries in transition in reforming the housing sector.

## **I. OBJECTIVES AND THEMES OF THE WORKSHOP**

6. The Workshop was intended to discuss legal, institutional and operational problems and bottlenecks in the management of the existing housing stock, based on the UNECE Guidelines on Condominium Ownership of Housing for Countries in Transition (ECE/HBP/123), with a particular focus on the situation in the Russian Federation. These issues were addressed at the federal, regional and municipal levels.

7. The Workshop discussed the following major themes:

- (a) Organizations for the management of the housing stock. Main ownership/organizational forms for the management of the housing stock foreseen in the short and medium term;
- (b) The condominium as a single unit of real estate: common property, non-residential premises, land plots;
- (c) Formation, registration, management of condominiums;
- (d) Cooperation between the authorities and housing management organizations;
- (e) Housing democracy: social partnership, participation of residents in solving housing problems. The degree of practical assistance offered by the public sector to establish and operate different organizational forms for housing management.

8. More than 20 reports were presented by the participants from different regions of the Russian Federation. International participants shared their experience with the management of the housing stock in their countries.

## **II. UNECE GUIDELINES ON CONDOMINIUM OWNERSHIP OF HOUSING**

9. Mr. G. Gundersen, Chairman of the Housing and Urban Management Advisory Network, presented the UNECE Guidelines on Condominium Ownership of Housing for Countries in Transition. It was reported that, ultimately, the success of condominiums as an effective form of tenure would depend on the implementation of specific strategies and actions. These could be secured only by educating the owners on the nature of this new form of tenure, its values and advantages, and by helping them in the practical operation of condominiums. Without specific strategies and actions on condominiums, the housing sector in the UNECE countries in transition would face serious problems.

10. An important issue was whether national legal regulations required the establishment of an owners' association in each privatized multi-dwelling residential building, or group of buildings, to act in law on behalf of all the owners in matters of common ownership. Emphasis was put on

the fact that compulsory membership in owners' associations was a legal requirement in all developed economies.

11. In response to a recommendation of the UNECE Committee on Human Settlements, the delegation of the Russian Federation had translated the Guidelines into Russian and distributed the publication among the participants of the Workshop for its wide dissemination and use.

### **III. HOUSING POLICY AND MANAGEMENT OF THE HOUSING STOCK IN THE RUSSIAN FEDERATION**

12. Since the early 1990s, the adoption of the Constitution of the Russian Federation and new federal laws on ownership, and the privatization of State-run and municipal housing have resulted in a considerable transformation of the housing sector.

13. The reforms carried out in 1992-2002 have improved the housing sector:

(a) The basic legislative framework and infrastructure for the functioning of the housing market have been created (68% of the housing stock is private, 3% of dwellings change owner annually);

(b) The main companies in the house-building sector are privatized (90% of construction firms are private, 41% of new housing construction is financed by individuals (individual housing construction), individual housing construction increased 2.2 fold from 1990 to 2001);

(c) Subsidies for utility services were cut considerably; the volume of utility services financed by the consumers in accordance with the established rates has risen from 2% in 1992 to about 60% in 2002; at the same time, a system of means-tested subsidies was established; it now covers about 11% of households.

14. However for the past 12 years the steep rise in prices, especially in 1992-94 and in 1998-1999, was "compensated" by artificially low prices for the main utility services. At present, social stability depends to a certain extent on the critical condition of the housing and municipal sector:

(a) The housing stock and the utility infrastructure have seriously decayed;

(b) Unemployment and arrears in wages keep on growing;

(c) Social rights and guarantees for housing exceed the State's capacity to meet them;

(d) The housing and municipal sectors are highly dependent on the State budget. Private investment is not encouraged;

(e) The privatization of housing is not accompanied by the privatization of the housing management sector or an increase responsibility on the part of the owner; the State and the municipal authorities are still responsible for the condition of the housing stock;

(f) There is a lack of adequate financial and credit institutions and mechanisms to stimulate the housing market, housing construction and the development of the utilities' infrastructure;

(g) Private rental housing is not yet widely available;

(h) The administrative obstacles to entry to the housing construction market are excessive;

(i) Land and residential buildings under construction are not considered as a single real estate unit.

15. The strategic objective of the State housing policy is to create an effective housing sector, functioning on the basis of market principles and satisfying the housing requirements of the majority of the population while supporting vulnerable groups that are not able to meet their own housing needs. Measures aimed at developing housing in the Russian Federation should entail:

- (a) The necessary laws and regulations and other legal support;
- (b) Federal, regional and local actions aimed at privatizing utility delivery and enhancing competition;
- (c) Removing the administrative barriers in the housing sector;
- (d) Creating financial instruments to reactivate the housing market and, hence, the labour market;
- (e) The development of an effective housing management business based on the rational use of natural resources.

16. The most crucial aspect of the housing sector in the Russian Federation and other countries in transition today is related to the existing housing stock. At present, there are major challenges with regard to its organization, management, modernization and operation. For instance, until now only about 5,000 homeowners' associations have been formed in the Russian Federation. Together with around 16,000 housing cooperatives, they manage not more than 8% of the country's housing stock.

17. With the adoption of laws on property and on the privatization of the State-owned and municipal housing stock, private individuals and legal entities also became owners. They became the owners not only of residential and non-residential units in apartment buildings, but also the partial owners of the common property in the building (shared property). The problem is that private owners and tenants are living side by side in the same building, which makes it more difficult to manage the building. In addition, the owners own all apartments in the building but not the building itself nor the plot of land. Thus, there is a need for a new system of housing management, with new management principles.

18. Following the adoption of the new Concept of Reform of the Housing and Communal Sector in the Russian Federation (Presidential decree No. 425 of 28 April 1997), the creation of homeowners' associations is now regarded as a progress in protecting homeowners' rights. The main objectives of the Concept are:

- (a) The drawing-up of a State inventory of real estate containing several units;
- (b) The rational use of land resources;
- (c) The proper use, maintenance and repair of common property in residential buildings;
- (d) Contractual arrangements in the housing and communal service sector;
- (e) Participation of non-governmental organizations in servicing private, State-owned and municipal housing;
- (f) The involvement of all homeowners in the management and maintenance of apartment buildings;
- (g) Monitoring the quality and volume of housing and communal services.

19. The process of establishing an effective partnership of homeowners is restrained by a number of factors. One of the main issues is the condition of the housing stock. Homeowners

are ready to accept responsibility for the management of dwellings only if major repairs are made. However, local authorities have limited financial means to do so.

20. A condominium, as a single real estate unit, should be officially registered with the Ministry of Justice. At present, however, no such mechanism for official registration exists. The justice authorities are not entitled to officially register immovable property; they register only property rights. A homeowners' association is not a commercial organization, but a non-profit association of the homeowners. As condominiums cannot be constituted or registered, homeowners' associations are not being established in many constituent entities of the Russian Federation.

21. The State is no longer in a position to maintain and manage the housing stock. The transfer of all property management functions to homeowners without any financial support from the State is unrealistic, especially at a time when the population's income is low or even declining and associations of owners are insolvent or bankrupt.

#### **IV. CONCLUSIONS AND RECOMMENDATIONS**

##### **A. General conclusions and recommendations**

22. The participants at the Workshop drew a number of conclusions and made some recommendations.

23. The positive experience of homeowners' self-government should be disseminated throughout the Russian Federation. Homeowners' unions (associations, cooperatives and other forms) should be set up. Equal economic conditions for managing the housing stock should be created.

24. Another major task within the next years should be the implementation of the recommendations of the UNECE Guidelines on Condominium Ownership of Housing for Countries in Transition, while improving the coordination of State support to create favourable conditions for housing organizations and effective management of the private housing stock by:

(a) Concentrating the main responsibilities for housing policy within one parliamentary committee;

(b) Concentrating the effective implementation and coordination of housing policy within one institution engaged in housing activities;

(c) Providing continuous support to owners' and tenants' organizations, including adequate education and training of the homeowners and private real-estate managers on the basis of the UNECE Guidelines.

25. Work should continue to reflect laws and regulations concerning the management of the housing stock in the forthcoming housing code of the Russian Federation.

26. Along the lines of the new housing code, the Federal Law on Homeowner's Associations should be revised to replace State registration of condominiums by cadastral registration, to consolidate the owners' right to choose any management company, to prevent the establishment

of more than one homeowners' associations in one multi-flat building and to protect the rights of buyers and prospective owners in newly constructed buildings.

27. To take into account public opinion in the preparation of a housing policy representatives of non-commercial housing organizations should be included in the decision-making process.

#### **B. Specific observations, conclusions and recommendations of international experts**

28. The role of the existing housing stock is essential. Even if the rate of new housing construction recovered its 1990 level, this would still give only a 2 % annual increase in the housing stock. So existing housing will constitute the mainstay of the Russian housing stock for many years to come. The maintenance, repair, renovation and upgrading of the existing housing stock are therefore vital for future housing standards and, therefore, the quality of life of the Russian people. How these management tasks are carried out will have serious consequences for the social stability of the country.

29. In addition to these important political considerations, the practical approaches to the existing housing stock over the coming years will have a direct impact on the national economy in terms of economic development, employment and energy efficiency. The policies and practical solutions selected for the existing housing stock will, in this context, determine whether the housing sector will be able to play its potential role as an important driving force for an effective economic and social transformation of the Russian Federation.

30. It is important to have an overview of the different forms of tenure and ownership in the economically most advanced UNECE countries. Among these, the most important are:

- (a) Owner-occupied housing, including indirect ownership:
  - Housing cooperatives;
  - Owner-occupied flats in multi-flat buildings (condominiums) organized as homeowners' associations;
  - Owner-occupied flats in multi-flat buildings organized as joint-stock companies; and
  - Owner-occupied, single-family houses.
- (b) Rental housing:
  - Municipally owned social housing;
  - Housing cooperatives for rent;
  - Not-for-profit housing associations operating rental, often low-cost housing;
  - Privately owned multi-flat buildings operated as rental housing at market rents.

31. In the Russian Federation 68% of the housing stock is already privatized, as far as the individual flats are concerned. However, no real privatization of the commonly owned parts of the residential buildings has been carried out. This combination of formally privatized flats and "not really privatized" common areas hampers the effective, market-based management of the housing stock.

32. The rapid "free-of-charge" privatization of apartments has created management problems which now have to be addressed. Although legislation, normative documents and other regulations have been put in place in parallel with the privatization process, they do not yet adequately address all the challenges raised by mass privatization.

33. The privatization of housing in the Russian Federation was motivated by political considerations. It was assumed that the new private owners would take on the full organizational, economic and financial responsibilities for their housing units. Reality has shown to be different. Only a small part of the privately owned multi-apartment housing stock is organized as privately owned homeowners associations' condominiums. Individual owners choose this form of ownership based on the knowledge of the rights and obligations involved. More importantly, they choose on the basis of comprehensive information on the financial implications and their ability to meet these obligations without unacceptable personal hardship.

34. These important preconditions for private ownership of multi-apartment housing have not been taken into account in the privatization of the housing stock in the Russian Federation. Moreover, the cost for private owners of multi-apartment housing will, as stated in the federal housing policy, increase in the short and medium term, because:

- (b) Utility prices will rise to cost-recovery levels;
- (c) The costs of effective management and operation of the housing stock will increase;
- (c) To prevent further serious degradation of the housing stock the cost of maintenance and repair will increase, both direct payments and paying-off loans;
- (d) Raising the quality of the existing housing stock to meet the rising housing aspirations of the Russian people in the years to come will require massive investment. If this investment is to take the form of loans from the financial markets, the owners will have to cover the cost. They will be legally responsible for these loans. For this reason they need to be organized in legal entities.

35. According to the information on the income of Russian households, there is strong evidence that many owners of flats will not be able to cover the maintenance costs in the short and medium term. This applies in particular to the large number of low-income households and to households living in regions with low or negative economic growth prospects.

36. There is also so far little knowledge and understanding among the Russian population of the rights and duties related to private ownership of multi-apartment housing. This results in a general suspicion and distrust towards constituting homeowners' associations/condominiums. The fact that only the flats and not the common areas have been privatized complicates the situation.

37. It is recognized that the public sector management and maintenance entities should be replaced gradually by private, professional management companies. It is clear that a transition period is necessary to achieve this objective. During this transition period, the public entities should switch to management tasks only, while tender for all maintenance and repair work should be dealt by the private sector. The present combination of management (ordering, quality and cost control) and execution of work creates a conflict of interests, which leads to inefficient management, and costly and poor-quality work.

38. Homeowners' associations/condominiums cannot be set up everywhere in the Russian Federation at once, but step by step, as capital needs to be raised for urgent major repairs, improvements and renovation of the housing stock. It is, therefore, recommended that pilot projects should be established to show a wider public the results that can be achieved and to raise the necessary funds for the further improvement of the housing stock.

39. In short, it is clear that, within its housing sector, the Russian Federation is facing challenges. The following six recommendations could facilitate the effective management of the existing housing stock:

(a) Recommendation 1: Satisfactory framework conditions (legal, regulatory, institutional and economic) for all the major forms of housing ownership should be included in the ongoing preparation of a new housing policy for the Russian Federation;

(b) Recommendation 2: Large-scale information and education programmes should be initiated to improve knowledge and understanding among the Russian people of the advantages, obligations and responsibilities of membership in housing condominiums. It will take time for such programmes to yield any appreciable results;

(c) Recommendation 3: Municipalities should take on the responsibility for the commonly owned parts of residential buildings where it is clear that the owners cannot afford effective management. To deal with this responsibility, the municipalities should get assistance from the federal and regional authorities.

(d) Recommendation 4: All legal, regulatory and bureaucratic bottlenecks that impede the effective establishment and operation of homeowners' associations should be removed so that residential multi-flats buildings can be managed by functioning housing associations;

(e) Recommendation 5: Pilot projects should be set up to move away from the present monopolistic practice, where public sector management and maintenance entities are responsible for the management of the commonly owned parts of privatized buildings, towards a situation with free competition between public sector entities and private sector management companies;

(f) Recommendation 6: Consideration should be given to a moratorium on further free-of-charge privatization of housing until some of the major challenges faced by the privatized housing stock have been solved. Future privatization should be offered to the inhabitants together with a number of alternative organizational forms and better information on each option. In this way the new owners can make an informed choice with better knowledge of their rights and obligations, and subsequently ensure a more effective and sustainable management of their homes.