# SOCIAL HOUSING IN ROMANIA

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In this overview we present information on the housing market in Romania and in particular on the role social housing has played within it since the transition. When analyzing the policy stages of social housing support in Romania, it shows that only in the period of 1997 to 2007 there was a tendency to increase social rental construction, after the stock had declined considerably during the heavy privatizations after 1990. With the support of international financing institutions a National Housing Agency was established in 1999 to finance and create affordable rental housing. Yet, a lot of public support was directed into new construction of subsidized owner-occupied dwellings. In general, rental housing is clearly on the defense in Romania, not only social but also market rental housing. There is a strong ownership ideology prevalent. When the funds for new social rental housing programs were cut in the aftermath of the financial crises, new housing construction was financed out of the earnings through the sell-off of existing social dwellings to tenants at prices lower than the replacement value. There is no long-term social housing policy framework, but social housing projects have rather been conceived as part of day to day political initiatives.

When trying to evaluate the current system in terms of equality of treatment and effectiveness of housing the poor and vulnerable households, we will show that for most programs the basics for such evaluation are missing: There is no monitoring and documentation of the various, frequently changing social housing programs dispersed among the local authorities. We have little information on the beneficiaries. In addition we will show that main obstacles to the establishment of a social rental housing sector are: the missing of a long-term social housing policy and the frequent political changes, the lack in civil society and policy makers committed to the task, the lack of a clear legal framework under which a social housing system could operate, and the tendency to cut down on social rental housing expenses in times of fiscal austerity.

## 1.1 Main macroeconomic and social factors

### Population and incomes

Romania is with its 21.46 million inhabitants (2010) the largest country of South East Europe. Economy and population are strongly concentrated in the capital Bucharest with its two million inhabitants. Following in size, there is a group of cities with almost similar 300,000 inhabitants, i.e. Cluj-Napoca, Braşov, Timişoara, Constanţa and Iaşi. Romania suffers from strong emigration. Since 1990 the population has decreased by 1.7 million (INSSE). Further decrease is expected, but in smaller scale than previously forecasted (Eurostat). Migration flows to the metropolitan areas faces limitations of the labour market and heavy deficits in affordable housing provision. Hence, the urbanization rate in Romania is at stable 55% since the 1990s (INSSE). The age group between 15 to 24 years is currently strongly decreasing with only 13.9% of the total population (2010). Within a few years it is expected to decrease to the EU27-average of only 11% (Eurostat).

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With the dynamic economic development in Romania since the early 2000s, incomes have increased similarly. But during the economic crisis incomes stagnated whereas inflation remained high. Hence, household incomes in real terms decreased. Average gross monthly incomes are at € 435 (2009), which is only a fraction of EU average (Eurostat). In purchasing power standards, GDP per capita reaches 46% of EU average (2009, Eurostat). Inequality of incomes has grown strongly during recent years. An inequality of income ratio of 7.2 (2009, ratio between the highest and the lowest income quintile) is one of the highest in all Europe. The EU 27 average is 5.1 (Eurostat). Generally, southern European and SEE countries have higher income disparities than western, northern and CEE countries. Together with Bulgaria, Romania has the highest share of households threatened by poverty and social exclusion within the EU and all candidate states. With 43% (2009) almost the twofold share of population, compared to EU average, is to be regarded as poor. A big part of the population has difficulties to afford everyday commodities, such as accommodation (Eurostat, EU-SILC).

**Housing Provision**

Romania has a housing stock of 8.43 million units (2010). This is around 390 dwellings per 1,000 inhabitants. The average useable floor space per capita is 24.5m² (INSSE). This is one third below the EU27 average of 38m² (Housing Statistics in the EU, IIBW). Romania is a 'super' home-ownership state (Stephens, 2005) with an ownership rate of not less than 96.5% (EU-SILC, BuildEcon). Already before transition, two thirds of the housing stock was in private property. After transition, some 2.2m formerly public rental dwellings have been privatized, which represents 27% of the total housing stock (see below) (Tsenkova, 2009, PRC, 2005). Only 2.2% of the housing stock is social rental housing (less than 200,000 units, three quarters of them in few big cities), and additional 1.3% market rental housing. The capital city Bucharest has a housing stock of slightly below 800,000, with again only 2.3% social rental dwellings (INSSE).

Romanian households spend 25% of their disposable incomes on housing (EU-SILC, 2009, the year before the statistical number was 28%). By comparison, EU27 average is 23%. Going into detail, the housing cost situation in Romania looks much more critical. 16% of households report housing cost overburden, compared to 12% in EU average. Additionally, housing mobility in Romania is very low. A very large part of households lives in apartments privatized at well below-market prices and very low running costs and, therefore, is unlikely to move to places were affordable housing options are scarce. In the old housing stock, maintenance and management is still hardly developed and therefore generates almost no costs for tenants (for the price of deteriorating buildings). On the other hand, energy prices are on an international level and hence cause a much higher burden for households compared to higher income Western countries. The situation is quite different for those households which have bought or rented apartments in current years. The situation is really serious in the small rental sector. 27% of tenants in social rental dwellings and even 57% in market rental dwellings suffer from housing cost overburden (EU average is 12% and 26%, respectively, 2009). Overburden is defined by total housing costs of more than 40% of the disposable household income. Consumer prices have increased by 6.3% p.a. on average between 2005 and 2010, housing costs in the same time by 9.2% p.a. (Eurostat, EU-SILC).

## Housing markets

Market prices for new owner-occupied apartments have skyrocketed between the early 2000s and 2007, when prices in Bucharest and the other bigger cities reached the level of many Western European countries of up to 3,000 €/m². With the economic crisis and the breakdown of retail mortgage financing, the housing market prices tumbled. Today, it is possible to find a new apartment in Bucharest for around 1,000 €/m². Market rents used to be at 5 to 10 €/m² per month. The downturn of this market segment was less serious compared to the condominium market (IIBW, CEPI, Global Property Guide, REAS).

An alternative to new apartments always has been the market of used dwellings. Privatized apartments in panel-block buildings with lower building quality standard in less advantaged locations always have been an affordable option, even though this market segment also has shown strong price volatility. The sale of privatized formerly social rental dwellings gave a windfall gain to the beneficiary households. A big number of such dwellings are rented out individually without written contracts. However, there are no official statistics about the number. Estimations go up to 1m units, which would represent 12% of the total housing stock (IIBW, 2008). In absence of any rent regulations in Romania, such tenancy underlies contract law at best. But in very many cases there is no written lease contract at all.

## Housing construction

Housing completions have increased considerably over the years with a peak in 2008 with 67,000 units for whole Romania. This was 3.1 units per 1,000 inhabitants. EU average was 5.2 in the same year. Since then, housing completions have decreased to 49,000 units (2.3 per 1,000 inhabitants, 2010). Housing construction is quite visible in the suburbs of Bucharest, whereas the capital city itself has under-average numbers. This is due to various factors, including restitution issues. Other cities with high construction output are Cluj-Napoca or Braşov, but none of them reaches EU average numbers (INSSE, BuildEcon, Euroconstruct). Many cities with less economic dynamics, small cities and villages mostly still have very low numbers of new construction. The vast majority of new construction is single family houses and condominiums. More than 90% of new construction is realized by private persons or companies. Around one quarter of this by foreign companies (INSSE, Nae & Turnock, 2010).

It is quite difficult to identify a benchmark for real housing demand. PRC (2005) has estimated the housing demand in Romania for the decade after 2003 with only 2.7% of the existing housing stock (220,000 units for 10 years) and as such much lower than for the EU15 (10.3%) or for the accession countries of 2004 (EU10, 16%). This estimation is deficient, as it would mean a housing production rate of only 1.0 completion per 1,000 inhabitants per year. Orientation on the EU average may serve as a scaffold. This level may be regarded as the lower limit to meet housing demand in Romania for the following reasons: Even though there is a slight decrease in the Romanian population, the number of households increases and so does the demand for affordable housing options. The average floor space per capita is far below EU average. The condition of big parts of the existing housing stock is poor and requires substantial replacement. The economic development of Romania requires further urbanization and hence affordable housing options in urban regions. Housing construction on the EU average of some 5.0 completions per 1,000 inhabitants would mean a yearly production of 100,000 units. This is two times the volume of 2010. Previous housing supply in many cases has missed demand in terms of location and affordability. An increase of the production volume only makes sense if steering of location and affordability is substantially improved.

**Social housing construction**

Social housing is regulated under the Romanian Housing Law (law nr. 114/1996), which was modified more than ten times since 1996. The definition of all kinds of existing dwellings in Romania can be found in art.2 of the Romanian Housing Law. *Social dwellings* as such are defined as dwellings with subsidized lease, allocated to individuals or families whose financial position would not otherwise allow them access tenements leased on the market. It is public property of the local authorities. *Necessity (emergency) dwellings* are intended as temporary accommodation following natural disasters or accidents, or where homes have been demolished to permit the construction of public utilities, or rehabilitation work which cannot be undertaken while homes are occupied. In this overview we include all the models of subsidized housing in the definition of social housing (see below and Table 2), therefore including subsidized owner-occupied housing as well as social rental housing. The key note is rent levels or selling prices below the market value.

Public funds were used for only 6% of new construction in 2010, which is the lowest level since 2001 (see table 1). Social housing construction in Romania is quite volatile. The public used to be responsible for not less than 88% of new construction in 1990. This diminished to only 5% in 2000. With the establishment of the National Housing Agency (ANL) (see below), the share of social housing construction again rose to 24% of all completions in 2003, but decreased thereafter to the present level. The most important segment of social housing construction is the ANL program *Rental Housing for Young People* with up to 5,000 completions per year (2003, see Table 2). The level of social housing construction in Romania during the current decade is close to EU average, but far below the share of social housing construction in some Western and Northern European countries (INSSE, Housing Statistics in the EU).

**Table 1 Macroeconomic and housing indicators**

| | 1990 | 1995 | 2000 | 2005 | 2008 | 2010 |
|---|---|---|---|---|---|---|
| Population (1,000) | 23,211 | 22,712 | 22,455 | 21,659 | 21,529 | 21,462 |
| Households (1,000) | 7,289 | n.a. | 7,656 | 7,360 | 7,500 | 7,400 |
| GDP per capita (index, PPS, Ø EU 27=100) | n.a. | n.a. | 26 | 35 | 47 | 46 |
| Gross monthly income in industry (€) | 171 | 127 | 142 | 254 | 474 | 408 |
| Consumer prices (HCPI, 2005=100) | n.a. | 5.0 | 43.2 | 100.0 | 120.7 | 135.5 |
| HCPI Housing (2005 = 100) | n.a. | 2.1 | 31.5 | 100.0 | 138.4 | 155.1 |
| Housing stock (1,000) | 8,006 | 7,782 | 7,908 | 8,202 | 8,329 | 8,430 |
| Housing stock Bucharest (1,000) | 950 | 777 | 783 | 784 | 790 | 793 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Ø size of apartments (useable floor space, m²) | 47 | 52 | 54 | 61 | 63 | 63 |
| Useable floor space per capita (m²) | 16 | 18 | 19 | 23 | 24 | 25 |
| Ownership rate (%) | 67.0% | n.a. | 95.2% | n.a. | 96.5% | 96.5% |
| Social rent (below market level, %) | 33.0% | n.a. | n.a. | n.a. | 2.1% | 2.2% |
| Market rent (%) offocial figures | n.a. | n.a. | n.a. | n.a. | 1.4% | 1.3% |
| Housing completions total (1,000) | 49 | 36 | 26 | 33 | 67 | 49 |
| of which with public funds | 88% | 25% | 6% | 16% | 9% | 6% |
| Housing completions (per 1,000 inhab.) | 2.1 | 1.6 | 1.3 | 1.5 | 3.1 | 2.3 |
| Housing completions Bucharest (per 1,000 inhab.) | n.a. | 1.9 | 0.6 | 1.1 | 1.6 | 1.5 |

Source: IIBW, INSSE, Eurostat, EU-SILC, Buildecon, Tsenkova (2009)

## 1.1 Change of social housing policy during transition

The evolution of the economy during the transformation period determined changes also in the housing sector policy. Three important processes had impact on the development:

- Privatization contributed to the reinforcement of the ownership rights, but determined a drastic decrease in the public housing stock and led to the emergence of some major social problems related to satisfying housing demand and social cohesion (Dübel et al., 2006, Tsenkova, 2009).
- Decentralization encouraged the emergence and development of the private sector, but at the same time determined a drastic decrease in the public funds invested in housing construction and infrastructure. Usually decentralization meant the empowering of the local authorities with supplementary tasks without providing them appropriate financial means (UNECE, 2001, p.52). So most of the municipalities are practically incapable of independently dealing with the housing problem of socially disadvantaged groups.
- Restitution of formerly nationalized stocks, similarly to other countries in the region, meant compensation of the former owners in kind. It is still underway in the courts, and has provoked many disturbances, mainly because of corruption practices and insufficient availability of affordable housing for compensation (Dawidson, 2004, 2005).

Following the political changes after 1990, various initiatives were carried out to transform the Romanian housing sector. For an analysis it is helpful to distinguish four phases with changing priorities.

**Period 1990-1996: Privatization and replacement of state role**

In the first stage of the transition (1990-1996) the housing reform focused on building up and strengthening market forces and minimizing state intervention in the housing system. The policies promoted deregulation, increased the private sector institutions role and reduced public expenses. Also, during this period, the reform involved privatization of the public rented stock and state construction companies.

The Decree-Law 61/1990 enabled the privatization of housing units built with State funds by selling them to tenants who could make a down payment and sign the purchase contract backed by a loan. Persons not citizens of Romania wishing to settle in Romania could purchase a housing unit with foreign currency. Legally, repatriated Romanian citizens had priority if they purchased a dwelling with foreign currency.

Between 1990 and 2004 as many as 2.2 million dwellings were privatized, which is 27% of the total housing stock (PRC, 2005). As a result, the official owner occupation share rose to 96.5%. Only 2.2% of the stock has remained social housing (below market rents) and 1.3% market rental housing. The number of rental dwellings varies significantly according to city size (Pascariu & Stanculescu, 2003, p.277).

The terms of sale to sitting tenants were a minimum partial payment of 10-30% of the official price, plus signing on an instalment plan with the CEC (State Savings Bank) for the remaining amount, at a 2-4% rate of interest, over 25-30 years. However, many chose to pay all cash or pay back the loan as quickly as possible. Otherwise, the high levels of inflation during this period have fully dissipated the real value of these debts.

After privatization, the "maneuvering mass" of former social dwellings is missing. This is harmful particularly for young households (which did not benefit from privatization), for migrants to the cities and of course for low income households.

After the general withdrawal of the state from the housing sector and the privatization of the state rental stock, there were no significant interventions until 1994, when the state started to provide support for the completion of partially completed building projects leftover from prior to 1989. Soon thereafter, the state intervened to provide a limited number of low-interest housing loans through the State Savings Bank, the CEC.

The "uncompleted houses" special program came with two subsidies: one was a discount of 30% of construction costs, the second was a below-market interest rate. In total, some 10,000 dwellings were completed in this way.

A second CEC scheme targeted at young households up to the age of 35 was introduced. Young households were offered local currency loans with 15% interest rate. Although not so low in absolute terms, this interest rate was still very low relative to inflation.

**Period 1997-2002: More state involvement and the National Housing Agency (ANL)**

In the second period of transition (1997-2002), new institutions were set up and the legal framework for housing policy improved. In 1996 the Romanian Housing Law (Law nr. 114/1996) was enacted, following a French model, regulating amongst others social housing construction, general conditions of condominium housing and housing management. Even though it was modified around 10 times since 1996, the main principles of this law are prevailing still today, as shown below.

In 1999, the government made a policy decision to end the subsidy scheme through the CEC and focus on social housing provision through a new state-owned enterprise, the National Housing Agency (ANL - Agentia Nationala pentru Locuinte). This entity would work with local governments, which had to provide building land and infrastructure, to build and finance affordable housing, i.e. low-rent dwellings for young people, owner-occupied dwellings and single family homes for first-time buyers.

Initially, ANL focused on "pioneering" the use of mortgage lending under the terms of the Mortgage Law enacted in 1999. It offered long term loans with interest rates of 7% to 9%, according to the age of the borrower. These loans were, in principle, useable for any kind of housing, but after 2002 restricted to new construction funded by ANL and to first-time buyers. Due to land and utilities provided by local governments free of charge and other indirect subsidies enjoyed by ANL, these dwellings were offered around 50% below market prices or even lower.

With the appropriate legal changes in October 2002, Romania also adopted a system of separate contract-savings banks for housing very close to the German and Austrian "Bausparkassen". These institutions are designed to collect deposits at a below-market rate and recycle these funds into low-rate housing loans. To attract funds, a yearly premium and tax-deductability of interest is granted. The first contract-savings bank in Romania was set up in 2004 (Raiffeisen Banca pentru Locuinte) and the second immediately afterwards in 2005 (HVB Banca pentru Locuinte).

**Period 2003-2008: Concentrating on rental housing for the young and the mortgage market**

After 2003 the Romanian Government started an intensive program, backed by positive macroeconomic developments, targeting at three housing areas: 1. emergence of a mortgage market; 2. expanding the *Rental Housing for Young People* program; 3. thermal rehabilitation of the housing stock.

The housing finance sector is governed by several laws and regulations, particularly the Law on Mortgage (1999), the Emergency Ordinance 200/2002, which authorized non-bank Mortgage Companies, the contract savings banks legal framework and a set of laws governing mortgage securities and mortgage banks, namely the Law on Mortgage Bonds, the Law on the Securitization of Receivables, and certain related amendments to the Law on Mortgage.

As a result of a new public-private partnership established between ANL and several banks in 2003, ANL stopped its housing lending activities, as its pilot programme was considered to have accomplished its pioneer catalyst role. The banks started to grant mortgage loans to eligible applicants who were registered in the ANL database as qualified beneficiaries. However, in 2005 subsidies for construction of new privately-owned housing was cancelled because of its interference with market rules. For compensation, a new law was passed for providing a subsidy of up to 20% of the housing value (up to € 10,000). In 2006 another program was launched to encourage young people to take a mortgage loan for building their new house. It comprised a 30% subsidy to construction costs (up to €15,000) for first-time builders, if realised with a developer using a mortgage loan. The focus of these programs clearly lies on owner-occupation.

The ANL *Rental Housing for Young People* program, established in the early 2000s, is until today the main housing policy program. Within almost one decade, more than 26,000 housing units have been completed all over the country (Table 2). With this program the Government tried to put the focus of housing policy on the population group that had not benefit of the large-scale privatizations and was facing affordability problems on the private housing market.

In 2007 the Romanian Government decided to change the program legislation, allowing the sitting tenants to buy their apartments after a minimum renting period of only one year for a price far below market level. Funds needed to flow back for the construction of new social dwellings. Sale may be initiated only at the tenant's request. Returns from the sale of these social rental dwellings are earmarked for new rental housing construction for young people, but sales revenues hardly suffice for a similar number of newly built social dwellings. Above all, this right-to-buy scheme was not as successful as expected. Taking the very low rents, the unlimited contracts and security of tenure, it is for many beneficiary households still economically rational to continue renting instead of buying.

In 2003 a thermal rehabilitation program was initiated with funds provided by the Romanian Government and Swiss development aid. The results are still unsatisfactory due to the very frequent changes of the legal framework, the ineffectiveness of homeowners' associations and the banks' reluctance to borrow money to such bodies.

In this phase the Romanian Government made attempts for a comprehensive housing policy reform and went for international support. A World Bank financed "Housing policy and subsidy review" (Douglas, 2006) was followed by an international tender for a pre-regulatory research project "Implementation of European Standards in Romanian Housing Legislation". The contracted Austrian Institute IIBW provided a full set of housing laws following European best practice, including a Rent Act, a Condominium Act, a PPP Housing Act, a Housing Management and Maintenance Act, a Housing Subsidy Act, framed by an umbrella law including common regulations and definitions (IIBW, 2008; Amann & Mundt, 2010). Despite of strong efforts to implement parts of it, particularly a PPP Housing scheme following the social housing models in Austria, the Netherlands and some Nordic Countries, hardly any reforms were carried out.

**Period 2008 until today: Economic crisis and return to ownership policies**

After 2008, as a consequence of the financial crisis, the housing market was hit hard: the *Young People Rental Housing Construction Program* was reduced in size, the state premium payment for the "Bauspar" banks was postponed about one year and decreased from 5.7 mill € in 2005 to 1.4 mill € in 2009, the number of housing completions decreased significantly, and borrowing for new construction virtually stopped (see chapter 1.1).

As an anti-crises measure, the Romanian Government in early 2009 launched the program *The First House* for supporting mortgage lending and encouraging the construction sector (Governmental Urgency Ordinance 60/2009 and Governmental Decision 717/2009). The program includes state guarantees provided to participating banks by the „National Loan Guarantee Fund for Small and Medium-sized enterprises". The guarantee covers up to 95% of the acquisition/construction costs (up to € 70,000 per case) for the full loan period. With this guarantee, the beneficiary households (first time buyers without age limit) get mortgage loans with interests including a fixed margin on a reference index, which consequently is far below the market level. Re-sale of apartments is prohibited. Despite of the substantial number of subsidized loans of estimated 40,000 since 2009, the outcomes of the program are sobering. It almost entirely applies for sales of existing apartments and hardly contributes to new construction with less than 5% of total lending.

Parallel to this program the Government in 2009 agreed to a limited VAT exemption for new housing construction for apartments with at maximum 120m², with maximum land use of 250m² and total costs of at maximum € 90,000. The effects of this program are not yet clear.

In 2009 the Romanian Parliament approved a document restating the guidelines of the public housing sector programs and their implementation priorities. This is today the only official (and very limited) document indicating state housing policy goals. The actual results of the social housing programs between 2001 and 2010 are shown in table 2.

**Table 2 Social housing programs in Romania**

<table>
<tr><th></th><th>2001</th><th>2002</th><th>2003</th><th>2004</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th></tr>
<tr><td>Rental Housing for Young People (ANL program)</td><td>106</td><td>2,096</td><td>4,937</td><td>4,272</td><td>3,435</td><td>2,773</td><td>2,671</td><td>2,166</td><td>3,455</td><td>1,602</td></tr>
<tr><td>Social rental housing (Law 114/1996)</td><td>441</td><td>607</td><td>1,339</td><td>926</td><td>190</td><td>242</td><td>n.a.</td><td>n.a.</td><td rowspan="2">1,225</td><td rowspan="2">578</td></tr>
<tr><td>Necessity housing (Law 114/1996)</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Social rental housing for tenants evicted from restituted housing (Law 233/2008)</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>1,259</td><td>824</td></tr>
<tr><td>Privately-owned housing (G.O. 19/1994)</td><td>1,096</td><td>788</td><td>430</td><td>819</td><td>182</td><td>201</td><td>0</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td>Privately-owned housing through mortgage loans granted by banks (ANL program)</td><td>295</td><td>512</td><td>142</td><td>313</td><td>107</td><td>94</td><td>113</td><td>335</td><td>597</td><td>364</td></tr>
<tr><td>Total Units</td><td>1,938</td><td>4,003</td><td>6,848</td><td>5,758</td><td>3,914</td><td>3,310</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Total mill. LEI</td><td>161</td><td>359</td><td>433</td><td>472</td><td>270</td><td>258</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Total mill. €</td><td>62</td><td>115</td><td>115</td><td>117</td><td>75</td><td>73</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
</table>

Source: Ministry of Regional Development and Tourism, National Housing Agency

## 1.2 Institutional setting

The executive institution in implementing housing policies is the federal Romanian Government. The structural and fundamental decisions in housing policies are stipulated in laws or governmental ordinances. The institution responsible for the design, promotion and implementation of housing policy and programs in Romania is the Ministry of Regional

Development and Tourism. Yet, for the housing sector, competence of the Romanian Government is largely dispersed. This situation has not changed since the UNECE's criticism in 2001 (UNECE, 2001, p. 52, 92), when the fragmentation of responsibilities was assessed to be an impediment to lasting housing policy reform. There are now six ministries with partly overlapping responsibilities in housing: Funding of housing programs as well as technical and physical management of the housing stock are assigned to the Ministry of Regional Development and Tourism. The Ministry of Administration and Interior is authorized to provide heating, hot and cold water subsidies to low-income families, formulates and implements regional development policies, and ensures coordination of state and local government interests. Issues related to energy use are decided by the Ministry of Economy, Trade and Business Environment. The Ministry of Justice is responsible for the real estate register. The Ministry of Agriculture manages land matters and the Ministry of Finance facilitates the financing of the sector through budget allocation.

Local authorities are mainly responsible for social housing administration, management of public services and social issues (Laws 215/2001 and 286/2006). Municipalities are allowed to outsource social housing services to private or publicly owned management companies.

A main player in Romanian social housing still is the National Housing Agency (ANL). It was established as a self-financing institution of public interest by Law 152/1998 and operates under the authority of the Ministry of Regional Development and Tourism. Its main objectives are the promotion of housing markets, the stimulation of new housing construction and the rehabilitation of the existing housing stock. Since its establishment this institution has been regarded as a practical solution to existing housing problems and an adequate channel through which the State may provide assistance to its citizens. ANL has a national network of territorial offices and collaborates with builders, financial institutions, local and central administration authorities and foreign organizations. ANL programs focus on mortgage-financed privately-owned housing construction, provision of rental housing for young people and a pilot-program for Roma families (300 housing units all around the country) (Niţă, 2009). A new program focuses on attracting young specialists to move to rural areas.

## 1.3 Main issues of Romanian social housing

**Target groups and housing allocation**

The main target groups of the various housing programs, in theory, are disadvantaged people, young people leaving social care establishments (after 18 years of age), first and second-degree disabled persons, other people with handicaps, young married couples up to 35 years, people with average income, evicted tenants from resituated housing, persons from houses affected by natural disasters.

Given the substantial economic benefit of qualifying for a social dwelling, access to social housing is of high political significance on a local level. The legal procedure privileges the mayor to nominate a special inter-departmental committee that analyses all submitted applications and prepares the final approval by the Local Council. Decision is taken based on previously approved detailed allocation criteria. However, in practice, there are no statistics available for further analysis of the allocation process of social dwellings. But as a matter of fact, demand is exceeding supply by far.

**Rent regulation**

The rent level in social rental apartments is determined by a complicated formula, but should in no case exceed 10% of the disposable household income. In the frequent cases that such rents do not suffice to cover all annuities, housing management, maintenance costs and local taxes, the local authorities are obliged to cover the gap with an adequate allowance scheme. Such income-tested rents lead to highly subsidized apartments. It is very unattractive for tenants to leave such dwellings. Hence, housing mobility in this sector is extremely low. Supply of affordable rental housing for eligible households is hardly generated from the existing stock, but mostly from new construction. This makes this scheme rather costly for the state.

Social rental contracts are usually limited to five years, with an option to be extended if income eligibility is proven. In a survey conducted in 2002, it was shown that rent arrears are very common in the social housing stock, ranging from one third of all dwellings in larger cities to one quarter in smaller cities (Pascariu & Stanculescu, 2003, p. 281). The tenant can be evicted only under an irrevocable court decision, but this rarely happens, as mayors try to avoid such practices due to low popularity. There are, however, cases of forced collective evictions of Roma people in some local authorities, sometimes in combination with abusive interventions and police brutality (Rughinis, 2004; Niţă, 2009, p. 5).

**Maintenance and management of social housing**

According to the Housing Law the tenant must properly maintain the apartment and facilities: the tenant has to repair or replace defective building elements and installations of exclusive and shared use. Also, the tenant is responsible for paying all utilities, either directly to the provider or through the homeowners' association. In practice, similar to many other CEE countries, maintenance schemes are poorly implemented. Hardly any residential building has established a repair fund, which would be an important precondition for financing major repair works, such as thermal rehabilitation. Mortgage lending to owners' associations is usually only possible if the financial liability of such bodies is proven, i.e. by demonstrating that a regular contribution of all owners to reserve funds is established. This is hardly the case.

Social housing management is an obligation of local authorities. In most cases the local authority administers the municipal housing stock directly through a special department. Some bigger municipalities have set up publicly owned special companies for this purpose (Pascariu & Stanculescu, 2003, p.278).

## 1.4 Housing finance

**Development of housing loans**

The Romanian mortgage market has developed very dynamically within only a few years, starting from virtually zero in the early 2000s (Table 3). Until 2007, the volume of outstanding housing loans increased by 50 to 90% per year to € 4.4 billion. In the aftermath of the economic crisis the pace of development decreased, but annual growth rates are still at 10 to 20% with a total loan volume of € 6.8 billion in 2010. Outstanding housing loans were at below 1% of GDP in 2003, but have reached almost 6% in 2010. Even though there has been a rapid development, the level of outstanding housing loans is still one of the lowest in Europe with an EU27 average of 51%. Several CEE countries, such as Czech Republic, Poland or Hungary, have meanwhile exceeded the 15% threshold (2009, EMF).

**Table 3 Growth of outstanding housing loans**

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Outstanding housing loans (mill. €) | 500 | 823 | 1,500 | 2,300 | 4,400 | 5,000 | 5,650 | 6,800 |
| % of GDP | 0.7% | 1.1% | 1.7% | 2.6% | 3.2% | 4% | 4.7% | 5.7% |

Source: N.B.R.

Although the savings-contracts with the Romanian Bauspar-banks increased strongly in number from 2004 to 2008, there still is little awareness of this policy measure and the system is not properly positioned in the market dominated by commercial banks and their related products. Bauspar-banks that are now active in Romania did not build up a strong relationship with the state authorities in general, with their present and potential customers and, as a consequence, even though the banks reports growths as regards the number of new contracts, the number of contract cancellations increased drastically in the last two years.

Most of the mortgage loans are provided in foreign currency (77% in EUR with interest rates ranging from 6% to 8%), only about 6% from the loan portfolio is in local currency. There is only little information on mortgage portfolios. The average loan size is estimated at € 38,000 (with a higher amount of about € 70,000 for Bucharest). Loan to Value Ratios (LTV) are usually between 50% and 75%.

For the time being, Romanian financial institutions fund their mortgage loan activities using own resources, short term deposits and financial facilities provided by international financial institutions (EBRD, IFC, DEG), so that the Romanian mortgage market lacks adequate financing/refinancing alternatives. Facing the necessity to diversify the existing financing sources, a new legal framework was introduced in 2006, including a Mortgage Banks Act, a Mortgage Bonds Act and a Securitization of Receivables Act. However, the possible investors for such bonds – pension funds, insurance companies, and mutual funds – are not yet well positioned in the Romanian financial market.

It should be noticed that foreclosure for residential mortgages is still untested, and the Credit Bureau, owned and established by banks with 27 members, has been set up as a private fee-based service.

**Social housing finance**

Basically, public housing is financed from the very limited local budgets in accordance with Law 189/1998, within annually approved budgetary limits. The State assists the construction of public housing by transfers from the national budget, annually set for this purpose in the budget of the

Ministry for Regional Development and Tourism. Local authorities have the responsibility to prepare development plans and to ensure provision of infrastructure to support development. Most programs rely on provision of building land and infrastructure by municipalities free of charge. Some programs (e.g. *Rental Housing for Young People*) have addressed funding from international financing institutions such as CEB, the Council of Europe Development Bank, or the Deutsche Bank AG.

## 1.5 Conclusions

Since there is no monitoring and documentation of the various, frequently changing social housing programs dispersed among the local authorities, it is hardly possible to evaluate social housing policy in terms of equality of treatment and effectiveness of housing the poor and vulnerable households. However, some preliminary conclusions can be drawn from our observations.

In quantitative terms, in the period of 1997 to 2007, the National Housing Agency (ANL) has proven to be an efficient implementation unit for national and local housing policy. Social housing in new construction in Romania before the crisis was on the way of being well established, with a share of total housing production (6% in 2010, but 9 to 12% in the years before) close to the EU average. Some EU countries place particular emphasis on social housing construction, with shares of up to 30% within total construction; others have no social housing construction at all. It is difficult to define an appropriate benchmark for a reasonable volume of social housing construction. Yet, in Romania, there is a clear lack of qualitatively high yet affordable housing, due to a deficient existing housing stock, small average floor space per capita, and a weakly developed commercial rental housing market. Housing affordability is a major challenge for Romania with a housing cost overburden rate at the very top of the EU.

There is some continuity of housing policy, but it seems to be limited to a least common denominator: Although the Housing Law has been amended more than 10 times since its enacting in 1996, hardly any substantial changes of housing models and subsidy schemes took place so far. The reluctance to carry out a major housing reform may be explained with housing policy being no priority in European integration, and with the frequent changes of responsibility within the Government. Housing reform in many cases has the character of ad hoc decisions, referring to current emergency, but disregarding a long term strategy. There is no long-term housing sector policy in place. Consequently a regular assessment of implementation (including reliable data) is missing.

Housing policy reform so far did not improve consumer choice on housing tenure. Ownership ideology is very established in Romania and housing policy programs have contributed to it. Attempts to make rental housing a secure and economically rational alternative were insufficient. Rental housing is divided in extremely unequal market segments with much too low rents in the small social housing stock and rents on an international level on the private market (UNECE 2001, p.25). Rental housing is hardly accessible due to quantitative restrictions (social rental), all but affordable (market rental) or legally extremely unsecure (informal rents).

In general, there is urgent need to increase housing production as a whole. Given the demand, Romania should target 100,000 housing completions per year. This is 4.8 completions per 1,000 inhabitants, which is around EU average. Action is required to adjust housing supply to demand in terms of location and affordability. As a housing developer, ANL is for organisational and financial reasons incapable of providing the whole volume of necessary affordable housing supply. The social housing programs in operation heavily draw on public funds, especially at the level of local authorities. They are financed out of public budgets. In order to activate private capital for the construction of affordable housing as well as co-financing from the capital market, the implementation of a PPP housing scheme should be considered. ANL could hold major stakes in such a process, particularly regarding its original task of financing social housing. The benefit would be that not 100% of finance has to come from the state but private capital could be leveraged. There are well functioning models all over Europe (Amann 2005, 2006; UNECE 2005, p. 60-67, Dübel et al., 2006).

In order for a more effective social housing construction to take place, there needs to be a thorough improvement of the legal framework. Romania is in urgent need of improved housing legislation (Amann & Mundt, 2010). This concerns particularly rent regulation (exceeding contractual law), consumer protection (e.g. in housing purchase), the effectiveness of owners' associations, housing management and maintenance (facing the challenge of thermal refurbishments).

Some of these observations apply similarly to Romania and other CEE countries. For many of them, transition has not ended yet, at least in the field of housing policy.

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