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Institute for Real Estate, Construction and Housing
Vienna

HFA

A Housing Finance Agency for Central Eastern and South Eastern Europe

Feasibility Study
Final Report

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I·IBW Institute for Real Estate, Construction and Housing Vienna

HFA - A Housing Finance Agency for Central Eastern and South Eastern Europe[1]

Feasibility Study

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With support of

[1] Throughout this report, Central Eastern Europe (CEE) refers to the new EU member states of the Czech Republic, Hungary, Poland, Slovakia and Slovenia, whilst South Eastern Europe (SEE) refers to the countries of Western Balkans, Bulgaria and Romania.

CONTENTS

EXECUTIVE SUMMARY

1. All CEE/SEE countries urgently need an **increase in housing construction**, particularly for lower and middle income groups. The focus until now on owner-occupation has not yielded satisfactory results for either of these groups in terms of housing affordability. Although housing policy and the housing sector are making progress, there are only a few persuasive strategies in evidence for increasing the extremely low share of rental housing (shown in Graph 1) and facilitating housing management and refurbishment. Given the fact that, within the decade to come, around 5 million dwellings have to be created in CEE/SEE and considering that a very large part of the housing stock of some 40 million dwellings is in urgent need of refurbishment, the **need for action** is evident.

2. After 15 years of transition, **conditions seem favourable for change**. Economic growth is considerable and stable, capital market financing instruments are evolving, housing policy is becoming more sustainable and targeted and housing promotion schemes are emerging. Meanwhile, International Financing Institutions (IFIs) are showing a growing willingness to invest in housing for low and middle income groups in CEE/SEE. The EU Structural Funds have also been opened up for housing measures in the new Member States and applicant countries.

3. This feasibility study shows that a **multilateral instrument for housing finance** may respond to existing deficiencies by utilising current opportunities. The idea of a HFA – Housing Finance Agency – for CEE/SEE has been initiated by the Stability Pact for South Eastern Europe and is supported by a group of commercial banks and financing institutions active in CEE/SEE, political players and researchers. Its raison d'être is and will be the facilitation of housing construction and refurbishment for low and middle income groups in CEE and SEE countries. HFA will assist national governments, municipalities, housing management institutions and IFIs in establishing financing schemes for housing and providing financial resources.

4. Starting with an analysis of the housing situation in the region, existing housing finance instruments and the institutional framework, the study describes possible Public Private Partnerships (**PPP**) for affordable housing, both in terms of financing and organisation. A business plan for a Housing Finance Agency is then drafted.

5. The difficult situation of housing finance in CEE/SEE may be tackled by learning from best practice PPP models in Western countries and by utilising all possibilities of funding and increases in efficiency. For the financing models calculated it is shown that, for the whole period of financing (calculated in real terms at present value), they may work with a **public contribution of, at most, 30% of total costs**. Public participation must be higher in an environment of generally low wage levels, high construction costs and high interest rates, and may be lower in well-developed economic surroundings. HFA is targeted on lowest possible subsidies according to national priorities. Due to the potential volume of housing finance, it may contribute considerably to the economic development of a region.

6. HFA shall be installed as a non-profit limited liability company, governed by Austrian law. It shall be funded, owned and controlled by international institutions, commercial banks and other stakeholders that are supportive of IFIs, international policy makers and recipient countries. The European Housing Ministers have positively recognized this initiative (Prague Conference, March 2005).

7. The next steps to put HFA into operation are the conditional capital commitment of future owners, a commitment of IFIs regarding their willingness to make use of HFA by placing investments for housing construction and refurbishment in CEE/SEE, and the commitment of target countries to

allow implementation of HFA, including a capital commitment to contribute to a structured financing by public funds or guarantees.

NEED FOR ACTION

8. The question needs to be raised of whether middle income groups are able to access affordable and decent housing without public support. Low income groups currently are served within social welfare programmes and there is sufficient housing supply for top income groups. Yet there is a **big "in-between"** of households that are not properly supplied by the mainly upscale stock of owner-occupied flats. Taking any Western country in a similar state of development as an example, the answer is evident that middle income households cannot cope without state support. In all developed countries, some sort of housing support was (and mostly still is) set-up for middle income groups to be able to afford rental or owner-occupied housing and refurbishment respectively. The **target group** of HFA activities are, therefore, in a first phase, middle income households. Furthermore, PPP models need a minimum solvency of the clients to work properly and middle income households can provide this. In the medium term, the proposed PPP models shall be applicable for lower income households as well.

HOUSING AND HOUSING FINANCE IN CEE/SEE COUNTRIES

9. The years of transition brought **progress** in the following housing-related aspects:
   - construction of owner-occupied flats,
   - privatisation of the banking sector,
   - retail mortgage financing (for higher income groups),
   - introduction of housing promotion schemes.

   Insufficient results have been achieved in:
   - construction of affordable housing, in particular, rental housing,
   - management and refurbishment of the housing stock,
   - replacement of buildings at the end of their life-cycle,
   - housing provision for lower and middle income groups, young households and domestic migrants,
   - curbing housing expenditure: disproportionate energy and maintenance costs have lead to high housing costs. The rapid growth of mortgage financing of owner-occupied flats will inevitably lead to a further increase in the housing expenditure rate.

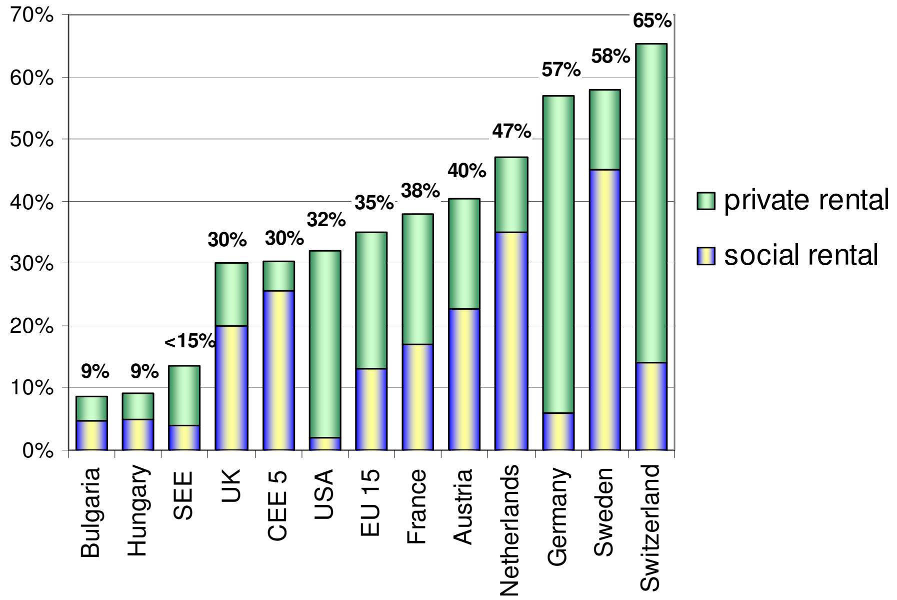
10. CEE countries spend, on average, **2% of the state budget on housing** (i.e. approx. 1% of GDP). The share ranges from 1% in Slovenia and Poland up to 4% in the Czech Republic. In SEE countries, the expenditure for housing is generally below 1% of the state budget. In comparison, the average state expenditure for housing in the EU15 is 3.3% of state budgets. The difference is even more striking when the much higher GDP per capita and a housing stock in decent condition in EU15 are considered. Given the considerable economic spin-offs of housing investment, the case for additional funding is persuasive.

SIGNIFICANCE OF RENTAL HOUSING

11. Comparing the situation with EU15 and other Western countries, it has proven that trying to accommodate people solely by means of owner-occupation is economically unwise. A sizeable **rental sector has important functions for a national economy** far beyond mere social policy goals. Rental housing offers low entry prices, it facilitates mobility of the workforce and it is of major

importance for young households and domestic migrants, who do not yet dispose of capital and lack access to financial markets. In the long run, establishing a rental market offers substantial institutional investment opportunities.

Graph 1: Rental housing stock in selected countries, 2003



Source: PRC Bouwcentrum (2005), Czischke (2005), CH Bundesamt für Statistik

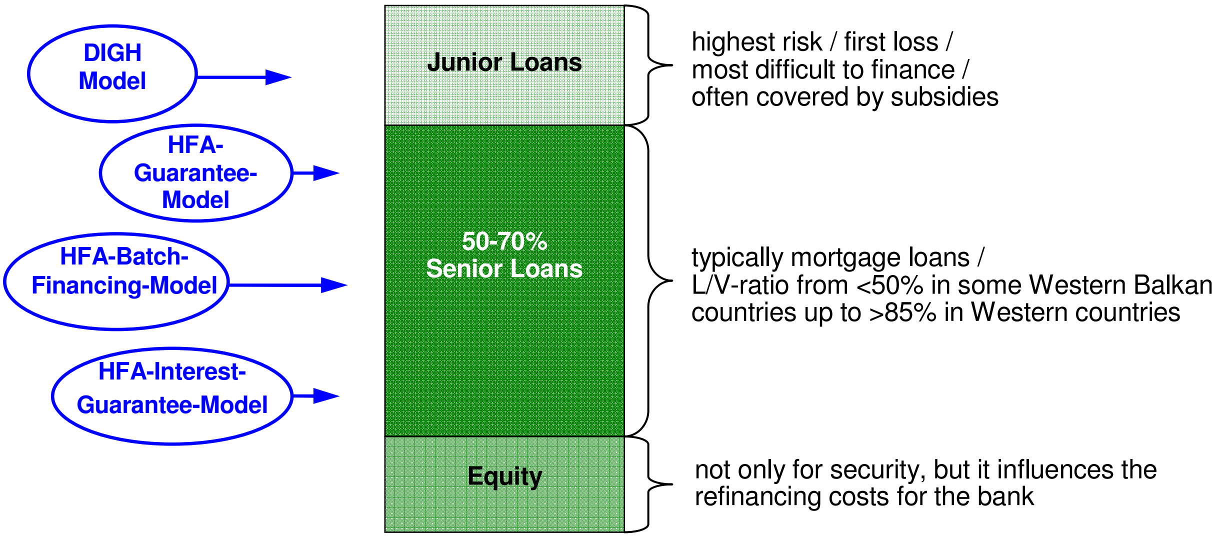
PPP MODELS

12. The analysis of housing promotion schemes in other countries proves the **efficiency of PPP models**, particularly when facing the needs and possibilities of middle income groups. Combining commercial financing with public funding and backing allows for affordable costs for both tenants and owners with moderate public expenditure. PPP models are especially reasonable in two areas:
    - Organisation of affordable housing: The most successful models (more often limited-profit than non-profit) combine the following functions: housing development, long term investment in the housing stock, housing management and maintenance.
    - Housing finance: PPP models combine the strength of the markets with the backing of the state, e.g. by guarantee models and subsidies, which work as incentives to market oriented behaviour.

FINANCING MODELS

13. Several models of **structured financing** are examined:
    - DIGH model: The project partner “Dutch International Guarantee for Housing” is experienced with financing models where the risk of first loss is covered.
    - HFA-Guarantee-Model: The project partner “Kommunalkredit” has designed an efficient model that is structured primarily by guarantees.
    - HFA-Batch-Financing-Model: Following the Austrian model of housing finance, a combination of several “layers” of financing and support is designed.
    - German interest guarantee model: Following a subsidy scheme from Rhineland-Palatinate, the interest rate differential above a certain limit is covered by subsidies.

Graph 2: Principle financing components



Source: IIBW

14. The HFA financing models will result in a form of public support. Thus it has to be in line with **EU legislation on Competition and State Aid**. Analysing current jurisdiction, a set of rules is identifiable: clear definition of services of general economic interest in the field of social housing (target groups), limitation of subsidies to additional costs of these services and transparent and separate accounting principles. These requirements may be met by specific non-profit or limited-profit housing laws. Yet a commercial framework may also be applicable, as long as the individual housing projects are in line with the described rules. A respective model to comply with EU legislation on contractual basis has been designed.

15. **Calculations** have been made to assess the described financing models. Both for CEE and SEE countries, different scenarios have been assumed with the following results:
    - Financing affordable housing by PPP models is still very difficult, as construction costs and land prices are high compared to household incomes. Even in some CEE countries, long term interest rates are well above EU15 levels.
    - Facing energy costs on a Western European level, **housing expenditure** rates become rather high, even with annuities of not more than, for instance, 20% of average household incomes (privately financed rental flats usually cost three times as much). With this degree of solvency, the options for financing are limited; either public spending becomes rather high or the maturity of loans becomes extremely stretched. In any case, the financing of affordable rental flats will take 25 to 40 years. The institutional structure of housing investors has to meet this requirement.
    - The total costs (construction plus financing costs, calculated for the whole period of financing in real terms at present value) and the contributions of the public and tenants respectively, vary strongly according to changes in the economic environment, particularly interest rates. Altogether, PPP models may have lower total costs than privately financed or municipal housing, considering an institutional performance such as that of the limited-profit housing sectors in the Netherlands or Austria.
    - PPP models with public loans are more efficient in an economic environment with high long term interest rates. Models with annuity grants are preferable in times with lower long term interest rates. Housing promotion schemes achieve lower public expenditure by the improvement of the economic environment.
    - It is shown that, for the whole period of financing, PPP models of HFA may work with a **public contribution of 20-30% of total costs**.

FINANCING SOURCES

16. HFA will be successful only if it manages to acquire funding of various kinds as well as the potential to **increase effectiveness** of procedures:
    - National housing funds: loans, grants, guarantees.
    - National VAT legislation: most CEE/SEE countries levy the full tax rate on construction costs and apply non-taxable rents. Thus input VAT cannot be balanced with output VAT. A recent decision of the European Council allows lower VAT rates for housing or social housing. A reduced VAT rate would reduce overall building costs substantially.
    - Municipalities should contribute to affordable housing by providing cheap building land. In return, they might assume responsibility for housing allocation.
    - International sources: HFA might work as a intermediary for European Institutions, such as Development Banks, Structural Funds or single donors. They ought to provide loans, grants or guarantees.
    - Capital market: HFA aspires for more efficient financing tools from the capital market following international best practice, e.g. Austria, The Netherlands, Switzerland.
    - Equity of developers: The example of limited-profit housing associations in Austria or the Netherlands show the potential of a sector strong in equity. A social housing sector will accumulate assets and thus equity. This is not only an important part of general financing, but also makes capital market financing cheaper.
    - A requirement for equity from tenants may enable targeting of the support at middle income households.

    The benefit for any source is that by **combining the funds**, its effectiveness might increase considerably.

BUSINESS PLAN

17. The core part of the feasibility study in hand is a Business Plan for HFA:
    - Legal form: non-profit limited liability company under Austrian law.
    - Owners: European Institutions, DIGH, commercial banks, IIBW.
    - Supervisory Board: appointed by the owners, European Institutions, independent experts.
    - Advisory Board: appointed by the financing partners, commercial banks, national funds, national policy makers, representatives of municipalities.
    - **Mandate**: The objective of HFA is the establishment of efficient financing instruments for rental and owner-occupied housing construction, as well as refurbishment of multi-storey buildings in CEE/SEE. HFA does not act as a bank. The business procedures of HFA are characterised by efficiency and international orientation.
    - Capital endowment: 3 million Euros.

18. HFA acts as an intermediary for housing projects. It covers the following **services**:
    - Accreditation of developers to be integrated into the programme,
    - Project selection according to specific requirements, following a due diligence process,
    - Acquisition of guarantees and capital, to be forwarded to project developers and/or commercial banks on site,
    - Recommendation for financing,
    - Support of the financing partners in execution of the financing process,
    - Supervision: Application of a system of steering and control,
    - Standardisation of products (financing models) and procedures (assessment of project partners and development projects),
    - Consultancy for national authorities, commercial banks and international institutions.

SPECIFIC ISSUES FOR EU POLICY MAKERS

19. HFA is designed as an instrument to **execute EU positions on housing** (explicit and implicit) for CEE and SEE countries. It is particularly applicable as an intermediary to bridge the gap between investment supply of EU Structural Funds or IFIs on the one hand and financing demand of single housing projects in CEE/SEE on the other hand. The HFA financing models are in line with EU legislation on Competition and State Aid. Furthermore, HFA activities may result in an increase of competition in the construction and financing sector. In general, improvements in housing provision contribute to prosperous economic and social development in the region.

SPECIFIC ISSUES FOR RECIPIENT COUNTRIES

20. HFA is regarded as intermediary, which may contribute considerably to the **improvement of housing provision** for low and middle income groups as well as to the establishment of a rental housing sector in CEE and SEE countries. National and local authorities are core partners for HFA. The described objectives are only attainable by mutual trust and cooperation. A financial commitment is indispensable.

SPECIFIC ISSUES FOR DEVELOPMENT BANKS

21. HFA is designed as an efficient intermediary for the **investment interests** of IFIs. They are expected to play a supportive role for HFA. In return, HFA will be most useful in identifying feasible housing projects, structuring financing, supervising the development process and even sharing risks. Even though HFA is not intended to act as a bank, it may work as a pass-through of capital from IFIs. IFIs are expected to provide loans and guarantees.

SPECIFIC ISSUES FOR COMMERCIAL BANKS

22. HFA is initiated by, amongst others, several Austrian based commercial banks. Nevertheless, it is open to other commercial financing partners if they meet the defined requirements. The financing models of HFA are designed to increase the efficiency of commercial financing (from the point of view of consumers and the public). It is expected that financing products for affordable housing will create **lower margins, but larger volumes** than previous business activities in CEE/SEE. In some Western countries, commercial banks have become owners of limited-profit housing associations.

PARTNERS

23. Project partners and **possible stakeholders** of HFA are: DIGH - Dutch International Guarantees for Housing, Bank Austria Creditanstalt AG (Unicredit), Kommunalkredit Austria AG, Raiffeisen International.
    Pilot countries for the feasibility study are Slovakia, Romania, Kosovo and Montenegro. HFA is open to all CEE and SEE countries.
    Possible **supportive partners** are: EIB - European Investment Bank, other Development Banks, Stability Pact for South Eastern Europe, Austrian Federal Ministry for Economy and Labour, Vienna Municipality, Austrian Association of Cities and Towns.
    Working Team: Wolfgang Amann (IIBW, Vienna), Erik Beijer (DIGH, Hilversum), Franz Englhofer (Raiffeisen International), Nadejda Komendantova (IIBW), Alexis Mundt (IIBW), Günther Neuwirth (BA CA), Friedemann Roy (Bankakademie International, Frankfurt), Marc Schimpel (Kommunalkredit Austria), Walter Schwimmer (Former Secretary General of Council of Europe) and the Vienna based law firm, Hasberger_Seitz & Partner.

PREFACE

The European Union is a political integration project based on the values of democracy, human rights, rule of law, pluralism, equality of opportunities and solidarity. The enlargement of the EU to 25 Member States and the pending enlargement to include the countries of South-Eastern Europe are based on these fundamental values, from which derive the four freedoms of the EU (capital, people, goods and services), as well as aspects of economic development, economic and social cohesion, stability within Europe and geopolitical strength. Economic and social aspects and aspects of territorial cohesion cannot be treated in isolation from each other.

In most Western European countries, **housing development** is generally seen as an integral part of socio-economic development[1] and it is acknowledged that well-integrated human settlements are an important part of the overall social fabric and a pillar of environmental protection.

Following an initial phase of reduced state intervention[2], SEE housing sector reforms in the mid-90s were characterised by efforts that focused on short-term problem solving rather than strategic interventions with a sustainable long-term perspective. As a result, progress in housing and urban development has been inadequate[3] and further efforts at reform are needed with regard to the overall institutional development, legal framework, (social) housing policy development and housing finance.

The resulting deficiencies in housing supply and housing quality represent a major obstacle to economic growth, environmental sustainability and to a more **equitable distribution of social and economic opportunities** in South Eastern Europe. The social and economic costs of neglecting this issue are high and it is therefore in the international and national interest to overcome these constraints on the proper functioning of housing markets and planning systems.

With regard to the sphere of **housing finance**, there is a particular lack of financing instruments for housing construction and refurbishment, of legal certainty in property transactions and of management of the housing stock. More generally, there is little guarantee of a supply of quality and affordable housing for the lower and middle income groups of the population. Efficient financing structures are urgently needed in Central Eastern and South Eastern Europe to meet the existing demand for long-term capital at favourable interest rates. These will facilitate the realisation of social housing projects, privately organised projects of new housing for rent and owner-occupation, the refurbishment of multi-storey buildings, urban renewal and the establishment of single-family houses.

A working group, set up on the occasion of a scientific conference in Vienna on “Real Estate Research in Central-Eastern and South-Eastern Europe”[4], has taken up the initiative to propose financing structures for housing construction and refurbishment in Central Eastern and South Eastern Europe. This feasibility study sets out the basic ideas of a financing instrument that includes a **Housing Finance Agency** - which could make a substantial contribution to the social, economic and territorial integration of the new Member States and the countries of South Eastern Europe. The proposed

1 This arises from addressing immediate quantitative housing shortages during the post-World War Two period to overcoming qualitative housing shortages, integrating housing finance in financial sector policies and providing fiscal incentives from the 1960s onwards.

2 Reduced public expenditure on housing (social housing) and mass privatisation of housing stock.

3 For example, there has been increased informal housing market development and urbanisation, a lack of accessible housing finance instruments, the absence of an adequate rental housing market, standstill in social housing provision and a lack of cooperative tools for housing stock management and maintenance.

4 Amann (Ed.) (2004).

establishment of the Housing Finance Agency should be viewed as a stimulant to further institutional development in the region and as a means of enabling the fundamental values of the European Union to be broadly implemented with the use of market-economy instruments.

Last, but not least, the proposed Housing Finance Agency might serve as a suitable intermediary for International Development Banks for their engagement in housing construction and refurbishment in CEE/SEE. Development Banks need large batches of financing, as well as know-how and trustworthiness. Meanwhile, the recipient side needs long term low interest financing.

I would like to welcome this study as a valuable contribution to the overall debate on housing finance. I believe that the idea of establishing a Housing Finance Agency merits the consideration of International Finance Institutions and practitioners in this sector and I look forward to a constructive dialogue.

Dr Erhard Busek
Special Co-ordinator of the Stability Pact for South Eastern Europe
Chair of the HFA-Project Advisory Board

INTRODUCTION

An overview of the economic development of the new EU Member States in Central Europe, the EU applicant countries and other South Eastern European countries shows promising results. The growth rate of GDP for these countries for 2005-2006 is forecasted to be well above the EU15 average of 1.9% for 2005 and 2.2% for 2006. Among CEE countries, the Slovak Republic reached 5.5% in 2005 and is forecast to reach 6% in 2006, whilst the Czech Republic is only slightly behind. Growth in other CEE countries is slower, but it still reached 3% in 2005 in Poland and will reach 3.4% in 2006 in Slovenia. The growth rates in SEE countries vary from 3% (Croatia, 2005) to 5.5% (Romania, 2005/06). The Western Balkan countries display even better macro economic data, with the GDP growth rates ranging from 4% (Macedonia, 2005/06) up to 6.5% in Albania (2005/06).[1]

These positive results have spilled over into the housing sector. The development of building permits, of mortgage finance, of retail finance and of production in the construction sector are evidence of positive improvement.

However, rental housing construction and refurbishment of multi-storey panel buildings have not yet benefited from this trend. Although considerable action has been taken by the respective governments, progress in these two areas is still sluggish. In several countries, national housing funds or financial instruments for public rental housing and refurbishment have been introduced. In some CEE countries, a kind of Third Sector in Housing seems to be emerging. Considerable efforts are being made to stimulate refurbishment and the legal framework for this has been improved in most countries. Yet it is financial concerns that remain the most difficult issue. A promising recent development is the opening of the EU Regional Funds for housing construction and refurbishment in CEE and applicant countries.

The analysis in the following chapters allows the conclusion that, in spite of deficiencies in many areas, a new financing instrument - using the synergies of national housing promotion schemes, capital markets and international financing sources - could lead to a substantial improvement in housing construction and refurbishment to meet the very urgent needs of present and future housing provision.

This feasibility study is divided in four sections. Chapter one (p. 17), with a focus on rental housing and refurbishment, analyses the present situation in CEE and SEE countries. Throughout the study, special attention is paid to the four pilot countries of Slovakia, Romania, Kosovo and Montenegro, which declared their willingness to cooperate in the establishment of a Housing Finance Agency. Selection criteria for the pilot countries were the different stages of development and regional diversity. Therefore, this selection includes new EU Member States, applicant countries and countries from the Western Balkans. Chapter two (p. 26) summarizes the recent developments of housing finance in CEE/SEE. Chapter three (p. 47) describes the preconditions for and some practical aspects of a Third Sector in housing for CEE/SEE countries. It is assumed that, in addition to efficient financing instruments, institutional innovations such as Public-Private-Partnership (PPP) will have the largest leverage effect to improve housing conditions in the region. The final chapter four (p. 47) describes the entrepreneurial idea of a HFA in the form of a business plan.

The model of a Housing Finance Agency was initiated by Dr. Erhard Busek, Special Coordinator of the Stability Pact for South-Eastern Europe. IIBW, the Vienna based Institute for Real Estate, Construction

[1] WIIW (2005).

and Housing, subsequently organised a project team to examine this model and hence contributed to the realisation of the feasibility study.

The objectives of the project derive from the analysis of the present situation, described in chapters one and two. All countries in the region suffer from similar problems:

- Privatisation has led to an extremely small rental housing stock. Al least 4 million dwellings were privatised in CEE and some 3.4 million in SEE countries. This is around 18% of the total housing stock, which before was social rented stock and is today now owner-occupied. Privatisation was beneficial to the sitting tenants, who were able to get a decent flat practically for free. However, it has been adverse to new households in need for accommodation. In particular, these are young households and migrants from rural to urban areas, who today have big difficulties in finding appropriate and affordable housing. Privatisation did not solve the problem of housing management and maintenance. On the contrary, a substantial part of the housing stock is in serious danger of being unrecoverable due to long lasting under-investment.
- Construction activities do not match the required volumes. Single-family homes are built even in difficult times. People tend to save their money in bricks and mortar. Also, owner-occupied flats are accounting for a growing number of completions. Yet there is virtually no rental housing construction. Prices both for real estate and land are growing by two-digit annual rates in all metropolitan regions. This means growing wealth for owners and good business for housing developers. Only a limited number of customers, though, are able to afford such prices. In total, CEE countries have construction rates of around half the average of the EU15, while in most SEE countries rates are even lower.
- There is a wide range of products on the market for high income groups. On the other hand, most countries have intensified their endeavours to cover the needs of the poorest by introducing housing funds and starting new municipal housing projects. However, there is a serious threat that those in-between - the medium income households - become the losers in the transformation process. They have no access to fully subsidised public housing, while, at the same time, they may only be able to enter private markets with heavy constraints. Supporting this group of people by state aid is not only a budgetary question for the countries. It raises the general question of how far the responsibility of the state should go.

With a Housing Finance Agency, a prospect of affordable housing and feasible refurbishment is described. But the bigger part of the challenge is imminent: the implementation of such an institution.

For the project team

Wolfgang Amann

1 HOUSING SITUATION IN CEE/SEE

1.1 HOUSING STOCK

Both Central and South Eastern European countries have housing stocks considerably below the EU15 average. With an average of c. 350 dwellings per 1 000 inhabitants, the CEE countries range from 308 (Poland) to 436 (Czech Republic). The SEE countries are slightly below this and range from below 300 (Macedonia, Serbia) to 470 (Bulgaria). In comparison, the EU15 countries have an average of 467 dwellings per 1 000 inhabitants. Austria, for instance, has 477. Insufficiencies in the housing stock are related both to quantity and quality. The useable floor space varies widely, from only 45m² in Romania up to around 75m² in Slovenia, Hungary and Czech Republic. Altogether, the useful floor space in CEE countries is around 20% below and in SEE countries around 40% below the EU15 average of 90m².[1]

In the transition period, most CEE/SEE countries have strongly encouraged homeownership by means of massive housing privatisation and the introduction of several subsidy programmes for owner-occupied housing. As a result, some countries have excessively high levels of home ownership (with an average of 68% of total occupied dwellings in CEE and above 80% in SEE countries) in comparison to the EU15 (about 63%) and the United States (approximately 68%).[2] For instance, while the owner-occupancy rate is rather low in the Czech Republic (at 47%), it is extremely high in the case of Hungary (at 92%). In South Eastern Europe, Bulgaria has a rate of 91% and Albania and Macedonia have rates of about 95%.

The available data on rental housing show inconsistencies, which is partly due to unclear classification. Graph 3 gives an overview of housing tenancy in selected CEE/SEE countries. Social renting is classified as public rental plus cooperative housing. Older publications, though, show lower levels of rental housing, but higher shares of “others”, which could, of course, imply quite different conclusions. Some Central European countries have kept a considerably high level of social rental housing, in particular municipal housing and the rental dwellings of housing cooperatives. It is around one third of the housing stock in the Czech Republic and Poland, and is still nearly 20% in Slovakia. In contrast, almost no social renting has remained in Hungary and Slovenia, as well as in all SEE countries.

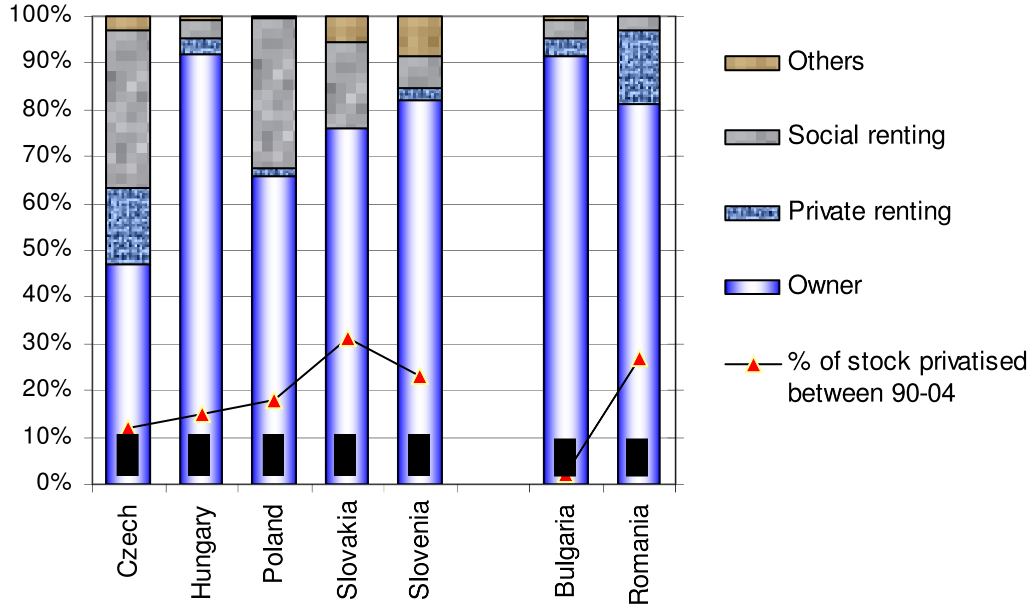
The percentage of multi-family dwellings as well as high-rise dwellings is considerably higher in CEE countries compared to EU15 or SEE countries. On average in the EU15, 47% of the housing stock are multi-family dwellings, with 14% of the stock located in high-rise buildings. In CEE, 54% are multi-family dwellings and 34% of the stock is located in high-rise buildings.[3] This means that, for quantity reasons alone, the challenge of refurbishment is considerably higher in CEE countries than in Western Europe. The situation is aggravated because of the long period of under-investment in maintenance and repair in these countries.

1 Sources: Housing Statistics in the EU (2005), IIBW.

2 Housing Statistics in the EU (2005); Statistics Austria; Czischke, D. (2005); PRC Bouwcentrum International (2005).

3 PRC Bouwcentrum International (2005).

Graph 3: Housing tenancy in selected countries, 2002



Source: PRC Bouwcentrum International (2005), Ecorys (2005), IIBW

Table 4: Key figures on population in CEE/SEE

	Population 2003 (mill.)	Population change 93-03	Number of Households 2003 (mill.)	Average Household size 2003	Annual Income per household € 2002
CEE Total	65.9	-0.7%	23.4	2.8	4 800
SEE Total	57.5	-5.0%	17.4	3.3	2 500
Czech Republic	10.20	-1.3%	3.83	2.7	7 300
Hungary	10.16	-1.3%	3.86	2.6	5 400
Poland	38.20	-0.7%	13.33	2.9	3 800
Slovakia	5.38	1.0%	1.67	3.2	2 100
Slovenia	2.00	0.3%	0.68	2.9	13 500
Albania	3.40	7.4%	0.73	4.7	3 300
Bosnia and Herzegovina	3.83	-13.5%	1.24	3.1	3 100
Bulgaria	7.82	-7.7%	2.90	2.7	1 800
Croatia	4.44	-7.0%	1.44	3.1	6 100
Kosovo			0.37		3 900
Macedonia	2.02	-2.4%	0.56	3.6	3 400
Romania	21.73	-4.5%	7.32	3.0	1 500
Serbia and Montenegro	10.63	1.4%	2.62	3.3	3 300

Source: Ecorys Hungary (2005), Garcia et al. (2005), IIBW, PRC Bouwcentrum International (2005), UNECE database

Table 5: Key figures on housing stock and construction in CEE/SEE

	Housing Stock 2002 (mill.)	Increase dwellings 1993-2002	Dwellings/ 1 000 inhab. 2002	Ø useful floor space m²	Useful floor space m² per capita	% of stock privatised 1990-2004	Dwellings completed/ 1 000 inhab.
CEE Total	22.7	4.0%	334	73	26	17%	2.7
SEE Total	18.2	7.0%	346	52	16	18%	ca. 1.3
Czech Republic	4.37		428	84	32	12%	2.7
Hungary	4.10	3.8%	407	74	28	15%	3.0
Poland	11.76	3.5%	308	69	24	18%	2.6
Slovakia	1.72	4.0%	321	56	17	31%	2.6
Slovenia	0.78	16.8%	393	114	39	23%	3.6
Albania	0.79						
Bosnia and Herzegovina							
Bulgaria	3.69	8.4%	469	63	23	2%	0.8
Croatia	1.85	15.8%	417			15%	2.7
Kosovo							
Macedonia	0.60		296	72	20		2.2
Romania	8.13	5.4%	373	45	15	27%	1.3
Serbia and Montenegro	3.15		297				1.4

Source: Ecorys Hungary (2005), Garcia et al. (2005), IIBW, PRC Bouwcentrum International (2005), UNECE database

1.2 HOUSING PRIVATISATION

The high home ownership rates in the CEE and SEE countries are only partly a result of privatisation within the transition period. Surprisingly, even in socialist times the owner-occupancy rates were close to the Western European level and, in some countries, higher (Bulgaria, Hungary, Slovenia). Privatisation in CEE countries comprised 17.5% of the housing stock, varying from 12% in the Czech Republic up to 31% in Slovakia. In Bulgaria, almost no dwellings were privatised after 1990, as most of them were already owner-occupied. In absolute numbers, the largest privatisation programmes took place in Romania and Poland with each accounting for more than 2.1 million dwellings. In CEE countries, some 4 million dwellings have been privatised in total, while in SEE countries the figure is some 3.4 million. In most countries, the privatisation process is still going on.

Housing privatisation was seen as a precondition for the development of mortgage schemes: "Housing privatization is very much a precondition to market-based housing finance: where there is no housing sold to private individuals there will be no demand for private mortgage finance, because there is no need for it."[1]

One target of privatisation was to place assets into the hands of private individuals to enable them to act as economic subjects. In this respect, the aims of privatisation have partly failed. Only few people have been able to convert their assets into capital. And, where they do, it has not been in the intended way, but by subletting the apartment alongside any tenancy rights. Only in metropolitan areas has there been a market for privatised panel block apartments. They are accepted as collateral for mortgage

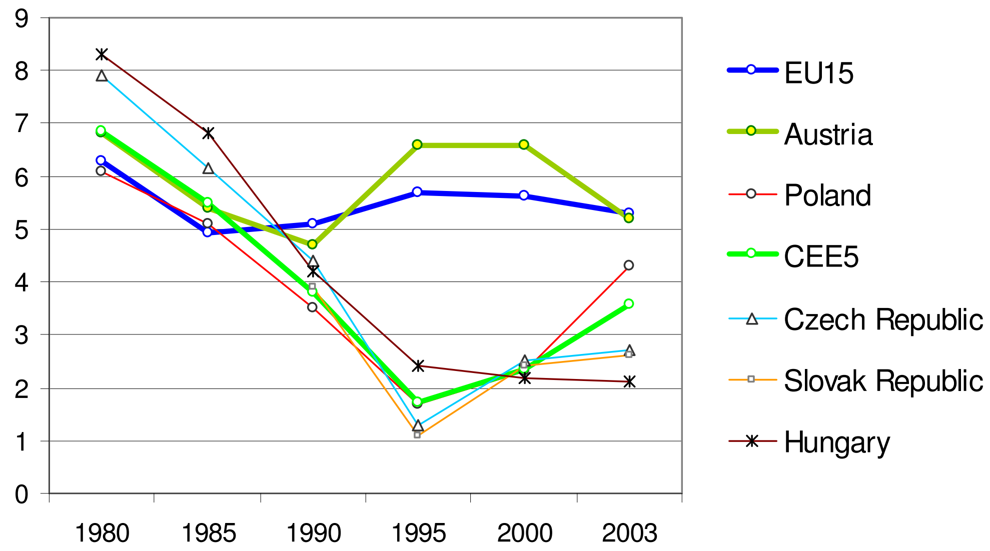
1 Renaud (1996), p.9.

loans in all CEE countries, but only in some SEE countries. The situation is difficult as hardly any operable models for maintenance, management, foreclosure procedures and financing of refurbishment are available.

1.3 Housing construction

Due to economic constraints during the transition period, housing construction has decreased considerably (Graph 6). Only the construction of single-family houses has not been affected. However, multi-storey and, particularly, rental housing construction has come more or less to an end. This trend changed at the end of the nineties, when multi-storey housing construction gradually recovered. Today, construction rates in some CEE countries already come close to the EU15 average. Overall, though, output in CEE countries is approximately one third less than in EU15 countries.

Graph 6: Construction output in CEE 4 (CZ, HU, PL, SK)



Source: Euroconstruct 6/2005

Despite the successful recovery of housing construction, there are serious deficiencies:

- Housing in CEE/SEE is characterized by under-investment over a period of more than 15 years. Therefore, present construction rates are far below those which are needed. Parts of the housing stock are in a state of disrepair. Replacement of these is indispensable in the medium-term.
- The structure of housing supply does not reflect demand. Economic changes have strengthened the metropolitan areas and weakened rural areas. There is an oversupply of housing in disadvantaged regions and a shortage in housing markets in the metropolitan areas.
- The market has particularly been producing owner-occupied flats for higher income segments. Even though a surprisingly high number of households are able to afford these upscale owner-occupied flats, the specific demand of middle and lower income groups is not covered at all.
- There is still almost no rental housing construction.
- The increase of construction output in some countries is strongly related to new housing subsidy schemes. Changes to these models may cause serious decreases in construction output. This recently happened in Hungary.

The present construction rate, therefore, does not reach the necessary quantity by far. A big problem in metropolitan areas all over CEE/SEE is the dynamic increase in property prices. This will be a serious challenge for affordable housing.

1.4 HOUSEHOLDS AND HOUSING PROVISION

In many CEE and SEE countries, the population has decreased during the transition period. Between 1993 and 2003, CEE countries, on average, lost 0.7% of their inhabitants. In SEE countries, population loss was even more dramatic, at 5%. Most notable were the decreases in Bosnia/Herzegovina (-13.5%), Bulgaria (-7.7%) and Croatia (-7%), and, in Central Europe, those of Hungary and the Czech Republic (each -1.3%). A positive demographic trend, though, is reported from Albania, Serbia, Slovenia and Slovakia. The reasons for a decreasing population are varied, the most important of which are declining birth rates and increases in the mortality rates. Emigration played a different role. In the new EU Member States of Central Europe, despite strong economic differences, emigration was not very strong during the nineties. However, an increase can be observed since the accession to the EU in 2004. In former Yugoslavia, the wars during the nineties resulted in heavy flows of migration, partly between the ethnically divided countries and partly to the West.[1]

The average household size is 2.8 persons in CEE and 3.3 persons in SEE countries. The number varies only slightly in CEE from 2.6 persons in Hungary to 3 persons per household in Slovakia. Notably large households are found in Kosovo (5.6) and Albania (4.2). In other SEE countries, the household size is below 3 (Bulgaria, Romania, Serbia). The useful floor space per capita is around 26m² in CEE countries and only 16m² in SEE countries. By contrast, it is 37m² in EU15.

The data for housing expenditure, i.e. the part of household incomes which has to be spent on housing, are inconsistent. Average household incomes in CEE countries are about € 400 and in SEE countries € 210 per month. In EU15, it is almost € 2 000 per month. Following the data of PRC (2005) households in CEE countries have to spend on average almost exactly € 100 per month on housing, which results in a housing expenditure rate of 25.4%, a level slightly above the EU15 average. That is to say that household incomes far below EU average are partly compensated by low housing expenditures, at least at the present time.

The acceptable housing expenditure rates are explainable by reference to the very high owner-occupation rate in these countries and the low level of mortgage loans to finance ownership. This means that the extensive privatisation of rented flats in the nineties (see Graph 3, p.18) resulted, amongst other things, in a stabilisation of average housing expenditure. For the future, a heavy pressure on housing expenditure is to be expected. Increasing land and house prices, as well as developing markets for mortgage loans, will result in rising monthly expenditure for owners. At the same time, the remaining rental housing stock with mostly regulated rents is under pressure to be liberalised. Housing expenditure rates at a reasonable level are of great importance for keeping down inflation.

The very high owner-occupation rate as a result of extensive privatisation also has an impact on economic development in other aspects. It is one of the major reasons for low mobility. Boeri and Brückner[2] described the low domestic mobility in CEE countries, which is clearly below EU15 average. A major reason for this is related to housing provision. Workforce ought to follow job opportunities, but in areas with poor economic dynamics, the market prices for owner-occupied flats usually are low. The

[1] Source: UNECE database.

[2] Boeri, T., Brückner, H. (2000).

asset of a (privatised) apartment subsequently can only partly be transferred to capital. In the booming regions, on the other hand, the markets are hot. Any revenue from disposing of the previous flat does not come near to covering the costs of a new apartment. At the same time, rental markets are divided, with very low rents for people with old contracts and very high rents for all others. In a situation where the revenues from selling a flat are in such a disproportion to the costs of obtaining a new one, it becomes unattractive to move from one city to another, regardless of the different income perspectives. However, new industries with a need for labour are not at all interested in housing measures. They have implemented a system of large scale commuting by bus. The economic and social sustainability of this strategy is in question.

It is not only migrants, but also young households that are the most affected by the present situation. Privatisation in the nineties resulted in adequate housing provision for the former tenants. Today, though, new households, in particular young people at the stage of their first establishment, are in a less advantageous position. Their options are reduced to buying property, regardless of the high price-to- income ratio, accepting a sublet apartment, queuing up for a social rental flat or staying with their parents (the most common alternative).

Hence, demand for housing construction is most urgent in metropolitan areas. South Eastern Europe as a whole has a high backlog regarding floor space per capita. The total demand for new construction within the next decade is estimated to be far beyond 2.5 million units in the Central European EU Member States. For Poland alone, demand is estimated at 1.6 million apartments.[1] For South Eastern Europe, a comparable estimation does not exist. Given approximate population and housing stocks with even larger deficiencies, demand of at least the same quantity can be assumed. This means a total demand of at least 5 million units within one decade!

1.5 Reasons for the stagnation of rental housing in CEE/SEE

Although construction of owner-occupied flats has recovered, this is not the case for rental housing:

- The strong preference for owning property is not particularly determined by the national character of people. It is rather rooted in economic reasons. Property is regarded as a security against trouble of any kind, above all, future income insecurity. People have experienced that property has kept its value when savings have been lost and tenancy rights have appeared to be insecure. Second, there is little choice for people regarding investments. In countries with an underdeveloped banking sector, people tend to convert their savings directly to bricks and mortar. Third, property is a way to pool the economic resources of several family members, including relatives who work abroad. Thus, investment in real estate promises a double dividend by providing accommodation with low running costs and an asset that increases in value.
- The sharp decline in public housing in the nineties did not recover at all. Municipalities are only considerably active in housing construction in a few countries (e.g. Poland). Generally, the public sector tries to avoid being involved once more in housing construction, as it disposed of owners' obligations by privatising big parts of the rental stock.
- Rental housing is not competitive today. As long as it is cheaper to finance property privately, renting an apartment is not attractive. For this reason, there is no supply of rental flats and hence no market, which could develop into a vicious circle.
- The profession of rental housing developers is not established in CEE and SEE countries. Currently, housing developers are often subsidiaries of construction companies. Their primary interest is to employ their own construction division and to get returns on investment as soon as possible. Long term

[1] PRC Bouwcentrum International (2005).

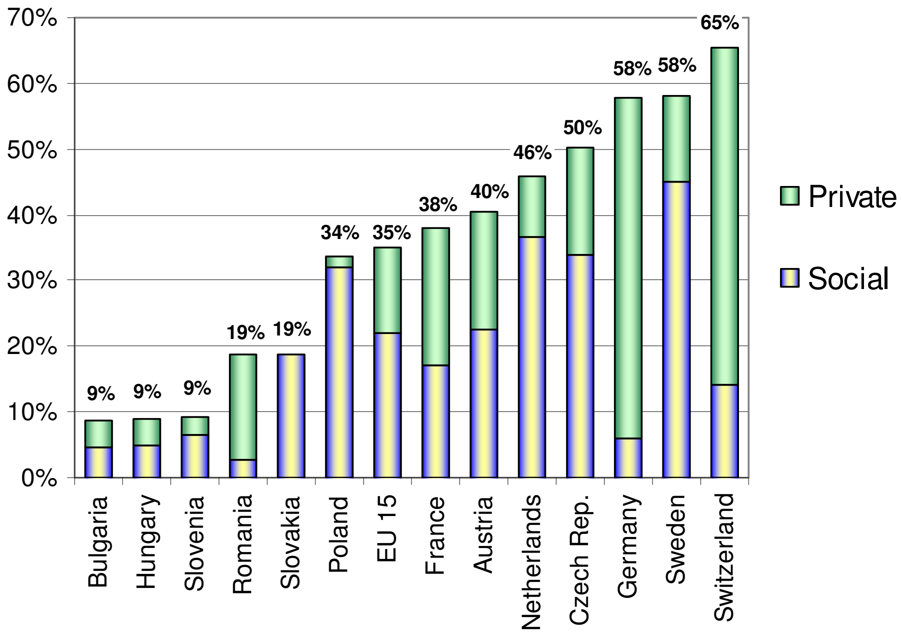
investments are neither their core business nor in their interest. Rental housing developers in contrast must have a long term perspective. There are well functioning models for these all over Europe.[1]

- Mortgage systems do not provide adequate financing as yet. Even though mortgage financing is developing rapidly, it is focused on retail finance, whereas for institutional financing (financing of companies, owners associations etc. for rental housing or refurbishment) there is still a shortage. Development of financing instruments is closely related to institutional development in the housing sector, i.e. the establishment of housing developers.

1.6 RATIONALE FOR PROMOTION OF RENTAL HOUSING

Compared to CEE and SEE countries, in most Western European countries, a much bigger part of the housing stock is for rent. But housing policy has changed during the 1980s and early 1990s. Governments in several countries, among them The Netherlands and Germany, strived towards an increase in owner-occupation. Among the reasons has been the strong trend towards reducing the involvement of the state in economic affairs. Yet still the level of rental accommodation in these countries is considerably high (Graph 7). The endeavour to cut down rental housing has since cooled off. The realignment of housing policy in Central and Eastern Europe towards extensive privatisation took place at a time when the emphasis on owner-occupation had reached a peak.

Graph 7: Rental housing stock in CEE/SEE and selected EU countries, 2002



Source: PRC Bouwcentrum (2005), Czischke (2005), CH Bundesamt für Statistik

Today, the following functions are attributed to social and private rental housing in Western European countries:

- In countries with unitary or integrated rental markets (Scandinavia, Netherlands, Austria)[2], social rental housing is considered an instrument against poverty and social exclusion. It is of specific importance for young households and migrants.

[1] See chapter 3, p.47 ff.

[2] See chapter 3.1, p. 47 ff.

- Only a housing market with a supply of different kinds of tenure can be efficient regarding variable consumer choices. Even if the majority of the population prefers to own property, it is economically efficient to serve the demand for rental housing as well. A prerequisite for efficient consumer choice is the supply of affordable rental dwellings. Many EU15 countries have unitary or integrated rental markets with an attractive supply of rental dwellings for middle income groups.[1] A choice of a rental apartment only makes sense if it is cheaper than a privately financed property.
- A big part of the population has, because of insufficient security, no access to credit and hence to financing for the ownership of property. For them, a sufficient rental supply is a socio-political necessity.
- There are several macroeconomic advantages of a well developed rental sector. A major benefit is that it allows for labour mobility. As rents in social housing are usually limited, the sector can be used as an instrument to influence total housing expenditure and to abate inflation. In countries with integrated rental markets, such as Austria, the social housing sector is able to even influence the price level of the private rental market, due to its quantity and accessibility for the majority of consumers.[2]
- Rental housing offers institutional investment opportunities of rapidly growing importance. Due to risk spreading, rental housing is in growing demand by real estate funds.

The high and stable rate of rental housing in many Western European countries shows clearly its political significance.

What might be the rationale for governments in CEE/SEE countries to promote rental housing? Decision makers in CEE/SEE countries mostly place exclusive emphasis on owner occupied housing. The priority of owner occupation results from very basic positions of CEE/SEE governments in terms of political philosophy. Generally speaking (and generalising), these governments follow market liberal principles. They try to reduce the duties of the state and transfer as many obligations as possible to the market, including housing provision. Western European traditions, which have been developed both on the left and on the right of the political scale (social state vs. social market economy) exert astonishingly little influence on the new EU member states and the countries beyond. The ignorance or rejection of a rental housing policy thereby is based on policy priorities alleged to be of the European Union and international organisations. The EU has repeatedly refused to accept housing as a competence of the Union, as it is regarded a competence of the National States. As Candidate and new Member States are used to observing statements from Brussels most attentively, this looks like a positioning against rental housing policies in general. The rental housing schemes practised in many "old" Member States seem to be tolerated by the Union, but not seen as at all suitable to copy. At the same time, the western Member States have no advantage in promoting their rental housing schemes abroad. The critical and even negatory approach of CEE/SEE governments towards rental housing policies is, to a large extent, caused by the non-commitment of the EU in this matter.

Still, the good performance of many western Member States regarding housing provision, housing cost and state expenditure for housing is perceived and it is admitted that this may have something to do with their well functioning rental markets. In this respect, decision makers in CEE/SEE argue that Western countries benefit from the old heritage of social rental housing and that they would not have enough resources to start to do so for themselves. Therefore, housing policy schemes emphasising owner-occupation are not ideal, but they cause no or only low state expenditure and they result in considerably high construction output as well.

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[1] See chapter 3.1 "Social housing in Western Europe", p.47.

[2] Amann / Mundt (2006).

But is it true that starting a rental housing scheme is only possible with heavy state expenditure? The Polish experience with the TBS system seems to confirm this assumption. There is evidence that the necessary support for a social housing sector is inversely proportional to its size.[1] In some countries, though, extended social housing sectors with solid and maturated non-profit housing companies work with very little state support and hardly invasive legislation.

With the proposed instrument of a Housing Finance Agency, we try to give a partial answer to the questions raised above. Matured social housing sectors, like the Austrian sector, prove that by utilisation of the capital market and market forces in defined stages of the production process, it is possible to realise affordable housing with low public expenditure. We believe and try to prove that models like this are transferable to premature housing markets, with similar beneficial effects.

There are a few striking reasons for promoting rental housing in CEE/SEE countries:[2]

a) Governments are developing integrated policy strategies in order to improve their performance and raise their chances of being re-elected. Democratic maturation is likely to produce more complex policy strategies. The potential of housing as a multi-layered policy field may be tapped fully alongside this development. Governments are well advised to utilise housing with its tremendous spin-off effects regarding economic, social and environmental targets, as well as regional planning. As shown for Western countries (see the items as listed above, p.23), rental housing has a much larger potential to be utilised for different policy targets, compared to owner-occupied housing.
b) Rejecting an emphasis on rental housing policy will inevitably cause even further rises in owner-occupancy rates, frozen mobility for low and middle income groups, a decline of housing consumption (living space per capita) and, in the long run, stagnating construction output.

Concluding from previous experiences, governments of countries with immature rental markets, who intend to emphasise rental housing, should bear in mind some basic considerations:

- Social housing only for low income groups, with means-tested access, inevitably leads to dual rental markets. There is a strong tendency towards “poor services for the poor”. Settlements with particularly poor tenants are in serious danger of degrading and becoming ghettos. It proves to be advantageous to have mixed social structures. This assumes accessibility for middle income groups to social housing. In the face of limited budgets, it seems favourable to cover a smaller part of demand for lower and middle income groups, instead of social housing for the poorest only.
- Unitary rental markets appear advantageous compared to dual rental markets. The major criteria is rent costs that do not crowd out other market segments (private rental, owner-occupation). Therefore, rents in the social housing sector should be calculated to be affordable for middle income groups. Low income groups should be supported by means-tested individual allowances.
- Housing is a very long-lasting product with a long period of production. Therefore, it is of major importance to warrant lasting stable conditions in terms of legal security and financing. The establishment of institutions (e.g. a limited-profit housing sector) in this respect seems to outweigh the introduction of programmes. Programmes may easily be dropped under altered political conditions. By contrast, institutions have a strong tendency to last.
- Public Private Partnerships (PPP) in housing are an applicable model to combine public interest with the efficiency of the markets.[3]

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[1] Kemeny et al. (2005), Turner/Birgersson (2006).

[2] Instructive is a current realignment of The World Bank towards rental housing, as shown in the publication of Dübel/Brzeski/Hamilton (2006) on “Rental Choice and Housing Policy”, see reference list in the appendix.

[3] See chapter 3, p.47 and particularly section 3.4, “Potential of a Third Sector for CEE/SEE“, p.55.

1.7 NEED FOR REFURBISHMENT

A recent study by the Dutch PRC Bouwcentrum[1], made for the 16th Housing Ministers conference in March 2005 in Prague, shows clearly the backlog in maintenance and repair of multi-family dwellings in the EU Accession Countries. The investment needed is expressed most significantly by the employment that would be involved. For the whole EU25, the realisation of the necessary investment would involve 16 million jobs. The share of EU10 in this figure is over 60%. For several years, most CEE countries have had programmes in place to support refurbishment. Due to the considerable under-investment in maintenance of the housing stock, the need for investment will further increase. The authors of PRC conclude that, for the new Member States, there is an urgent need for a considerable intensification of refurbishment programmes. It is partly as a result of the 16th Housing Ministers conference in Prague that, in 2006, the decision was taken to open the EU Regional Funds for housing refurbishment.

Referring to the experience of the project partner DIGH, it seems that municipalities are in general more interested in new construction (independent of tenure) than in solutions for the existing housing stock. The multi-storey housing estates are regarded as an increasing burden, because of:

- increasing backlog in maintenance,
- poor energy efficiency of houses, which is a growing issue in times of rising energy prices and the Kyoto treaty,
- a lack of responsibility for the creation of solutions.

But because of the quantity of housing involved, there is absolutely no alternative to refurbishing the bigger part of the existing housing stock. As shown in chapter 1.1 (p. 17) the share of dwellings in multi-family and high-rise buildings is much higher in CEE than in EU15.

Some owners' associations are already able to act as legal bodies and take loans. Securitisation and bearing default risk of course remains difficult. Most countries have introduced foreclosure procedures, but others have subsequently arranged that tenants, even in the case of foreclosure, cannot be evicted from their apartment.

A financing instrument as HFA might support the ongoing emphasis on refurbishment.[2]

1.8 PILOT COUNTRIES

Four countries declared their willingness to cooperate in the establishment of a Housing Finance Agency. They were selected by the criteria to have pilot countries in different stages of development, e.g. from CEE EU Member States, SEE candidate states and Western Balkans countries in transition. The pilot countries are:

- Slovakia,
- Romania,
- Montenegro and
- Kosovo.

Detailed information about the housing situation in these countries may be found in the appendix. The housing promotion schemes in the pilot countries are described in chapter 2.6 (p. 40). In chapter 4.8.6, the congruence of the HFA model with national housing policy issues is discussed (p. 88).

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[1] PRC Bouwcentrum International (2005).
Elbers, A. (2006)

[2] See chapter 4.6 „A model for refurbishment projects“, p.80.

2 HOUSING FINANCE IN CEE/SEE

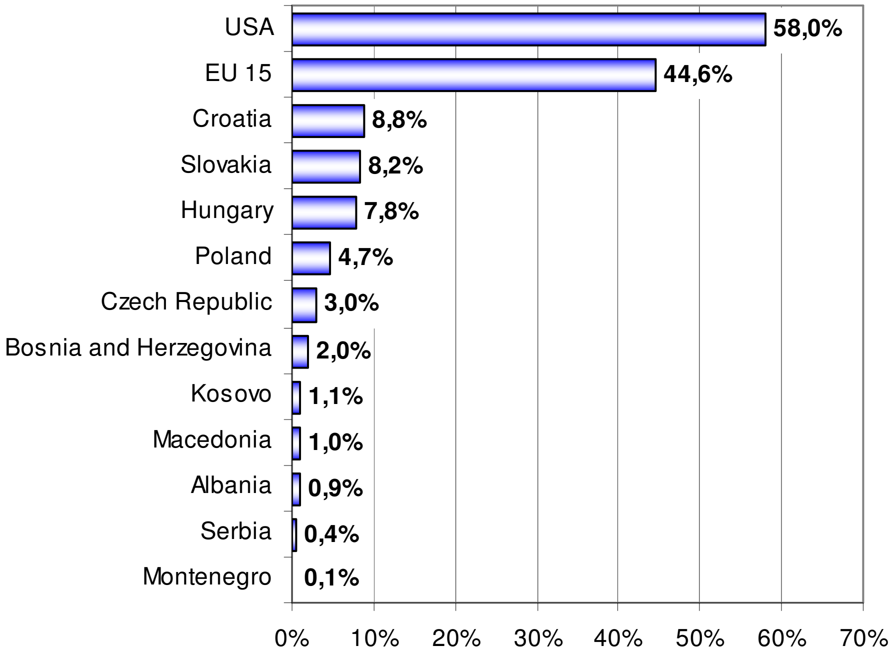
As a result of variations in economic development and EU integration, finance markets and financing instruments are developing differently in CEE and SEE countries.

Developed countries are able to use a variety of financing techniques that can be customised to the specific needs of investors. Therefore, housing finance in Western Europe is largely done by deposit banks and mortgage credit institutions, whereas the role of the public sector as capital provider (e.g. via state housing banks and funds) is diminishing. Major targets of housing policy in modern economies are the setting out of an appropriate regulatory framework to ensure both the provision of housing facilities of the desired quality and the effective operation of financial markets as main providers of housing finance, since capital markets are developed and public funds are limited. However, the provision of public funds for housing cannot be abolished as a whole.

2.1 RAPID GROWTH OF MORTGAGE MARKETS IN CEE COUNTRIES

As shown in Graph 8, the outstanding balance of housing loans in CEE and SEE countries remains well below the level of advanced European countries and the USA. Despite the small size, the lending market for housing in the region has grown sharply, with average growth of roughly 65% per year. In the EU-15 countries, the growth rate in 2003 was about 7%.[1]

Graph 8: Mortgage loan-to-GDP ratio in Central and Eastern Europe in comparison with USA and EU15, as % of GDP, 2003



Data for SEE as per 2004,
Source: Housing Statistics in the EU; Ecorys (2005).

[1] OECD (2005b).

According to analysts from Fitch Ratings[1], the recent upward trend in the mortgage markets can be attributed to the following reasons:

- Falling real interest rates as a result of EU accession;
- Growing wealth in terms of net disposable income. Between 1997 and 2002, wealth increased by 30% in Hungary and by 80% in some Baltic States;
- Banking sector restructuring;
- Legal and regulatory improvements, and
- Housing promotion schemes.

In some CEE countries, lending margins are almost reaching Western European levels. Mortgage loans are mainly deposit-driven. All countries in CEE and some in SEE have designed adequate mortgage bond legislation. Contract saving schemes exist in most of CEE and some SEE countries. These mainly target single-family housing construction and renovation and their volume differs substantially from country to country. Foreign-currency mortgages have become a very important part of housing finance, in particular in Poland and Hungary. Secondary market financing tools (e.g. MBS), therefore, have not gained importance in the region.[2]

2.2 Backlog demand in SEE countries

SEE countries are, in contrast to CEE countries, still characterised by a low volume of mortgage loans (Graph 8), although these markets are developing quickly as well. Country risks are still high, particularly because the political situation is regarded as unstable, the legal framework is insufficient and economic development is characterised by insecurities. Interest spreads are closely related to the country risks and are therefore rather high. Securitisation is still a problem due to the insufficient use of cadastres, unclear foreclosure procedures and economic weakness.

The IFC has recently commissioned a study on “Housing Finance in the Western Balkans”. According to this study, underdevelopment of mortgage markets in SEE can be characterised as follows:[3]

- Low L/V ratios, which reflects that mortgages are mostly home equity loans. Mortgage loans are rarely used for home acquisition or for construction by developers;
- Additional collateral and guarantors are required on mortgage loans because of the poor legal infrastructure;
- Maturities are relatively short;
- The interest spread is still very high;
- Capital is concentrated in urban areas.

House prices are high and, in some regions, rising dramatically, with price-to-income ratios up to 17 (Montenegro, Serbia). Informal and illegal housing is still a major burden to the development of housing finance in many SEE countries, but steps toward legalisation of informal housing have been achieved, in particular due to initiatives by the Stability Pact for South Eastern Europe.[4]

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1 Birney / Steinbarth (2005).

2 UNECE (2005b), p.17 f. Birney / Steinbarth (2005). Lliev / Yuksel (2003), p.19. Hegedüs (2002), p.41.

3 Garcia, A. et al. (2005), Executive Summary, p.5.

4 Ministerial conference on informal settlements in South Eastern Europe (2004).

2.3 GENERAL HOUSING FINANCE ISSUES

Characteristic features of housing investment are its relatively high volume and its long investment horizon, requiring large amounts of long-term finance. Thus, housing finance instruments (or systems) are aimed at providing these funds to producers and purchasers of housing, both rental and owner-occupied.

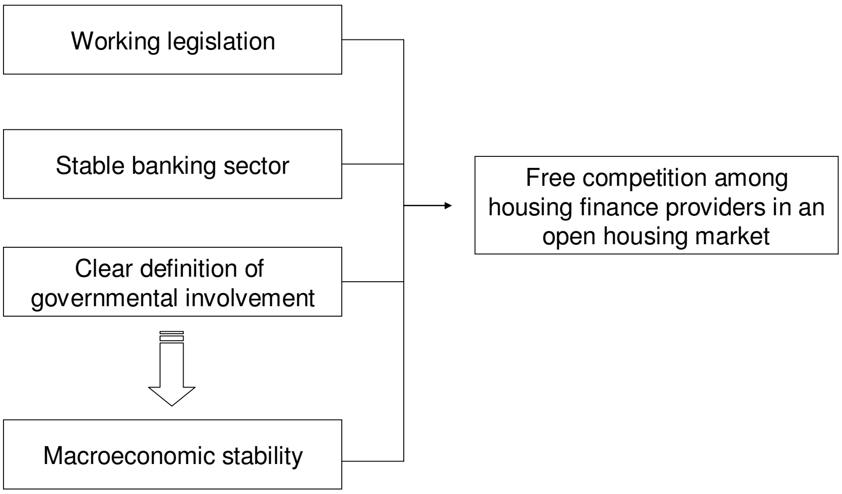
As experience in Europe shows, no universally applicable instruments have been developed. They have rather been the result of specific circumstances, such as the macroeconomic conditions, banking regulations, size of the banking system, taxation, subsidy programmes and the structure of the housing market.

A sign of financial sector development is the rising funding of housing by formal financial institutions. These institutions can be government backed institutions or private sector entities, which can be shareholder owned or mutual organisations, or special circuits. As economies develop, provision of housing often moves away from extensive reliance on special circuits towards integration of housing finance into the broader financial markets.[1]

2.3.1 PREREQUISITES FOR WORKING HOUSING FINANCE MARKETS

Chart 9 shows the prerequisites for functioning housing finance instruments which consist of a working legislation, a stable banking sector and a clear definition of the government's role. Typically, the first three elements support macroeconomic stability, which is elementary for stable interest rates and long-term funds (i.e. manageable risks for banks).[2]

Chart 9: Prerequisites for working housing finance markets



Source: Roy

[1] See Diamond/Lea (1992). In this context, the recent abandonment of the specialty principle of mortgage banks in Germany confirms this development. Until July 2005, only specialised mortgage banks were entitled to refinance mortgage loans through the issuance of covered mortgage bonds ("Pfandbriefe"). Today, every bank can refer to this financing mechanism provided that it complies with certain conditions stipulated in the Act on Pfandbriefe. For further information, see Lassen (2005).

[2] See Hoek-Smit/Douglas (2003), Renaud (2003) and Roy (2002).

a) MACROECONOMIC STABILITY

Macroeconomic stability remains the unconditional and absolute prerequisite because a volatile environment disproportionately affects long-term oriented housing finance systems. High and volatile inflation rates imply high real interest rates, which confine market-based mortgage finance to high-income households. Furthermore, the government will take a dominant role in housing finance because of the widespread inability to afford mortgage finance and serious income inequalities. As a result, housing finance systems remain small and become fragmented into uncoordinated and subsidised administrative programmes. A low level of domestic savings leads to a dependence of housing finance systems on central bank refinancing and/or international borrowing.

In this context, it seems necessary to understand how local housing markets operate and to closely monitor three distinct policy dimensions affecting access to housing: the price of the housing units relative to the purchasing power of the households, the total cost of mortgage borrowing (including all costs of funding the mortgage loan, as well as taxes and fees to be paid by borrowers) and the structure of subsidies, i.e. the financial, tax, regulatory and production channels through which a government may subsidise some sort of housing (explicitly or implicitly).

b) WORKING LEGISLATION

An essential prerequisite for macroeconomic stability is the existence of a working legislation which also provides the basis for sound institutions, lending activities (of banks and other housing finance entities) and an efficient housing finance market. A legal system should protect property rights and allow for clearly registered titles to land and the registration of mortgages in the land register. Moreover, it should also allow for rapid foreclosure. If a land register system, for example, does not exist or is only fragmented, banks have to reckon with long delays in case of foreclosure, which will keep them from lending. A developed housing finance sector also requires strong institutions (central bank, judiciary, administration and other government entities), which guarantee embedded rights of title and mortgage, and the enforcement of these rights.

c) STABLE BANKING SECTOR

Only a stable banking sector is capable of providing long-term capital for long-term investments. Low deposit-flows into the banks indicate a weak banking sector, because people have no confidence in the banks. To build up a well-functioning banking sector, the establishment of a two-tier banking system – a clear division between the central bank and financial institutions – is the first essential step. Additionally, countries often link their national currencies to hard currencies (i.e. dollar or Euro). In a second step, state-owned banks will be privatised and this is usually followed by consolidation and internationalisation of the domestic banks, i.e. foreign banks acquire major stakes in domestic institutes.[1]

d) VIABLE HOUSING MARKETS

The development of viable housing markets (as well as housing finance techniques) requires a clear definition of the government's role within this sector. What the government can do, how it can support housing finance and which measures it should apply should be clarified. These questions are frequently linked to the deployment of subsidies. In principle, subsidy schemes should be designed to support the development of the private market and seek to improve the nation's social and economic goals. The debate should not be focused solely on the amount of the subsidy but also on its effectiveness in meeting a government's goals for housing. Hence, subsidy policies should be efficient – gaining as

1 See Graph 17, p.47.

much as possible from every coin spent – and they should be well targeted and supportive of private sector funds for housing.[1]

Therefore, a hierarchy of complementary actions is desirable in order to improve the housing conditions for the majority of households: the first step includes the development or restructuring of institutions and policies in order to facilitate the role of private and non-profit lenders and developers in expanding the low and middle income housing supply, and provide education and training for consumers and producers to improve the operation of the housing finance industry. The second step should put emphasis on the provision of subsidies to well-defined objectives and on the simultaneous improvement of the regulatory system in different supply markets (land, finance, infrastructure) to allow more households to acquire authorised and sustainable housing.

If the government does not introduce the necessary steps to encourage the housing construction and finance industries to function efficiently, housing supply cannot respond to price signals, and higher income subsidies will not lead to better housing.

Typically, the result will be free competition among lenders and a wide array of different financing techniques in an open housing market. Depending on the size of the government's involvement in terms of subsidies, markets will be capable of effectively allocating funding resources to producers and purchasers of housing.

2.3.2 FINANCING INSTRUMENTS

Depending on the development of an economy, mortgage loans are provided by various lenders. Chart 10 shows types of lenders and instruments by which they refinance their mortgage loan portfolios. Typically, portfolio lenders have the biggest share in a market. In Germany, for example, their combined market share is about 80%. Hungary, one of the most advanced economies in CEE, reports a market share of about 52%.[2] It is a key feature of portfolio lenders that these institutions originate, service and fund the loans. Funding is primarily achieved through retail deposits, but also through the issuance of bonds (or loans from other banks).[3]

Specialised institutions such as Bausparkassen or Building Societies[4] or mortgage banks refinance housing loans either through deposits or covered mortgage bonds. In addition, there are state-owned housing finance providers, which are primarily refinanced through the state budget. For example, both the Czech Republic and Slovakia, as well as Slovenia, dispose of national housing funds for such a purpose. Insurance companies represent a third type of lender that may provide mortgage loans. Typically, they refinance their mortgage loans through the deposits from their depositors.

A further refinancing technique is the sale of mortgage loan portfolios to a third party. This transaction involves the transfer of both risks and ownership of mortgage loans. The loans may be sold to specialised

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[1] See chapter 1.6 "Rationale for promotion of rental housing", p.23.

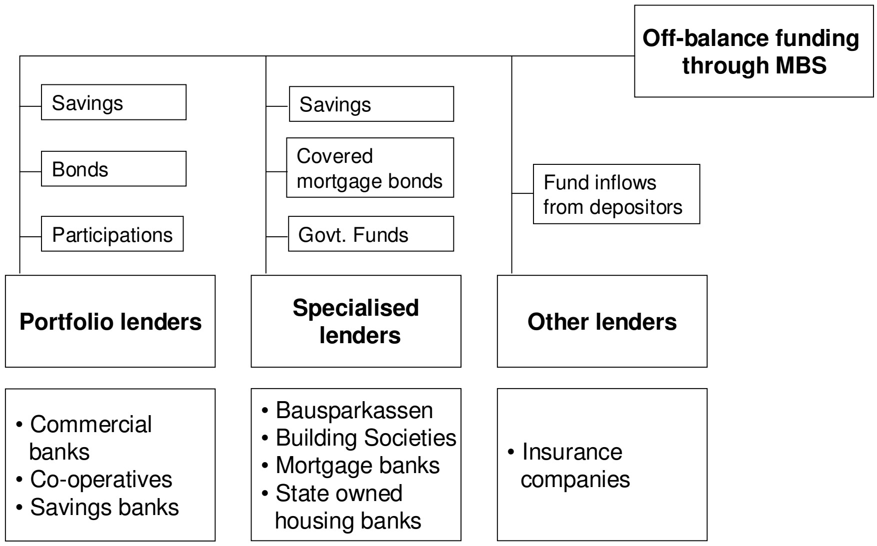
[2] See Roy (2005).

[3] In emerging markets, international organisations often grant credit lines to banks in order to provide long-term funding, since deposits are typically short-term (not longer than a year) and, therefore, not suitable for refinancing long-term housing loans.

[4] Building Societies operate in the United Kingdom. Bausparkassen exist in Germany, Austria, the Czech Republic, Slovakia, Hungary, Croatia and Romania. For further information on contractual savings schemes for housing, see Roy, (2003).

institutions called conduits or through special purpose, separately capitalised vehicles (which can be either a different bank or a specialised institution).[1]

Chart 10: Lenders and refinancing instruments in housing finance



Source: Roy

a) COVERED MORTGAGE BONDS

A covered mortgage bond is a debt instrument which is secured against a dynamic pool of specifically identified, eligible mortgages. The fundamental concept of this security is the reliance on the collateral (mortgage) as the primary source of credit quality, which significantly reduces the risk to the bondholder. Mortgage bonds are issued by a bank and usually remain on its balance sheet. The credit quality of the bonds is assured through conservative underwriting standards and strict regulation of loans and lending institutions, as well as strict valuation rules. Potential buyers of these bonds would be banks or institutional investors like insurance companies or private persons.

One of the most prominent mortgage bond systems is the German Pfandbrief system. A variant of the German Pfandbrief model is the Danish mortgage bond system. Developed more than 200 years ago – almost at the same time as the German system – it has its roots in the principle of mutuality: mortgage credit associations were founded by borrowers to provide loans against mortgages on real property on the basis of joint and several liabilities. This approach resulted in better security for investors than they would normally have enjoyed, if they had granted individual loans directly to the borrower. These mutually owned credit organisations have been transformed into specialised mortgage banks (similar to the German Hypothekenbanken).

Owing to their special safety features, Pfandbriefe have become a high-grade investment product and they pay a yield premium comparable to German government bonds. They also constitute Europe's biggest bond market – with a total outstanding of € 1.1 trillion. As high-grade credit, the Pfandbriefe competes with so-called agency issues, e.g. from issuers like KfW-banking group or other AAA tranches of securitisation. Given their outstanding credit quality and liquidity, Pfandbriefe have increasingly drawn the attention of international institutional investors.

[1] In Kazakhstan, for example, the Kazakhstan Mortgage Company (KMC) is specialized in this type or refinancing activity.

In addition, mortgage bond systems similar to the German Pfandbriefe model have been developed in various transition countries across Central and Eastern Europe, including Poland, the Czech Republic, Slovakia, Hungary, Latvia, Lithuania, Romania, Bulgaria and Russia.[1] Covered mortgage bonds are an increasingly popular investment option in these countries. As of September 2004, the total volume of issues of covered mortgage bonds in the CEE region amounts to € 7.2 billion.[2]

Typically, Pfandbriefe have a fixed coupon and a bullet payment at maturity and are collateralised by underlying mortgage loans. Pfandbriefe bonds in Germany are currently the obligations of a specialized mortgage bank that provides credit enhancement. There is no implicit or explicit government guarantee of the Pfandbriefe; their market acceptability depends completely on the quality of the underlying loan pool and the legal structure to ensure the security of the bonds (even in the case of loan defaults or bankruptcy of the issuer).

The underlying mortgages of the Pfandbriefe are retained on the balance sheet of the lender. They are amortizing, but prepayment is prohibited for the period over which the interest rate is fixed. Thus, the lender can match the mortgage loans to bond obligations with minimal interest rate risk.

b) MORTGAGE BACKED SECURITIES (MBS)

Securitisation is a technique that sets out the framework for the purchase of mortgage loans from banks or other lending institutions and the issuance of securities to investors backed by the acquired mortgage debt. It was originally developed in the USA beginning in the late 1960s as a method to sell mortgage loans in order to better manage the risk (both interest and liquidity) associated with fixed rate mortgage lending. However, the making of securities is not the same as the making of secondary market institutions, since every bank can use this instrument.[3]

For securitisation, banks or other financial institutions transfer mortgage loans originally granted to private households into a Special Purpose Vehicle (SPV). The SPV issues securities to finance the transfer or purchase of the loans. Typically, institutional investors (e.g. insurance companies, pension funds etc.) buy these securities. The SPV and the selling bank are separate legal entities. Thus, the rating only depends on the quality of the security (i.e. the underlying mortgage debt).

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1 Legislation on covered mortgage bonds in these countries has its roots in the German model, albeit with some variances. For example, Slovakia, the Czech Republic and Russia did not stick to the specialized bank principle. In its recommendations, the team has taken these deviations from the German model into consideration (e.g. avoidance of specialized bank principle, reference to L/V ratio instead of mortgage lending value, etc.).

2 See Lassen (2004). The biggest volumes have been recorded in Hungary (€ 4.6 billion, 210 issues), the Czech Republic (€ 1.7 billion, 22 issues) and Slovakia (€ 0.5 billion, 33 issues).

3 See van Order (2005).

Chart 11 shows the most common institutional structures for securitising mortgage loan portfolios both in the USA and in transition countries:[1]

Chart 11: Institutional structures to securitise mortgage loans

Liquidity facility	Conduits Pass-through Securities	Structured finance/ Pay-through Securities
• Purchase of loans against bond issuance (Sales of Assets Liquidity Facility) • Granting of loans against pledge of mortgage loans of originator (Advance Payment Liquidity Facility)	• Principle of congruence: balance of SPV is equal to balance of outstanding mortgage loans • Purchase of mortgage portfolios from different lenders • Private and government sponsored entities	• Bond issuance against pool of mortgage loans, thereby dividing underlying loans in different cash flows (e.g. interest payments, principal payment) • Individual structuring of bond issuance according to investor needs (e.g. short terms) • Typical structure: Collateralized Mortgage Obligations with different tranches

Source: Roy

Often, liquidity facilities are the first step to refinance mortgage loans through securitisation. Some of them evolve into conduits.

Lenders in CEE and SEE countries show great interest in the securitisation of mortgage loan portfolios. In Romania, for example, several laws were passed or adapted in order to facilitate MBS issues. In other countries like Serbia, Bosnia and Herzegovina, Montenegro, Kosovo and Albania, capital markets do not yet exist or are in a very early stage of development (e.g. Serbia) and, thus, cannot yet serve as a resource for long-term finance. However, it is likely that, in the next few years, these countries will reinforce their efforts to develop these markets by enacting the necessary legislation and establishing the relevant institutional framework (e.g. supervisory bodies).

2.3.3 COMMERCIAL HOUSING FINANCE[2]

In contrast to housing finance products for private individuals, commercial housing finance depends on the underlying objective of the producer or purchaser. The loan is (often) individually structured according to individual financing needs.

As in residential housing finance, the typical financing structure consists of a mixture of equity provided by the developer and loan capital. In addition, the property serves as a security.

Chart 12 shows the possible financing instruments. As a traditional financing instrument, the bank loan is one of the most popular financing tools. Loans can have fixed or variable interest rates (with or without a cap). Through a leasing contract, the developer (lessee) rents the property with the option of a later purchase. For the use of the building, the lessee has to pay a rent to the lessor. A closed real

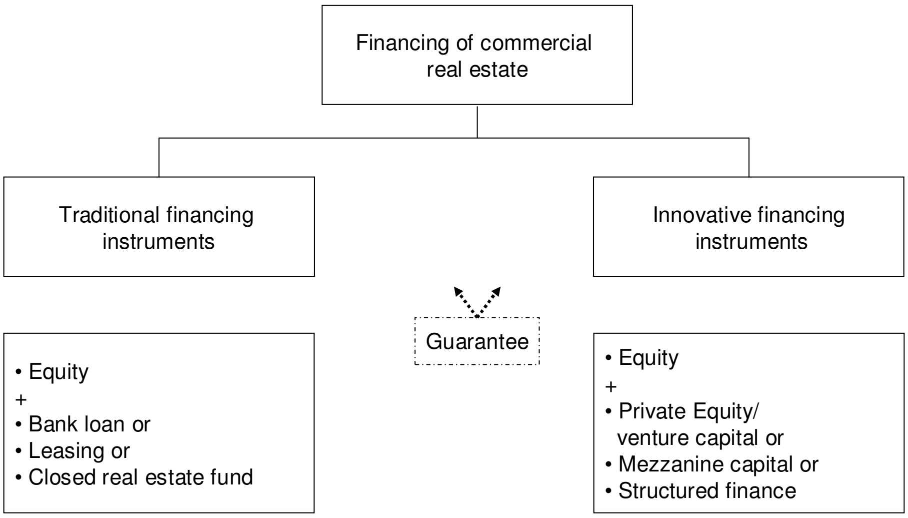
[1] In the USA, there are three types of institutions that securitise mortgage loans: Government Sponsored Entities – GSE (Fannie Mae and Freddie Mac and Ginnie Mae), the Federal Home Loan Bank System and non-conforming issuers (such as GMAC-RFC, Countrywide). “Conforming” relates to the limit which applies to GSE for the purchase of mortgage loans. It is adjusted annually by an index of house prices. The conforming loan limit was recently raised to USD 359 650 for 2005. See Fabozzi (ed) (2005), p.518.

[2] See chapter 4.4 “Financing models“, p.68 ff.

estate fund uses capital from the sales of participations to acquire real estate. Different variants of funds exist, e.g. funds which only finance one real estate project or funds which are involved in several real estate projects.

The demand for innovative financing instruments results from the desire for financing structures more closely modelled according to the individual needs of the property owner. In this context, the following tools have appeared:

Chart 12: Instruments in commercial real estate finance



Source: VdH, Roy

- Private equity/venture capital funds often provide the whole financing of the real estate project. In contrast to traditional bank loans, these funds expect a higher return on their investment, since they assume the whole risk of the financing.
- Mezzanine capital is a mixture of quasi-equity provision and loans. The structure depends on the individual needs of the borrower.
- Structured finance: size and loan terms will be modelled according to the underlying cash flows. The structure often depends on how the borrower intends to own the property. Loan tranches are often broken down in senior and junior loans, whereby the junior loan bears the higher risk. This financing type also refers to derivatives to separate the interest payment from the repayment of the principal.

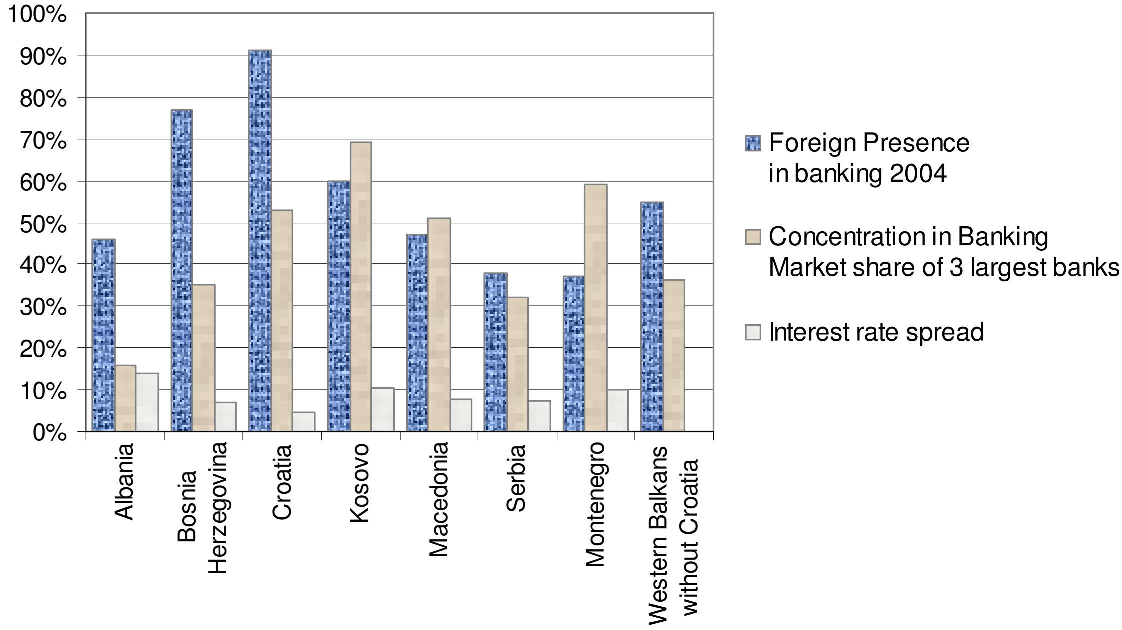
The risk implied with the loans can be mitigated through guarantees provided by a municipality, government or international organisation. The form and extent of the guarantee depends on the political objectives a public entity wishes to achieve. Such an instrument could be of interest in social housing finance, for example, where the public entity wants to avoid assuming the entire construction and maintenance cost, and yet at the same time provide housing for certain groups of the population.

2.4 PRIVATISATION OF BANKING SECTORS IN CEE AND SEE

A major driver of development is the privatisation of the banking sector, which is almost complete in CEE countries and is rapidly progressing in SEE countries. In both regions, international banks have gained very good market positions. Particularly successful in acquiring former state owned banks are Austrian banks such as Erste Bank, BA-CA and Raiffeisen.

The IFC-study for the Western Balkans, mentioned earlier, stated that in banking sectors with greater foreign presence, in contrast to countries with state-dominated banking sectors, the development of mortgage markets has been most significant: "Foreign banks are generally the most (and often, only) active institutions in the mortgage market, since they have the advantage of imported credit risk managements know-how from headquarters abroad, as well as easier access to longer-term funding".[1] Development of the banking sector occurs alongside a heavy market concentration in some countries.

Graph 13: Banking sector in Western Balkans



Note: Foreign Presence and Concentration in Banking sector is measured regarding loans, for Montenegro assets
Source: Garcia et al. (2005)

[1] Garcia et al. (2005), Executive Summary, p.7/8.

2.5 ELEMENTS OF AFFORDABLE HOUSING FINANCE

Overriding reasons for creating efficient housing promotion instruments are to reduce financing costs and to facilitate the financing of a housing project even with low levels of equity, as well as to give incentives for cost-efficient construction and social behaviour.

To achieve affordable prices or rents, different principal strategies can be used:

Table 14: Principal strategies for affordable housing

	applicable for	Rental	Owner-occupied flats	Refurbishment
a) Complete financing from the budget or housing funds	Municipal housing is often financed outside the banking system. This is done either from the budget (without depreciation) or by low interest public loans. This kind of financing is usually linked to social rents far below the market level. + low rents - high cost for the public	+		+
b) Commercial financing combined with demand side subsidies	This model can often be found in liberalised market systems. By raising the purchasing power of the consumers, market forces are not disturbed. The subsidy is usually income-related. + compatible with private market + well targeted - subsidy tends to lift the market price level	+	+	++
c) Mixed financing with supply side subsidies	Housing is financed by different sources (commercial loans, public loans) and/or subsidised by interest grants, annuity grants and backed by guarantees. This model is typically linked to cost rent. + efficient use of the strengths of public and commercial sources + lower cost per dwelling than a) and b) - creation of a dual market	++	+	+
d) Mixed financing with both supply and demand side subsidies	The same as c). Supply side subsidies produce affordable housing for middle income groups. Vulnerable groups may be supported by demand side subsidies. + affordability for all income groups attained - new construction for lowest income groups economically not sustainable	++	+	+

Source: IIBW

a) PUBLIC GRANTS AND LOANS

By providing capital, the public may fully finance municipal housing or support mixed financing of housing construction. Financing municipal housing is a heavy burden for state budgets. Mixed financing seems to be more efficient, as the total cost for the public is much lower than with municipal housing and the resulting costs for tenants are still reasonable. The specific role of public capital in mixed financing schemes is to substitute the equity of the developer and to cover first losses. With equity and public capital, a reasonable Loan to Value Ratio may be attained.[1]

Grants are regarded as state expenses following the Maastricht-criteria; loans are not, as long as interest on the loans is collected.

[1] See chapter 4.5 "Model calculation", p.76 ff..

b) GUARANTEES

Owing to the fact that public funds are constrained, guarantees are becoming a more crucial factor in securing cheap financing of housing. Providing public guarantees for housing finance has the advantage that public balances are not affected. Investors benefit from the creditworthiness of the public sector, without public expense being incurred.

Even though in some Western countries, public guarantees have lost some of their former importance, well developed housing sectors can themselves provide sufficient security to obtain good financing conditions. Also, housing subsidy schemes in many countries comprise inherent guarantee structures. This is the case for the U.S. MBS scheme and for the Austrian model of social housing finance. Guarantees should be provided only for institutional finance. Guarantees for private persons may cause negative effects on payment behaviour.

Loans guaranteed by a development bank as EIB may be financed by an interest rate close to Euribor. They require almost no capital backing from commercial banks.

Public guarantees do not affect the EU Convergence Criteria, despite the possibility of irrecoverable liabilities.

c) HOUSING FUNDS

Some Western European and a growing number of CEE/SEE countries use the instrument of housing funds. A particularly successful example is the Dutch Waarborgfonds Sociale Woningbouw (Social Housing Guarantee Funds). A housing fund may issue loans, grants or guarantees. It may work more efficiently than public administration, presuming that its mandate and control are properly regulated.

For such a fund, public guarantees may be an appropriate and cheap way of public commitment, but, at the outset, direct public funding seems to be indispensable. The effectiveness of such a fund is dependent on its size.

d) MORTGAGE LOAN WITHOUT GUARANTEE

Basically, the higher the share of debt capital in a project, the higher the margins that are applicable. In the case of debt finance that is guaranteed by the public sector or IFIs, the margins are hardly affected by the debt/equity ratio.

e) EQUITY OF DEVELOPERS

It is not appropriate to state a certain general percentage of equity contribution either from the builder or the future tenants, since this percentage will depend on the project structure as a whole. In the case of a fully publicly guaranteed project, the percentage of equity can certainly be quite low. The provision of land free of charge from the municipality is not always necessary and again depends on the project structure.

f) EQUITY OF TENANTS

Some social housing finance models (e.g. Vienna) work with rather high shares of equity provided by the tenants (up to one quarter of land and construction costs). This eases financing of projects considerably, but reserves access to middle and high income groups. High equity contributions from tenants may be combined with a right to buy.

g) COMMERCIAL LOANS

The total interest rate is a sum of the following components:

- Mortgage loans for creditworthy borrowers with a favourable L/V-ratio may be financed by Euribor + 50 BP. They are calculated with default rates of 0.5-1% and, in the long term, of 1-2%.
- Junior Loans with higher default risk may be financed by Euribor + 150 BP.
- Mezzanine capital as equity substitute may be financed by Euribor + 350 BP.
- The resulting interest rate may be further influenced by different risk positions (country risk, risk of developer, project risk).

Guarantees can reduce the interest rate considerably. Financing in Euros with a guarantee from a AAA rated institution results in interest rates on the level of Euribor.

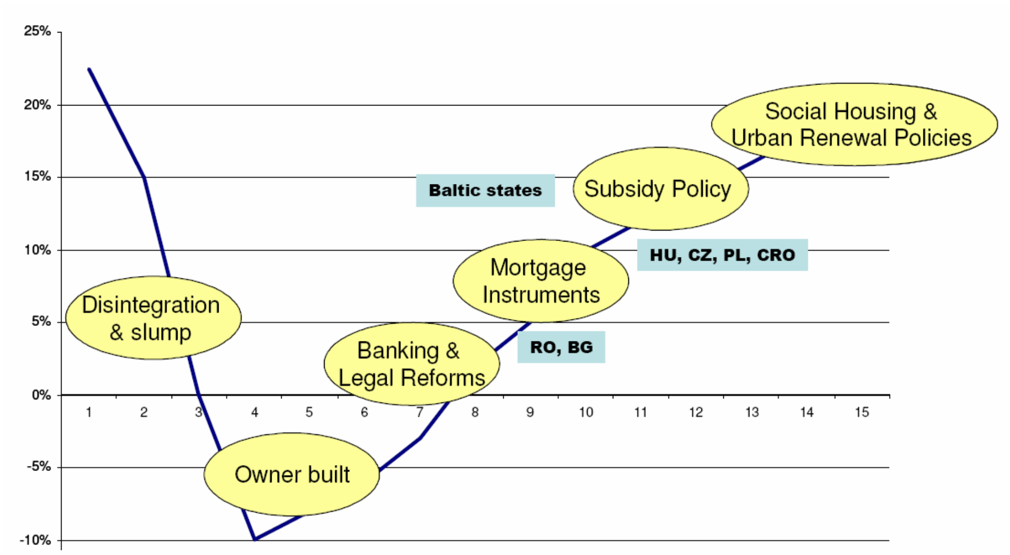
2.6 HOUSING PROMOTION SCHEMES IN CEE/SEE

2.6.1 DIFFERENT STAGES OF DEVELOPMENT

In a study commissioned by the EIB, the Hungarian research institute Ecorys summarised housing policy development in CEE and SEE countries in terms of a general model (Graph 15 and Graph 16)[1]:

1) In the first period of transition, housing construction is reduced to owner built houses, particularly single family houses. The public sector does not generally take part.
2) In the following years, legal reforms take place and the banking sector establishes itself and develops mortgage instruments. The private sector recovers with the development of owner-occupied flats. The authors place the present situation in Romania and Bulgaria at this stage.
3) Subsequently, states develop subsidy policies. This is the case in CEE countries and Croatia today.
4) A final stage is described where states have re-established social housing schemes and urban renewal policies.

Graph 15: Policy Development Curve

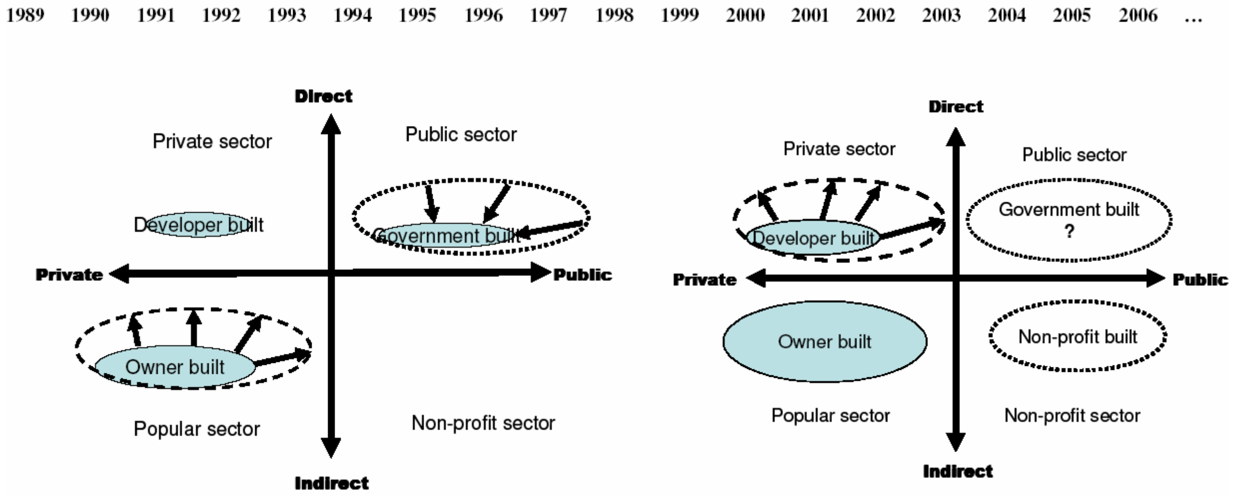


Source: Ecorys (2005)

[1] Ecorys Hungary (2005).

The advantage of this model is that it provides a scheme which, in general terms, is valid for all countries in transition. The growing role of the public and the non-profit sector is, of course, controversial. Yet, attempts at a non-profit or limited-profit housing sector can be seen in the Polish non-profit TBS-model, in the Czech housing cooperatives and in Slovakia (as described in chapter 3.3). Several countries have introduced housing funds with the target to finance municipal housing. Romania and other countries have started public housing programmes.

Graph 16: Housing Delivery Model



Source: Ecorys (2005)

In the following sections, the current situation in terms of housing promotion in the four pilot countries is described. More information may be found in the country profiles in the appendix.

2.6.2 HOUSING PROMOTION TOOLS IN SLOVAKIA

Housing policy during the last few years has mainly been directed towards decentralization of decision-making. Many responsibilities were shifted from the national government to local authorities, amongst others, public rental housing. However, local authorities only received operative rights, whereas strategic decisions are still taken at the national level. Furthermore, the conditions for financing municipalities by the state still do not allow the implementation of long-term projects.

Housing policy in Slovakia is determined by two components: the “Conception of State Housing Policy” and the “Housing Development Action Plan”. The “Conception of State Housing Policy” is the basis for the “State Fund for Housing Development” and establishes a framework for mortgage credits.

Areas of state housing policy are:

- modernisation and refurbishment of the multi-storey housing stock,
- residential environment and
- energy efficiency projects in the housing sector. The latter includes the adoption of the EU directive on energy performance in buildings[1], the adoption of standards for heating and cooling equipment, the training of professionals in energy efficiency and renewable energy equipment, and the spreading of information. Most state financing programmes are directed towards energy efficiency projects.

[1] EU directive 2002/91/EG.

The State contributes to housing finance by providing guarantees, loans and support for savings:

a) The “Programme for State Aid to Housing Construction” provides guarantees for bank loans up to 100% to associations of owners or to companies which refurbish the common parts of multi-family buildings.
b) Since 2003, the State Fund for Housing Development has offered loans with interest rates between 2.3 and 6% and with maturity periods of between 10 and 30 years.
c) From 2001, an interest subsidy of 2.5% has been available for mortgage loans, which results in an interest rate of approx. 4.7% for a maturity period of 20 years.
d) The state supports contract-saving with a bonus of € 100 per year for a period of 5 years. After this period, consumers receive the right to a loan with interest rates below 7%.

Rental housing construction is promoted by subsidised loans provided by the State Fund for Housing Development. But these loans are reserved for municipal housing and non-profit housing associations, the majority of which are owned by municipalities or the state. The subsidies for rental housing construction have been gradually increasing since the year 2000. The volume of subsidies now reaches 30% of construction costs.

Non-profit housing companies are allowed only in the legal form of associations or funds, not as capital companies. There are strict limits on construction costs in order to be eligible for subsidies (ca. 600 €/m²). This limit can be met only with big difficulties. The dwellings in these developments must then only be available to low-income families. Faced with these difficult criteria of access, only two non-profit housing associations have been founded so far.[1]

The state supports disadvantaged population groups mainly through providing dwellings and by giving financial support towards energy costs via the “Programme of Support for Low-Income Households”. In terms of dwellings, the “Family Self-Sufficient Programme” co-ordinates the use of public housing and resources to enable eligible families to achieve economic independence. Meanwhile, the “Conception of State Housing Policy” facilitates access to favourable loans for the renovation of flats. Other forms of support are social consultations, socio-legislative protection and social service facilities that include accommodation.

Housing is one of the priorities of state expenditure. The state spends 2.8% of its budget on housing (2003)[2]. This almost reaches the EU15 average of 3.3% of state budget spent on housing.

2.6.3 HOUSING PROMOTION TOOLS IN ROMANIA

In Romania, housing policy represents a national interest and is the responsibility of both central and local authorities. In 2001, the National Centre for Territorial Planning was established to implement the “National Strategy of Habitation”. The main areas covered by central government are housing refurbishment and energy efficiency projects, and the Ministry for Development and Prognosis co-ordinates regional policy implementation. Local authorities are particularly responsible for new rental housing for low income households and young people, the improvement of technical infrastructure and the existing housing stock. They are also responsible for the stock of non-privatised dwellings and the setting of local rent levels. The National Development Plan promotes partnerships between national and local authorities, institutions and organizations of civil society.

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1 See Chapter 3.3.2, p.54 and Červeňová, L. (2005).

2 PRC Bouwcentrum (2005).

Over the previous decade, construction of new social housing was negligible. This was because of a lack of public financing and a lack of awareness about the importance of social housing. However, an ambitious social rental project is currently being realised in Bucharest. The settlement “Brâncuşi” will consist of some 3800 social dwellings, of which around 1500 are already complete. The apartments are reserved for young families, the rent level is very low and unlimited contracts are provided.

Graph 17: Public rental housing “Brâncuşi” financed by ANL in Bucharest

Source: IIBW

The National Housing Agency (ANL) has created financial packages for the construction, purchase, rehabilitation, consolidation and extension of dwellings. It is not a financial institution, but a mediator between banks, developers and individuals. Through the ANL, new flats are built that are then sold at reduced prices.

Housing need in Romania is urgent:

- 9% of the whole population and 75% of households between the ages of 18-25 years suffer from insufficient housing provision,
- some households in rural areas are still without access to water supply and basic infrastructure,
- there has been strong migration of young people to the cities, particularly to Bucharest,
- there are a growing number of homeless people who either cannot afford housing or are the victims of natural disasters.

The state spends 1-2% of its annual budget on housing promotion:

- 30% of construction costs are subsidised for the completion of unfinished multi-storey residential buildings for low income groups, the disabled and young people.
- Subsidies are also provided to disadvantaged groups in the population to purchase dwellings.
- The state subsidies up to 20% of cost for retrofitting of multi-storey residential buildings ranked in the seismic risk class 1. In this case, interest-free loans are given for the period of 25 years.

There are strict criteria of access to public housing:

- Public rental apartments are reserved for young married couples (where both partners are below 35 years old), young people leaving institutions of social care (older than 18 years), first and second-degree disabled people, other people with handicaps, pensioners, veterans, war widows and persons having lost their homes through restitution.

- Subsidies for first time buyers are reserved for young married couples (where both partners are below 35 years old), participants in the 1989 Romanian revolution and their families, and specially skilled persons who settle in rural areas. These subsidies can be up to 30% of house price and they are financed from local budgets.

2.6.4 Housing promotion tools in Montenegro

Housing policy in recent years has been characterised by decentralisation, with responsibilities moved from the State to local governments. Significant efforts are still necessary, though, in order to enable local authorities to perform these new duties, especially in the areas of financing and enforcement of housing legislation.

Until as late as 2003, the State played a significant role in the allocation of dwellings, designed to solve the problems of employees in public enterprises. Allocation criteria included the number of family members, years in work and educational level. Then, after privatisation, the market was recognised as the sole force for the regulation of housing matters. Housing institutions, like company housing funds and local housing funds, were abandoned.

Housing need is created by migration processes and regional inequalities. The following points, in particular, can be made:

a) There has been much migration to the southern part of the Republic, especially to the capital, Podgorica; for instance, there are a substantial number of refugees and displaced persons from the Kosovo war who are taking shelter in Montenegro.
b) Special attention must be given to national minorities, e.g. Roma people who came from Kosovo and are still living in collective centres under very poor conditions.
c) Presently, migration to the coastal areas of Montenegro is strong. But there is still a surplus of housing units in these places compared to the number of households.
d) Problems have been caused by the collapse of state enterprises in some regions. Employees of state enterprises, who contributed for their whole lives to housing funds, were deprived of their benefits during the privatisation process.

Vulnerable population groups have access to public rental housing at favourable conditions, but only for a limited duration. A special control unit is organised by the state to control occupation and maintenance of these apartments.

2.6.5 Housing promotion tools in Kosovo

The housing policy in Kosovo is defined by its special status. First, Kosovo does not have the status of a state, but is under international administration as a separate entity (UNMIK). Second, its legislation and regulations were clearly created by the international community. Most legislation was created by UNMIK (UN Mission in Kosovo), which has since transferred its competencies to the Provisional Institutions for Self-Government (PISG). Other administrative affairs are managed by international organisations such as OSCE and the EU.

Housing promotion is characterised by a almost complete lack of government funds, housing promotion instruments and affordable financing instruments. Only a few commercial banks are active in Kosovo and it is almost impossible to get mortgage loans.

Yet, there is still an urgent need for housing in Kosovo, mainly due to the conflicts in the 1990s. In 1999, almost one third of the housing stock was damaged and 45 000 dwellings were completely destroyed. The international community has already rebuilt 60 000 houses, but the need for adequate housing is still very high, due to changes in family structure, a particularly young and growing population, migration movements from rural to urban areas and high real estate prices.

Municipalities support vulnerable and low income families by providing dwellings in social housing, but the number of social housing projects is still very small. Applicants are selected by strict criteria.

Recent housing projects have been financed by municipalities in partnership with market players. The participation of municipalities in social housing projects should be to the extent of at least 30% of the construction costs.

Private housing is still mostly financed using equity, as commercial financing conditions are rather unfavourable. Banks benefit from spreads higher than 5% (interest rates of 10-14%), as result of high credit risk premiums and a lack of competition and transparency. These loans have very short maturity periods of one to five years. Only 30% of loans have maturities of over two years.

Some of the international donors active in the region, such as KfW and EBRD, provide housing loans (17% of total lending activity) exclusively for improvement of existing dwellings.

In the field of housing promotion for vulnerable people, national minorities receive special attention. Support is provided through different international projects, for example, PERK (Project for Employment and Reconciliation in Kosovo) from UNDP in cooperation with the Netherlands and Great Britain, RRRF (Rapid Response Returns Facility) from UNDP in cooperation with USAID or HEIK (Housing and Electrification in Kosovo) from UNDP in cooperation with Japan.

2.6.6 HOUSING PROMOTION FOR VULNERABLE GROUPS

Despite the differences in history and development between the countries covered by this feasibility study, vulnerable population groups in all four of them deserve special attention. Many of the vulnerable groups are national minorities. One specific group present in most of the countries concerned is the Roma population, which became the biggest minority in Slovakia and in Romania. They live in very poor housing conditions characterised by extremely dense occupancy and a serious lack of technical infrastructure. The proportion of children and juvenile occupants is up to one half. Unemployment and illiteracy are extremely high. Kosovo and Montenegro still suffer from the consequences of the wars of the 1990s, which created a large number of refugees and displaced persons.

In all four countries, governments support low-income families by providing dwellings or subsidies. Yet the amount of social housing is still negligible. To satisfy demand, which greatly surpasses supply, governments have introduced strict criteria by which access to social housing is regulated. These criteria vary widely throughout the countries.

In Slovakia and Romania, in addition to dwellings, financial support is provided. Of all the four countries financial support is most developed in Slovakia. Direct financial support stimulates economic activity by low-income families through granting access to favourable loans, by supporting the payment of energy bills, by subsidising interest rates on mortgage loans and by supporting housing savings. In Romania, some low-income groups are entitled to subsidies from local budgets for the acquisition of dwellings.

2.7 INTERNATIONAL ACTIVITIES IN HOUSING PROMOTION FOR CEE/SEE

There is increasing international support for housing policy measures in CEE and SEE countries. Many social housing programmes are co-financed by international development banks (EIB, CEB, EBRD, KfW, World Bank etc.). Very recently, it was decided that EU Regional Funds would also be opened, to a certain extent, for housing in CEE and SEE countries. Some Western housing institutions are promoting pilot projects to establish a Third Sector in Housing, amongst others, DIGH (Dutch International Guarantees for Housing) and some Austrian LPHA (limited-profit housing associations).

2.7.1 ACTIVITIES OF DEVELOPMENT BANKS

The European Investment Bank (EIB) is the financing institution of the EU and, as such, aims at providing long-term finance for specific capital projects. Housing projects, especially housing renovation, have traditionally found support in the context of the urban renewal objective, but recently a wider opening to social housing finance, in support of the social cohesion objective, has taken place. In the accession- and partner-countries, which include all target countries of HFA, the EIB participates in implementing EU development aid and cooperation policies through long-term loans from its own resources or through subordinated loans and risk capital from EU or Member States' budgetary funds.[1] In 2002, the EIB decided to lend a total of EUR 200 million for urban renewal and energy-efficient social housing throughout Poland. The 25-year loan to State-owned BGK (Bank Gospodarstwa Krajowego) is aimed at renovating housing stock that shows evidence of severe deferred maintenance. Investments are mainly concentrated in the urban areas with the largest housing deficits.[2]

The Council of Europe Development Bank (CEB) especially aims at supporting housing policy measures for vulnerable groups and persons in transitory situations. In Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Serbia and Montenegro, funds were invested in projects for the housing of refugees, the reconstruction of war-damaged dwellings and the social integration of the Roma community. The Bank is also contributing to large-scale public programmes for the construction of social dwellings and housing projects for young people and low-income families.[3]

The direct financial support of (social) housing measures through the European Regional Development Fund (ERDF) has traditionally not been part of its agenda, though its engagement to support economic and social conversion in urban areas has indirectly assisted the improvement of general housing conditions. In May 2006, after several years of consideration, the Council of Housing Ministers reached an agreement that ERDF spending on housing will be eligible in the new Member States under certain conditions. These require, amongst others, that spending must be in the context of an integrated urban development initiative or to upgrade rundown areas or areas threatened by social exclusion. Also, the housing concerned must be multi-family or social housing (i.e. buildings owned by public authorities or non-profit operators designated for use as housing for low-income households or people with special needs). In order to avoid distribution of ERDF funds on housing matters across different programmes, overall housing related expenditure should be limited to around 2% of total ERDF funds. This new regulation has become effective by July 2006. With the opening of the structural funds for housing measures in the new Member States, it has become clear that a need for action in housing in CEE and SEE countries has been declared at the highest political level.[4]

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1 UNECE (2005b): 10.

2 See chapter 3.3.1 p.53.

3 Tsenkova (2005): 99.

4 See chapter 4.7.6, p.84.

The World Bank has followed closely the changes in housing policy in transition economies since 1990. It has carried out substantial analytical work (sector reports) and has worked closely with researchers and policy analysts across Central and Eastern Europe on all relevant aspects of housing policy reform. Financial support was granted to housing projects in Poland, Russia, Albania and Latvia in the form of loans or guarantees.[1]

The support of these four development banks, in one form or another, for HFA's activities is essential for its success and should be sought. The development banks' roles as guarantors of housing loans and as direct investors in housing projects is dealt with in detail in chapters 4.7.1, p.80 and 4.7.4, p.82. For further information, see www.ceemortgagefinance.org.

2.7.2 UNECE - Committee on Human Settlements

UNECE provides a forum for the compilation, dissemination and exchange of information and experience on housing, urban development and land administration, including national and local objectives and policies. Particularly important are several Country Profiles and publications, such as the "Guidelines on owner-occupied flat ownership of Housing" (2000), the "Guidelines on Social Housing" (2005) and "Housing Finance Systems for Countries in Transition" (2005). Together with the development banks' research activity, these publications and further UNECE material provide important information for researchers and policy makers, and have helped encourage housing policy reconsideration in the region.

2.7.3 Stability Pact for South Eastern Europe

The Stability Pact, whose Special Coordinator, Dr. Erhard Busek, is head of the Project Advisory Board of HFA, deals with several topics related to housing, including measures for dealing with migrational processes and the Regional Capacity Strengthening Programme for Urban Development and Housing in SEE (RCSP). In line with the objectives of the Stability Pact to promote economic reconstruction, development and cooperation in South Eastern Europe, the Housing and Urban Management Initiative (HUMI) is promoting sustainable urban development, including affordable urban housing. It assists the countries in SEE to overcome obstacles in the implementation of urban development and management instruments and housing policy. It encourages exchange of information on these policies and related matters throughout South Eastern Europe.

1 CEB and World Bank 2004.

3 EXCURSUS: A "THIRD SECTOR" IN HOUSING

This section dedicates attention to the role of limited-profit housing providers and operators, and the potential of such for CEE and SEE countries. A "Third Sector" in-between public and commercial housing is understood as a specific form of Public-Private-Partnership. First, a description of functioning models of non- or limited-profit housing in some EU countries, namely Austria, France, the Netherlands and Sweden, is carried out to provide possible examples of viable structures. Subsequently, some of the few attempts at a Third Sector in CEE countries are mentioned, namely efforts in Poland, Slovakia and the Czech Republic. Finally, the general benefits of and possibilities for a functioning Third Sector in housing are made explicit, and an example of a limited-profit regime in corporate housing is traced out.

HFA is intended to play a bridging function to promote housing construction and refurbishment. It is designed to work under the prevailing circumstances in the region, that is to say, in an environment of establishing but incomplete entrepreneurial structures for housing development, surveillance, banking and construction. Nevertheless, this one tandem measure shall be briefly described, as we believe it to be exceedingly beneficial for CEE/SEE countries and for the success of a Housing Finance Agency. A Third Sector in housing as a PPP-model between private and public housing covers three functions of crucial importance for the improvement of housing provision in the region. As shown in Western countries, non- (or limited-) profit housing companies can work effectively

- as housing developers: to make the construction companies and financing institutions involved work efficiently,
- as long term investors: to build up and keep a rental housing stock with affordable rental fees, and
- as housing manager: to maintain the buildings and organise their refurbishment.

3.1 SOCIAL HOUSING IN WESTERN EUROPE

Jim Kemeny has, in several articles, developed a classification to distinguish national housing policy schemes based on the relation between private and social rental markets in a country.[1] Even though it focuses on only a fraction of the housing market, this classification allows instructive conclusions. The treatment of social housing markets in relation to the private market gives a good impression of the overall housing policy of a country. Kemeny distinguishes between three types:

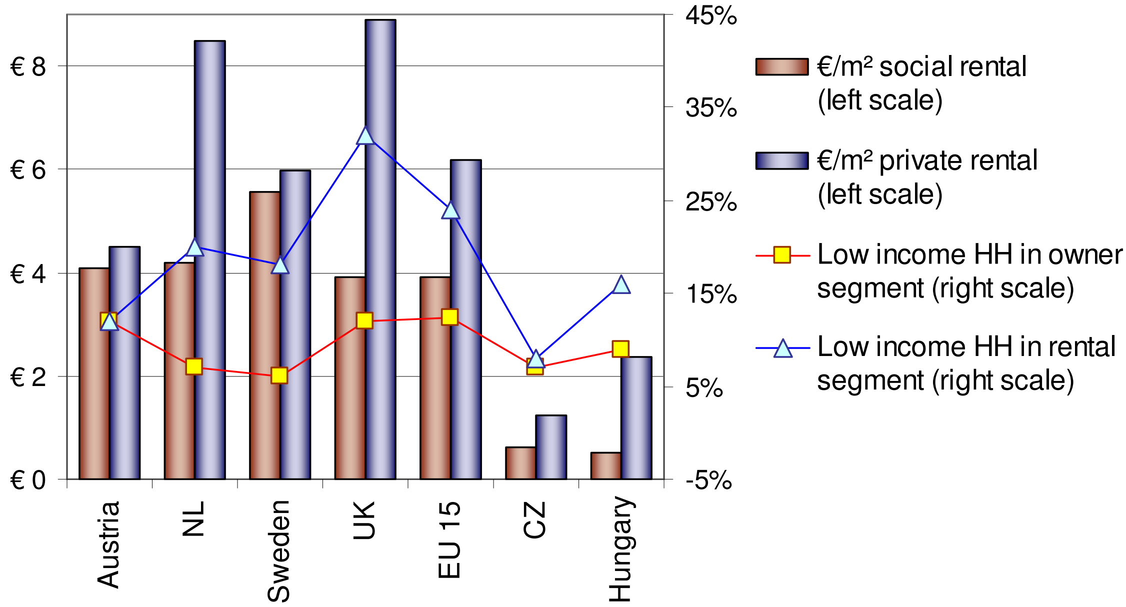
a) Countries with dual rental markets, where the state successfully shields the private market from competition of the social sector. The social sector is reserved for low income households and functions as a residual safety net. The private market, on the other hand, is characterised by high rents and insecure rental contracts.
b) Countries distinguished by a unitary rental market, where the rent level is determined by competition between private and social housing providers. The limited-profit sector does more than "housing the poor" and is directed towards larger population groups, preventing marginalisation of its tenants.
c) Countries with integrated rental markets, which have gone a step beyond unitary rental markets. The social sector has matured and its companies have become stable and established. Owing to this and a to high market share, the social sector is able to compete with the private sector with no or low subsidies and without the need for invasive regulation.

The three types of rental markets are particularly distinguished by the difference in rent levels, the volume of social housing[2] and the allocation to low income groups.

1 Kemeny, J. (1995), Kemeny et al. (2001), Kemeny et al. (2005).

2 For the volume of rental markets in different countries, see Graph 7, p.23.

Graph 18: Comparison of Private and Social housing rent levels, indicating dual or unitary rental markets



Source: Housing Statistics in the EU (2005)

Dual rental markets are to be found, for example, in Ireland, the United Kingdom and the USA. CEE and SEE countries are also currently committed to this type of market as well, even though both the social and private rental markets are largely underdeveloped. Unitary or integrated rental markets are predominant in the countries of Austria, Finland, The Netherlands, Sweden and Switzerland.

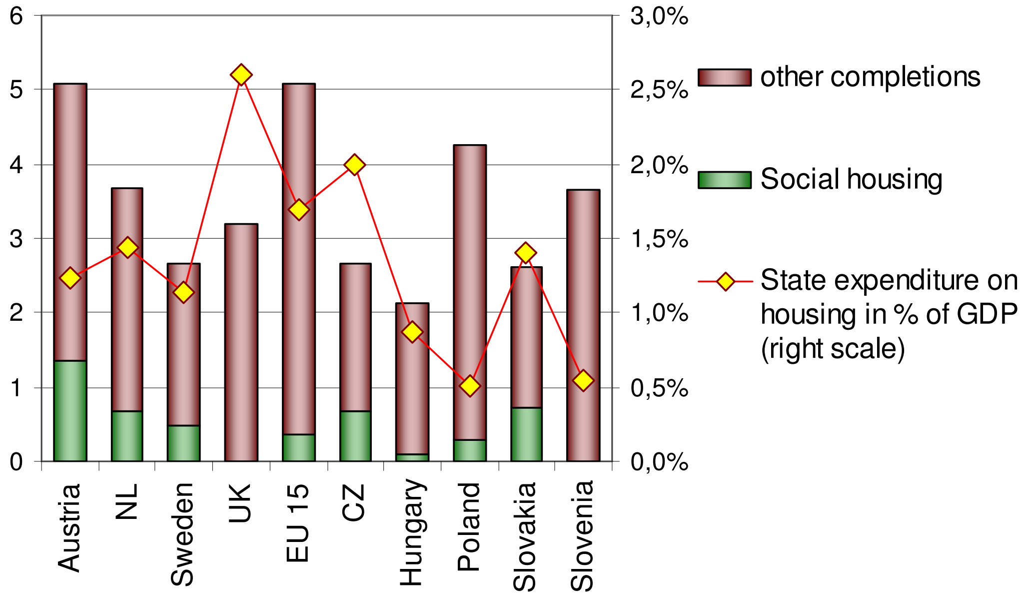
EU15 countries have, on average, state expenditure on housing of 1.7% of their GDP (Graph 19). The number varies from below 1% in some Southern European countries up to above 2% in Great Britain, Denmark and France. The share of social housing in total housing construction varies even more widely, ranging from zero in some Southern European countries and Great Britain up to more than 30% in Denmark and Austria. CEE countries have partly caught up with the EU15. Slovenia and Poland have reached housing completion rates above some EU15 countries, while Slovakia and the Czech Republic have got state expenditure rates on housing close to or even above the EU15 average.

Measuring the efficiency of housing financing schemes is difficult. The relationship between input (state expenditure) and output (number of dwellings, affordable dwellings etc.) is definitely a core criteria.[1]

[1] Promising attempts to measure the efficiency of housing promotion schemes have been developed in Austria (e.g. Amann / Oberhuber et al., 2005). Different aspects have to be considered, first of all, the efficiency of housing provision and the costs to the public. Further criteria are the social aspects of housing provision, lowest possible risks for the market players, promotion of the commercial banking sector and the construction sector (see also Tsenkova, 2005, p.7). Finally, a predominant criteria of efficiency of financing systems is their potential to widen the market for funding mortgages. This is of particular importance for economies in transition.

Graph 19: Rental housing and state expenditure

Dwelling completions per 1 000 inhabitants, Housing expenditure as a % of GDP, 2003



Re.: State expenditure on housing for Czech Republic, Slovakia and Slovenia are estimates on the basis of a 50% government expenditure rate. State expenditure on housing for Hungary as for 2005. State expenditure on housing for UK as for 1997.

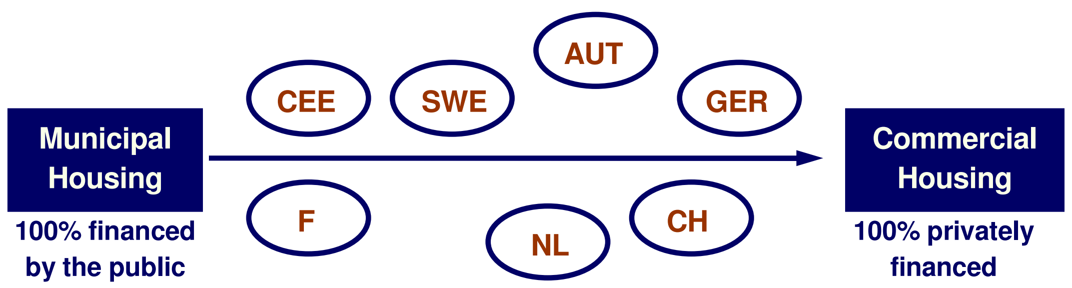
Source: Housing Statistics in the EU (2005), OLÉH, IIBW

European countries have developed a wide variety of models of rental housing promotion, the most important of which are:

- Municipality housing: mostly 100% financed by the public,
- Housing allowances for tenants in private or social dwellings: mostly dependent on household income,
- Supply side subsidies for private or social landlords: public loans, annuity or interest grants, guarantees,
- A legal and economic framework for non-profit or limited-profit housing associations.

Almost all Western countries have introduced Public Private Partnerships in housing. In particular, this is because there are affordability problems for the middle classes and not only for low income groups, hence public housing turns out to be too expensive for the state to provide. PPP models have been developed both for financing and organisational aspects. They prove to be efficient by combining the efficiency of the markets with the backing of the state.

Graph 20: Public Private Partnerships in housing



Source: IIBW

3.2 Experiences with a Third Sector in some selected coutnties

3.2.1 Austria[1]

Social housing in Austria is mostly the responsibility of limited-profit housing associations (LPHA). LPHA are what is commonly understood elsewhere as the non-profit housing sector. The different name, however, indicates an important differentiation, as in some other countries, no capital companies are allowed into the non-profit sector, whereas in Austria (limited) profits are regarded as an important aspect of stable social housing companies that are ready to carry risks.

Altogether, the sector comprises 200 housing cooperatives, private limited companies and public limited companies, with a total housing stock (rental dwellings and owner-occupied flats) of some 700 000 units (approx. 19% of total, 2001). The LPHA are responsible for 31% of new residential construction and more than half of all multi-storey housing construction. For this task, they are assigned some 33% of total expenditure on housing subsidies. The housing associations are owned by public authorities, charity organisations, parties, unions, companies, banks or private persons. To avoid moral hazard, construction firms are prohibited from owning LPHA.

In short, the limited-profit housing system can be characterized as follows:

- Legal basis: limited-profit housing law.
- Control: self-control through umbrella organisation, supervision through provincial governments.
- Social functions: therefore, they benefit from company income tax relief and preferred access to housing subsidies.
- Cost coverage principle: the obligatory calculation of rents based on construction costs, in combination with rent limitations defined by the subsidy schemes, guarantee a low and continuous level of rents (3-5 €/m² net).
- Orientation to demand: to get a subsidy, demand has to be proved.
- Limited field of action: the housing associations must focus on housing construction, refurbishment and housing management. In fact, it is an important aspect for long term success of the system that housing associations, in general, manage the houses that they have produced. They are allowed to develop additional commercial space. Recently they have also, under strict conditions, been allowed to operate abroad.
- Binding of property – limited-profit: housing associations ought to make profits. But these profits have to be reinvested in purchase of land, refurbishment or new construction. A limited part of the profit (max. 3.5% of registered capital) may be returned to the owners or shareholders.
- Obligation to build.
- Right to buy for tenants: tenants who contribute to construction costs with their equity (>50€/m²) have, after 10 years, a right to buy.
- Very strong legal position of tenants: this is established by tenancy law as well as by non-profit-housing law.

The close ties given by the non-profit-housing law, supervision through the provincial authorities and the fact that many housing associations are owned by semi-public bodies have, as a result, meant that housing associations are regarded as the “lengthened arm of housing policy”. They work on a private market economy basis for goals that are strongly influenced by the public.

[1] Amann / Mundt (2006).

The present system of social housing finance in Austria provides guarantee-like effects, even without using explicit guarantees. This derives from the combination of public subsidies (low interest loans, annuity grants), the prior role of limited-profit housing associations in new construction and the effectiveness of housing banks ("Wohnbaubanken").

Limited-profit housing associations are regarded as low risk borrowers for several reasons: First, due to co-financing by housing subsidies, capital market financing has a good L/V-ratio and very low risk. Public bodies act as external supervisors, controlling the financial situation of the limited-profit housing associations accurately. Second, ownership constellations are very favourable to their creditworthiness. Third, the size and asset base of LPHA are taken into account. These factors amount to a structure of implicit public guarantees for the loans taken out by the LPHA. Yet no formal public underwriting or guarantee fund has had to be established. This condition differs considerably from that in the majority of other countries. Therefore, the guarantee-like functioning of the housing subsidy scheme in all its complexity – financial support, as well as control and supervision – is responsible for the very good conditions that LPHA face in the capital markets.

LPHA contribute significantly to the very high level of housing satisfaction and housing quality in Austria. They keep housing expenses low and guarantee a high degree of equality in housing provision. In Austria, there are no ghettos, comparatively little homelessness and barely any segregation.

The social housing policy scheme in Austria may be attributed to the type "integrated rental market", following Kemeny.[1]

Several Austrian limited-profit housing associations are already active in CEE countries. The utilisation of Austrian LPHA equity capital abroad has been the topic of long-lasting legal and political debate. In 2002, the topic was decided upon by means of changes in Austrian Housing Law. Today limited-profit housing associations are allowed to set up for-profit subsidiary companies which may become operative abroad without the prior approbation of the supervisory authority (regional government).

3.2.2 FRANCE[2]

The social rented sector in France is centred around the concept of subsidised rent projects, called "low-cost housing" (Habitations à Loyer Modéré: HLM). The associations providing HLM vary in legal form, ownership and management. Yet, some general features of HLM providers can be distinguished:

- HLM organisations can take various legal forms: HLM Public Offices, HLM Public Planning and Construction Offices (both are affiliated to local authorities who, in turn, are responsible for their creation and management of their finances and tasks) and privately-run HLM (capital companies, subject to commercial law - they are the result of initiatives by private companies, financial institutions, the Chamber of Commerce and Industry and the Office for Family Loans). Some HLM also take the form of Semi-public Companies, Foundations and Cooperatives, part of which focus on home-ownership.
- They receive supply-side subsidies for building new dwellings or buying and refurbishing existing ones, but no subsidies to cover operating costs.
- The social rental housing supply is financed mainly through off-market long-term loans, with the aid of State subsidies and local authorities.

[1] See p.47.

[2] Cecodhas (2004), Ball (2005).

- Guarantees are provided by local authorities or a mutual fund.
- The State defines the instruments and objectives of social housing organisations. Public loans are channelled through the Regional and Departmental authorities. Regions and Departments may invest additional funds for upgrading, renovation or modernisation.
- HLM are designed so that a sound financial balance is maintained. They are managed according to public accountancy standards, with (in the case of privately-run HLM) profit limited to a certain share of capital invested.
- Rents are regulated through State decree.
- The allocation of HLM dwellings is subject to housing conditions, family circumstances and income. Local authorities are allocated a percentage of the housing stock according to their access criteria.
- Rental contracts have no time limits but a supplement to the rent is charged if income ceilings are exceeded.

From these general concepts it is quite clear that the system of HLM in France has many similarities with the Austrian Limited-Profit Housing Associations, as described in the previous section. The HLM-scheme was used as a model when introducing the TBS system in Poland.[1]

HLM organisations are financially and legally controlled by the Ministries of Housing and Finance, and they are monitored so that their activities conform to their social objectives. The Inter-ministerial social housing mission (MILOS), under the joint control of these two Ministries, assesses the financial situation of the HLM every 4 or 5 months. The MILOS may issue recommendations which, if not taken account of, may result in the MILOS issuing proposals for sanctions.

3.2.3 The Netherlands[2]

Housing organisations can take the form of either a housing association or a foundation (although these are commonly known as housing associations ("woningcorporaties") as well). Any profits that they make must be reinvested in housing. They participate in any of six performance areas, such as providing target groups with suitable housing, maintaining the standards of homes, ensuring financial security and contributing to the quality of life in neighbourhoods.

Due to its independence from the government, the social housing sector is subject to two 'safety bodies', the Social Guarantee Fund and the Central Housing Fund, which offer loans that are 1% cheaper than those available on the capital market, e.g. for hospitals. The WSW or the Social Housing Guarantee Fund is an organisation which is financially independent from the government and which acts as a guarantor to housing association loans. Associations must register with the WSW and undergo a credit check. The fund is now financed by contributions from housing associations, and associations are required to set aside a certain amount if the assets of the WSW fall below a minimum level. If, for any reason, a housing association is not able to meet the financial demands of the WSW and is unable to obtain funds from them, it may be eligible for financial support from the Centraal Fonds voor de Volkshuisvesting (CFV) (Central Housing Fund). In return, associations must consent to undertake reorganisation in order to establish financial health. Once CFV support has been accorded, the association can once again apply for membership and, in turn, WSW loan guarantees. Reforms in 1998 have meant that the CFV now have an obligation to inform the Ministry of Housing about the financial situations of individual and collective housing associations, and also the consequences of

[1] See chapter 3.3.1, p.53.

[2] Cecodhas (2004).

admitting a housing association. One must not ignore the fact that it is the government who outlines housing policy areas such as availability, affordability, quality, the quality of life and sustainability.

An internal supervisory body advises management, monitors the work of associations and takes action where necessary. Although central government withdrew from the field, the Minister of Housing still retained some powers of intervention. The minister will consider intervention after examining three documents produced by the associations which are (1) an annual report, (2) a review of statistics and forecasts and (3) a report on the local social housing situation, e.g. in terms of building and refurbishment. Furthermore, the advice of the CFV and the local authority are also taken into consideration. In some specific cases, the Minister of Housing also has the power to block plans by the associations that have been adopted without his prior permission. The associations endeavour to show that they act responsibly to society by promoting transparency of their policies and encouraging collaboration with others.

3.2.4 SWEDEN[1]

In Sweden, the state is responsible for the main housing policy. Homeowners, cooperatives and rented housing corporations borrow the capital they need on the capital market at market prices. The municipality decides when and where housing is built. The regional authorities have very little to do with the housing sector. The housing organisation decides whether to construct or renovate housing, and whether to take out a relevant loan on the market. The housing is then allocated by the housing organisation itself or by a housing association run by the municipality. Almost every municipality has its own independent non-profit housing organisation. SABO is the federation for the municipal owned housing organisations and it now includes 300 member organisations. These member organisations own and manage around 900 000 dwellings all over the country (22% of the total stock) and they can compete in the housing market on the same terms as privately owned housing. However, the SABO organisations are often set specific targets by their municipal owners. Their main tasks are to produce decent housing for all kinds of households.

In addition, there is a very particular system of housing cooperatives in Sweden. HSB and Riksbyggen are the main actors in this sector. Housing dependant on these cooperatives is equivalent to 700 000 apartments or 17% of the total housing sector. HSB currently has close to half of this market.

The area of housing is the responsibility of the municipalities, one must add that their policies and decisions may be greatly influenced by central government. With regards to the construction of housing, the local building authorities and building regulations ensure that homes are durable, hygienic and are of a good standard.

3.3 CURRENT ATTEMPTS AT A THIRD SECTOR IN CEE/SEE

3.3.1 POLISH TBS-MODEL

In 1997, Poland introduced a rental housing construction programme aimed at municipalities. 50 000 units have been constructed so far. The administration of this programme is carried out by the state-held BGK Bank and finance consists of long-term interest-subsidised loans (3.5% double-indexed). Construction is realized by non-profit housing associations (TBS), owned by municipalities, and by a few cooperatives. The rental flats are not exclusively aimed at middle income groups. Subsidies are subject to 30% private equity funding and the remaining 70% of funds are contributed by the National

1 Cecodhas (2004).

Housing Fund (KFM), which is financed predominantly out of the state budget. Since 2002, the funding has been to a large part provided by state-guaranteed loans from the EIB and the CEB.[1]

Over the years, this subsidy programme has become quite successful. Nevertheless, the large requirement for public outstanding loans amounts to a considerable problem. Also, within the political debate, insufficient targeting of the subsidies has been criticised, because objective criteria for the allocation of these very cheap dwellings seems to be lacking.

The Polish TBS model is based on the French HLM model and is unique within the region. Similarities with the Austrian system of limited-profit housing associations are also obvious, although the Austrian system has to be credited with achieving a higher efficiency due to both high capital market funding and other aspects.

3.3.2 Slovak non-profit housing scheme[2]

Only 4% of the Slovakian housing stock is constituted by municipal dwellings and 14% by cooperative dwellings. Due to the scarcity of social housing, rental contracts with the municipalities are generally limited to three years. As a result of this situation, the existing law on non-profit organisation was amplified on the subject of housing. The tax reductions that have been introduced benefit associations and cooperatives, but they do not apply to capital companies. Owners may be municipalities or private people. Nevertheless, only housing associations that are predominantly owned by municipalities may receive state subsidies. They also have to respect specific building cost caps.

After a set-up period of several years, in 2004 and 2005, the first two housing associations following this model were founded. One of them is owned by the city of Bratislava (90%) and Istrobanka (10%). The other one, based in the Northern Bohemian city of Martin, received important help from the Dutch housing fund DIGH (Dutch International Guarantees for Housing), which is also engaged in the present feasibility study. These two associations have not begun building activity, yet expectations for their success are very high. The foundation of these associations met with considerable difficulties. Approbation from the local authorities has to be obtained. The authorities are concerned about a capital outflow and so have established excessive control mechanisms.[3]

3.3.3 Cooperatives in the Czech Republic

In the Czech Republic, neither social housing nor non-profit housing associations are legally defined. Yet, in 1995, special subsidy programmes for new “quasi-rental” municipal housing construction appeared, with total subsidies amounting to approximately one third to one quarter of average dwelling construction costs. The programme allowed for the creation of cooperatives (PPP) between municipalities and participants (future “tenants”): a municipality, with the help of a commercial developer, secured the state subsidies. The remaining costs of development were covered by down-payments from future tenants and by commercial mortgage loans. Though the right to buy was allowed only after 20 years from the year of completion, the share in a housing cooperative could, under valid legislation, be liquidated immediately, resulting in a quasi-ownership structure. Even though this programme helped to increase new construction considerably, it was highly criticized for several reasons. Amongst these were the emergence of a black market in rent-regulated municipal dwellings and the illegal “sale” of rental contracts on rent-regulated municipal apartments, carried out via fictitious

[1] World Bank (2005), p.18 f.

[2] See chapter 2.6.2, p.40.

[3] Červeňová (2005); information provided by members of the project team.

dwelling exchanges. Many cooperative flats constructed using this PPP were, therefore, soon sold or rented out by participants profiting from the state subsidies. Moreover, some flats were constructed only as secondary homes and some as luxurious dwellings. Also, there were no limitations concerning the maximum cost per m^2 or the maximum area of the dwelling and no means-testing was applied in the allocation of the flats.

Owing to this body of criticism, the system was largely amended in 2003. The cooperative form was forbidden, cost and income ceilings were introduced and the participation of private capital was further encouraged. Flats constructed with this state subsidy now have to remain in the ownership of the municipality and have to be used for the purpose of housing based on a lease right. Only some income groups (lower-incomes) may become tenants in such flats, on condition that they do not own any other real estate intended for housing. The rent level corresponds approximately to cost rents. Also, the subsidy was increased to the maximum of CZK 630 000 (EUR 22 500) per dwelling. The subsidy programme for “quasi-rental” municipal housing has contributed considerably to the high rate of new construction in the Czech Republic.[1]

3.4 POTENTIAL OF A THIRD SECTOR FOR CEE/SEE

The potential of a Third Sector in housing can be seen in two different aspects. First, it enables the installation of a functioning rental market and, second, it enforces public objectives in housing policy through the operation of non-public housing providers.

The economic efficiency of a sufficiently large rental sector is subject of section 1.6 (p. 23). Under the many advantages of an increased rental supply mentioned in that section, special attention must be paid to the resulting increase in labour mobility and the improvement in affordability of housing for young and poorer households.

Considering the relationship between entirely market-based and entirely public housing, either extreme accounts for inefficiency in housing provision: With exclusively market-based instruments, only the highest income segment in housing demand can be satisfied. Municipal housing, on the other hand, shows inefficiencies through its excessive requirements for public funds and the simple fact that the incentives for market-oriented behaviour are marginal. Also, it does not fall within the responsibility of municipalities to secure middle income housing. Yet this large share of middle income housing demand cannot be consigned exclusively to the owner-occupied housing supply. The question is not only about affordability and the numerous problems resulting from an excessive owner-occupation share, but also consumer-choice has to be made possible. A market economy is particularly efficient whenever consumers are able to chose from a broad variety of alternatives, according to their tastes and needs. This is also the case for the housing market. The strength of a functioning Third Sector in the housing market is, therefore, seen in its ability to supply additional housing alternatives for consumers.

3.4.1 GENERAL CONDITIONS

As the mentioned examples of limited-profit structures in the countries of Austria, France, the Netherlands and Sweden[2] have shown, the implementation of a Third Sector in housing to secure general objectives of housing policy has attained convincing results. Particularly for low and middle income groups, the setting-up of PPP models has proven to be very effective. Combining commercial

[1] Lux (2006), see also chapter 1.3, p.20 ff. and Graph 19, p.49.

[2] See above, chapter 3.2.

financing with public funding and backing allows for affordable costs for the tenants and owners with only moderate public expenditure.

Unlike for-profit providers, limited-profit housing providers will not exclusively focus on rental dwellings for upper incomes, but will provide housing for middle and lower income groups, supported, if necessary, by public subsidies and the legal definition of public service obligations which specifies the social goals of the housing operators. Unlike private landlords, operators in the Third Sector will not use excess demand for housing to generate economic profits from inadequate housing supply, but will act according to public goals to which they are legally bound. To finance housing, PPP models with adequate state support would, therefore, combine the strength of the markets with public goals and, at the same time, work as incentives to market-oriented behaviour.

A complete legal prohibition of profits would not make sense in that context, because a reasonable yield on capital invested must be provided in order to attract capital participation. Profits are indispensable to build up equity. Subsequently, equity is not only essential as part of a structured financing of new housing construction, but it is also crucial in order to carry risks. A company with too little of its own capital will necessarily be unstable and face economic difficulties, and this, of course, influences considerably the willingness of commercial banks to co-finance construction projects. Profits should, therefore, be limited to the necessary extent and a re-investment of profits should be obligatory. EU legislation on limited-profit housing providers has recently recommended an adequate relationship between public finance providers and housing operators with public service obligations.[1]

As described in chapter 1.7, p.26, the maintenance and management of common parts of multi-storey owner-occupied apartment blocks are a major problem in the region. Limited-profit housing providers should combine the following functions: housing development, long term investment in the housing stock, housing management and maintenance. With the obligation to maintain the buildings and manage the common parts in apartment blocks, the danger of insufficient investment and dilapidation of the buildings can be prevented. They can provide an efficient structure to secure the necessary joint investment of all lodgers to maintain the common areas.

As in Austria, an additional advantage of PPP models in housing will be the better financing conditions, as long as social housing providers exist within a framework of checks and balances, with internal and external supervision. If limited-profit housing providers operate under risk-sharing conditions, either by public guarantees or by the implementation of funds, private capital participation will be encouraged due to low-risk and a reliable, stable yield. The potential to raise private capital for the operation of limited-profit housing providers can be further encouraged by instruments such as capital-gains-tax reductions on housing bank bonds, as practised in Austria.[2]

3.4.2 SPIN-OFF EFFECTS

Taking the Austrian system of limited-profit housing associations as an example, the far-reaching spin-off effects enabled by a Third Sector in housing and the concentration on bricks-and-mortar subsidies have been described.[3] The most important effects can be summarized as follows:

- Economic spin-off effects: equity capital substitution by public loans for developers, economic and labour market stimulus, dampening of construction and financing costs, regional economic stimulus.

[1] See chapter 3.5, p.57 ff.

[2] See chapter 3.2.1, p.50 and Amann/Mundt (2006).

[3] Amann/Mundt (2006), Amann/Oberhuber et al. (2004).

- Social policy effects: reduction of poverty and social exclusion, redistribution, stabilising of housing expenditures, improvements in housing quality, integration and social quality.
- Environmental spin-off effects: upgrade of environmental standards and reduction of energy consumption, in line with the Kyoto goals.
- Spin-off effects for regional and urban development: limited-profit housing projects play a fundamental role in regional development and city renewal. They stabilize settlements and prevent segregation and the formation of ghettos.

Spin-off effects resulting from public subsidies have often been criticised in international discussion for their market-distorting effect. In the case of the Third Sector in housing, this objection does not hold, since a special housing supply segment is created that would not exist in the absence of a Third Sector and public subsidies – to the detriment of the whole economy. The limitation of profits to what is necessary and the enforcement of capital reinvestment make public support of the Third Sector both reasonable and legally viable.

3.4.3 COMPANY HOUSING

A special field of operation of limited-profit housing with great potential is company housing. Naturally, the classic concept of workers' villages has to be redefined in a contemporary way. As an example, company housing could be built on the following fundamentals:

- Establishment of a limited-profit association in form of a joint-venture between a commercial company, a municipality, a commercial bank, if necessary, and further institutions.
- Implementation of an efficient financing structure based on moderate state subsidies and affordable rents. On the part of the commercial company, real values, especially building land, should be contributed. Risk of rent-loss is reduced to a minimum owing to stable employment.
- Characteristics of the Third Sector as stated in section 3.2.1, p.50 (cost coverage etc.).
- Binding of the rental contract to employment of at least one family member at the commercial company concerned. Loss of employment may, therefore, lead to the loss of company housing rights. It is reasonable to change rental contracts to indeterminate duration after several years of stable employment at the company or at a certain age.

Modern businesses tend to limit their field of operation to core tasks. The engagement in company housing does not signify a breach with this reasoning due to the moderate utilization of resources involved. Companies are often opposed to excessively strong ties with their region of settlement, because transaction costs of relocations should be minimised. The shutting-down of large businesses within a region always has heavy repercussions for regional labour markets and affects all aspects of life of the newly unemployed. The existence of company housing owned by the commercial company in common with the municipality and other partners would not be to the detriment of the company in this situation. For the municipality, even in the worst-case scenario, the advantages of the existence of company housing will prevail.

3.5 SOCIAL HOUSING AND EU-LEGISLATION

There is fundamental support from EU bodies for social housing policy measures within the Member States: *"Social housing is fully in line with the basic objectives of the EC Treaty. It is a legitimate element of public policy and as it is limited to what is necessary it is in the interest of the Community that social housing is supported".*[1] In a more specific context, social housing activities have to be in line

[1] European Commission Decision 209/2001.

with EU State Aid policy as governed by Articles 87-89 of the EC Treaty, by the later Decisions of the Commission on the matter[1] and by several rulings of the European Court of Justice.[2]

For all public subsidies in housing policy matters (subject- and object-side subsidies, such as loans, interest subsidies, grants, guarantees and tax exemptions), this means they must qualify as State Aid exemptions as specified in Art 87 (2) and must be considered compatible with the common market, subject to the Commission's scrutiny as laid down in Art 87 (3). Alternatively, they must be considered as compensation of a public service obligation in the sense of Art 86 (2).[3]

The provision of social housing may most certainly be defined as a service of general economic interest by the Member States, which leads to the possibility of compensating these services by the public. As for the question of the legitimate height of public service compensation, the famous judgement in the "Altmark" case[4] has established a general framework. Here, the Court of Justice held that, in the field of public service compensation, in order to escape the State Aid regime of Article 87, four cumulative criteria have to be met:

- The recipient undertaking must actually have public service obligations to discharge, and the obligations must be clearly defined.
- The parameters, on the basis of which compensation is calculated, must be established in advance in an objective and transparent manner.
- The compensation cannot exceed what is necessary to cover all or part of the costs incurred in the discharge of public service obligations, taking into account the relevant receipts and a reasonable profit.
- The undertaking which is to discharge public service obligations, in a specific case, should be chosen pursuant to a public procurement procedure that allows for the selection of the tenderer capable of providing those services at the least cost to the community. If that is not possible, the level of compensation must be determined on the basis of an analysis of the costs which a typical undertaking, well-run and adequately provided with appropriate means so as to be able to meet the necessary public service requirements, would have incurred (in discharging those obligations, taking into account the relevant receipts and a reasonable profit for discharging the obligations).

The Altmark case judgment, therefore, established the general case for evaluating state subsidies: where subsidies are regarded as compensation for the services provided by the recipient undertakings in order to discharge public service obligations, they do not constitute State Aids and are, therefore, legitimate.

For social housing as a particular field in the common market, the Commission's Decision of 28.11.2005[5] brought further clarification of the Altmark ruling and established a special treatment of social housing within Competition Law: "Social housing undertakings (…) have specific characteristics that need to be taken into consideration" and "the intensity of distortion of competition in those sectors is not necessarily proportionate to the level of turnover and compensation".[6]

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1 Especially on N 497/01, N 239/02, C 515/02, N 209/01, L 312/69/2005, see Appendix.

2 Especially ECR 1-7747 2003.

3 See Appendix for specification.

4 ECR I –7747 2003.

5 L 312/69.

6 Commission Decision of 28.11.2005, L 312/69, (16).

The following definitions and rules were established:

- The target groups of social housing measures are "disadvantaged citizens or socially less advantaged groups, which due to solvability constraints are unable to obtain housing at market conditions."
- For the compensation of social housing services, a general exemption from notification to the Commission was provided.
- Overcompensation for the fulfilment of a public service obligation may be tolerated as long as it stays within a certain threshold and is carried forward to the next period: "The revenue of undertakings entrusted with the operation of services of general economic interest in the field of social housing may vary dramatically, in particular due to the risk of insolvency of leaseholders. Consequently, where such undertakings only operate services of general economic interest, it should be possible for any overcompensation during one period to be carried forward to the next period, up to 20% of the annual compensation" (10). Any overcompensation amounting to more than 20% of the annual aid granted will count as an infringement of EU rules.
- The new package also stipulates that if an undertaking receiving State Aid to deliver services of general interest is also active in other markets, separate accounts must be kept.
- This Commission's Decision also lays down clear guidelines for the calculation of adequate public services compensation and stipulates which costs should be taken into consideration. The Decision allows for a reasonable profit to be included, which "shall take account of all or some of the productivity gains achieved by the undertakings concerned during an agreed limited period without reducing the level of quality of the services entrusted to the undertaking by the State".[1] A clarification of the term 'reasonable profit' is also provided in order to facilitate the calculation: "For the purposes of this Decision 'reasonable profit' means a rate of return on own capital that takes account of the risk, or absence of risk, incurred by the undertaking by virtue of the intervention by the Member State, particularly if the latter grants exclusive or special rights. This rate shall not normally exceed the average rate for the sector concerned in recent years. In sectors where there is no undertaking comparable to the undertaking entrusted with the operation of the service of general economic interest, a comparison may be made with undertakings situated in other Member States, or if necessary, in other sectors, provided that the particular characteristics of each sector are taken into account. In determining what constitutes a reasonable profit, the Member States may introduce incentive criteria relating, in particular, to the quality of service provided and gains in productive efficiency".[2]
- On January 29th 2006, an agreement on the extension of the possibility of reduced VAT rates on labour-intensive services was reached at European level. Member States may apply this waiver to levy VAT rates below the 15 per cent EU legal minimum permanently in order to "supply construction, renovation and alteration of housing provided as part of a social policy." This indirect subsidy may, therefore, also be used for social housing.

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[1] Article 5 (1).

[2] Article 5 (4).

4 BUSINESS PLAN FOR A HOUSING FINANCE AGENCY

Earlier chapters have shown the insufficiencies of housing and housing construction in CEE/SEE (chapter 1), the increasing potential for commercial and public financing in the target countries (chapter 2) and the potential of a Third Sector in Housing (chapter 3). Particular emphasis was placed on the deficient situation in rental housing construction and refurbishment. A huge demand for services to amend the housing situation seems, thus far, to have been proven. Meanwhile, many ambitious initiatives at both the national and international level are on the way. Yet still there is a lot to do. We believe that a financing instrument as described in this chapter may contribute considerably to an enhancement of both rental housing construction and refurbishment.

However, the difficulties are manifold:

- A new player has to gain the confidence of a wide variety of stakeholders.
- Institutions with very different interests have to be served: national governments, international financing institutions, commercial banks, housing developers etc.
- The specific situation differs a lot from one target country to another regarding the legal background, the requirements to put HFA into operation, the framework of players etc.
- Dealing with money causes considerable liabilities, which will grow larger as deals increase in size.

This feasibility study has led directly to an applicable business model with a sustainable entrepreneurial idea. Therefore, this chapter has been designed as a business plan for that model. As such, it starts by describing the strategic position of HFA to all different stakeholders (4.1), followed by an outline of the main objectives of HFA (4.2). In section 4.3, the products and services of the Financing Agency are depicted, with the core business being that of financing affordable housing. For this purpose, several financing models have been designed and one of them illustratively calculated (4.4 and 4.5). Crucial for obtaining affordable housing costs are favourable refinancing conditions. In section 4.7, the sources for capital and guarantee acquisition are specified. From section 4.8 on, the business plan then becomes more practical, as the realisation of a specific housing project, with particular regard to controlling aspects, is outlined. As public funding is expected, the financing models have to be in line with EU-legislation (3.5). In section 4.10, the congruence of the HFA model with housing policy issues in the pilot countries of Slovakia, Romania, Montenegro and Kosovo is appraised. Finally, the company itself is described (4.11), including the financing of business (4.12) and a SWOT analysis (4.13). The chapter ends with conclusions and an appreciation of expected results (4.14).

4.1 POSITIONING

The "Housing Finance Agency" is designed to be an institution that works as an intermediary between national and EU housing policies, international development banks, commercial banks and housing developers in order to increase housing affordability in CEE and SEE countries.

4.1.1 HFA AND EU HOUSING POLICY ISSUES

Via the Austrian Ministry for Economy and Labour, the HFA initiative was discussed on the occasion of the 16th European Housing Ministers Meeting in Prague in March 2005. In the Final Communiqué, the Ministers concluded, "that they took note with interest of the initiative to explore the feasibility of a European Housing Bank and look forward to discussing the outcome thereof by the first half of 2006".[1]

[1] Final Communiqué of the 16th European Housing Ministers Meeting held in Prague, the Czech Republic, 14th and 15th March, 2005.

The Feasibility Study at hand will be forwarded to policy makers. The authors are confident that the European Housing Ministers will discuss this study at an opportunity to come.

The accordance of the HFA-model with EU competition regulations is discussed in chapter 3.5, p.57.

4.1.2 HFA AND NATIONAL HOUSING POLICY

The HFA is intended to assist national housing policy in CEE and SEE countries. Most countries have introduced subsidy schemes for rental housing for the lowest income groups and partly for housing refurbishment. The HFA-model intends to increase housing affordability for a broader income group. According to the experiences of many Western countries, a certain amount of public support for middle income groups is necessary in order to reach the desired level of housing consumption per capity and to stabilise housing supply.

The HFA will help to attain national housing policy objectives and keep public expenditures on housing low. For this reason, it is necessary that national institutions responsible for housing policy interact in a country-specific and adequate way with the HFA. It is inevitable that national housing subsidy schemes in the pilot countries will contribute to the HFA financing model, either by providing guarantees, low interest loans or grants. Municipalities, on their part, will be able to contribute cheap or cost free building land.

The implementation of HFA activities in a certain country shall be based on the following principles:

- SUBORDINATION: HFA supports national housing policy targets (and not vice versa). It has to be accepted that national support is targeted only to activities in line with the national policy schemes in place.
- INTEGRATION: Introduction of HFA should be possible with no or only small changes in the legal framework and the mandate of national housing funds.
- TRANSPARENCY: All activities of HFA are open to supervision and control by the host country.
- LOCAL ACTION: HFA will work as a multilateral company with cross-border financing. However, it will be represented in every country of action and will cooperate with local staff.

The accordance of HFA activities with national housing policy issues in the four pilot countries (Slovakia, Romania, Kosovo and Montenegro), is the subject of chapter 4.10, p.90.

4.1.3 HFA AND INTERNATIONAL FINANCING INSTITUTIONS

HFA is intended to act as an intermediary for International Financing Institutions (IFIs: Development Banks, donors). It can contribute to their goals as follows:

- With HFA as intermediary partner, it is possible to administer large-scale tranches of finance. The HFA can split up large sums and finance a number of housing projects of much smaller scale.
- The financing structures for housing construction and refurbishment will be standardised. This is a precondition for efficient capital market financing, as well as financing by IFIs. Standardisation allows growing volumes of finance and security.
- HFA will act as a pool of know-how for social housing and refurbishment. It may assist the IFIs with its expertise. It may ease the transfer of know-how from one country to another.
- HFA may assist the IFIs in the implementation of social housing targets in the recipient countries.

International organisations should not regard HFA as a competitor to their own objectives. Instead, it may supplement their policies. The interaction of HFA and international financing institution as for guarantees and loans is dealt with in chapter 4.7, p.80. The HFA should become the logical partner whenever development banks are confronted with housing projects to be financed.

To make HFA succeed, it is very important that its activities are covered by own credit lines from the international Development Banks. Existing credit lines of commercial banks, which may be involved in HFA activities as well, must not be affected.

4.1.4 HFA and Local Commercial Banks

None of the existing private capital market activities will be counteracted by the new instrument. On the contrary, existing initiatives will be supported by co-ordinating efficient funding of capital. The agency will not be in direct contact with the end-users in the housing sector. Many of the activities that the HFA will support in the host countries will help create a stable and risk-minimised environment so that commercial banks can join in the financing of large-scale (social) housing projects. The HFA's assessment of housing projects applying for public and international support will guarantee a secure environment for commercial banks as well.

4.1.5 Local Project Developers

The successful establishment of the HFA and an upturn for local project developers go together. The HFA is greatly in need of trustworthy housing developers and will promote those with secure and cost-efficient financing.[1]

4.1.6 Reasons for an International Instrument

Housing promotion schemes are widely regarded as national responsibility. Yet housing finance is growing more and more international. This is the case both for primary market cross-border financing and secondary market instruments.

There are good reasons for introducing an international agency like HFA. First, it is necessary to involve the international community in this topic. With regard to the serious problems in housing provision in the region, international co-financing will be of great help. A common instrument for several countries might be advantageous for facing this challenge, since many problems are similar across the region (see chapter 1, p.17). Second, the proposed financing models have great long-term potential regarding secondary market refinancing. A multilateral model allows for standardisation of the financing product. Standardised terms of finance for a considerable number of rental flats are good preconditions for the placement of the outstanding mortgages on international capital markets. This might become a powerful source of future funding of the model.

4.2 Objectives

Following the reasoning presented above, the introduction of a Housing Finance Agency as a new instrument in the housing finance markets in CEE/SEE countries is expected to achieve the following objectives.

A) Promotion of Affordable Rental Housing

The key aim of HFA is to improve housing affordability in CEE/SEE countries. As there are different ways and various instruments to achieve this (see chapter 2.5, p.37), the HFA does not impose one single instrument on the countries under consideration, but rather it looks for tailor-made solutions to the specific circumstances and requirements of those countries.

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[1] See chapter 4.8.1 “Assessment of housing developers and construction companies”, p. 85.

In chapter 1.6, p.23, and 3, p.47 of this study, we thoroughly described the importance of a functioning rental segment in the housing market to improve overall affordability and increase consumer choice.

In the region considered, despite growing awareness of the positive aspects of rental housing, there seems to be no way to reverse the trend in rental housing construction. Rental housing is seen either as outright market-oriented or fully subsidised. Private rental and social rental are regarded as two strictly distinguished products. However, Western European experience shows that these two products are only a small fraction of a big variety of combinations of private and public financing of rental housing.[1] All over Europe, rental apartments financed solely by capital market instruments are only marketable to the top income groups.[2] Fully subsidized flats, in contrast, are too costly for the state to provide for more than a small group of households in need.

Higher output in rental housing is achieved in some Western European countries through different tools:

- Incentives for upscale rental housing:
  Forms of tax relief for developers, buyers or tenants are widely used. In Switzerland, which has the highest rental rate in Europe, a specific part of capital investment is to be invested into rental housing. In this way, funds with favourable terms are directed to (private) rental housing.
- Complex support for rental housing for lower and middle income groups:
  Any country that has achieved a high level of social rental housing has made use of various instruments that combine the strengths of the state (e.g. as guarantor) with market instruments. The most efficient and best documented models are the Danish Mortgage Bank institution[3] and the Dutch Social Housing Guarantee Funds (WSW Waarborgfonds Sociale Woningbouw). High efficiency regarding state expenditure and attained results in housing provision is attributed to the Austrian model of social housing finance.[4]

In several CEE and SEE countries, the conditions for financing upscale rental housing on the one hand and fully subsidized public housing on the other hand are present. But for the big in-between, no clear perspective is yet visible.

For new rental apartments, a new model only makes sense if the resulting rents for marketable flats have a decent relationship to the incomes of typical households. The benchmark is a household of two earners in civil service occupations and a housing expenditure rate of less than 30%. Lower expenditure rates may be achieved with additional efforts by the public sector, e.g. by providing low-price land or additional customer-tied promotion (housing allowances). The resulting rents have to be considerably cheaper than those in privately financed owner-occupied flats. The model may be even more attractive if a right to buy (e.g. after 10 years) is offered.

This does not mean at all that rental housing for middle and lower income groups has generally to be subsidized by the public. But the public must commit to a steering and leading role, particularly at the beginning, in order to stimulate development of the market. Public involvement shall be designed in a way that the need for public finance decreases over time.

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1 See chapter 3.1 and particularly graph Graph 20, p.49.

2 In some countries, e.g. Germany, it is relatively cheaper to rent than to own an apartment. This is mainly the result of legislation in favour of rental housing and better state support.

3 UNECE (2005b), p.28.

4 See chapter 3.2, p. 50.
Amann, Ramaseder, Riss (2005), Amann/Mundt (2005).

B) Contribution to a substantial increase of housing construction in CEE/SEE

Another important method for increasing housing affordability is to increase the housing supply that is accessible to various income groups. If only top-income rental apartments are being built, or if new built social rental stock is reserved for low-income households, the overall affordability of housing for the average household might not change. Therefore, a considerable volume of housing construction for broad income groups has to be achieved. A new instrument for affordable housing promotion has to contribute to a medium-range upswing in rental housing construction in CEE/SEE.

C) Promotion of refurbishment of multi-storey buildings

An important goal of HFA is to encourage the maintenance and repair of multi-family dwellings. For the future, the HFA will help to create sustainable structures for the management and repair of the existing housing stock.

The urgent need for a considerable intensification of refurbishment programmes in the region has been described in chapter 1.7, p.26[1]. The general problem lies in the fact that municipalities are responsible for local public housing administration, but, in many of the countries considered, they do not feel responsible for the quality of the existing housing stock. After privatisation to the sitting tenants, the responsibility of long-term maintenance of the common parts in multi-family buildings passed on to the new owners. As many of them have only low incomes, there is no chance to get agreement for a comprehensive investment programme.

The efficient organisation of a regular and timely repair schedule for common parts in multi-owner buildings is a very well-known problem in housing policy and has led to the implementation of various housing policy instruments in Western Europe (legal requirements, rehabilitation subsidies, housing cooperatives, owner associations etc.).

The introduction of working schemes for refurbishment of multi-storey buildings is regarded as an even greater challenge than raising the level of rental housing construction. A precondition for a solution is a comprehensive policy framework (legal, financial and institutional) and capacity building by home-owners associations, housing management companies and municipalities.[2]

HFA shall play a part in this process by:

- designing and organising financing models in a way that projects are viable and sustainable, and can be financed at least partly by local banks,
- consulting with policy makers in the improvement of the legal and institutional framework,
- transferring the know-how in best-practice projects from one place to another.

D) Promotion of owner-occupied housing

The growing importance of the owner-occupied housing sector and the decreasing availability of rental alternatives is seen as a threat to housing affordability in the region. Therefore, the HFA especially emphasizes the importance of a rental sector for housing affordability. Yet HFA activities should also help to promote the efficiency of the owner-occupied housing sector and to encourage measures to facilitate mortgage finance and improve financing conditions for such housing, which may increase housing affordability.

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[1] See PRC Bouwcentrum International (2005); Elbers, A. (2006); UNECE (2005a), UNECE (2000).

[2] Alle Elbers, from PRC Bouwcentrum International, in an unpublished paper 1/2006.

For example, the lack of adequate land registers for owner-occupied apartments in many countries in the region poses a fundamental problem for the functioning of mortgage markets. Only in some CEE/SEE countries is it possible to register owner-occupied flats, which is necessary in order to collateralise mortgages. This is not possible in, for example, Hungary, Poland or Bulgaria. Special laws for owner-occupied flats are in force in only some countries in the region (e.g. Hungary, Slovakia and Romania have none).[1] The HFA may help to promote these requirements for efficient mortgage markets.

E) Institutional reinforcement

HFA will assist in setting up the necessary institutions for achieving housing policy goals. First, the new model will focus on the strengthening of institutional financing. The lack of an institutional framework for social housing is regarded as a major reason for insufficient rental housing provision. Second, the formation of a Third Sector in housing will be promoted. Limited-profit housing institutions operate between market and state, following the principles of cost coverage, a limited field of action, binding of property, limitation of profit. As discussed in chapter 3, p.47, this type of housing developer and operator plays an important part for the success of housing policy in many European countries, e.g. Scandinavia, the Netherlands and Austria. The consecutive implementation of a network of limited-profit housing operators in CEE and SEE countries will help to increase housing affordability in the long-run.

F) Risk minimisation for the donors

HFA will play an important role in assessing housing projects. A certain standardization of assessment criteria for housing projects according to funding requirements and risk involvement will be of great use for international and national financing institutions. For the analytical assessment, HFA will be able to use its expertise and knowledge of the field. For this reason, the HFA will be able to access to local offices and local staff.

G) Consultancy in housing finance

HFA will be able to pass on the experience of large-scale housing finance of some Western European countries on to the countries of the region. The way the HFA works as a link between financing institutions, commercial banks and housing providers will secure the consolidation of the interests of all parties concerned and will secure long-term, stable and risk-minimised solutions for specific housing finance requirements.

H) Sustainable business opportunities for the financing sector

Public and international support of housing projects in CEE and SEE countries should not function as a substitute, but rather as an incentive to private capital investment. By the assessment and auditing of housing projects, HFA will help to create stable investment opportunities in the housing sector for any possible investors.

I) Minimum subsidies

The prerequisite for low public expenditure in housing is a considerable involvement of market players, in particular, commercial banks, developers and construction companies. Taking the example of several Western countries, an upturn of affordable housing with minimum subsidies is possible by introducing PPP models. Respective financing models are displayed in chapter 4.4, p.68. In the long run, rental housing construction for middle and lower income groups has to become a bankable product. Affordable rents can only be achieved through low financing, construction and land costs. Measures to dampen construction costs are listed on p.86.

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[1] PRC Bouwcentrum International (2005).

J) Conditions for implementation should be easy to fullfill

A new instrument of low profile and high efficiency should be easy to implement in any surrounding. It should be transparent and easy to audit, as it is considered an instrument to implement national housing policy targets.

K) Business objectives

Besides a variety of macroeconomic objectives, the following microeconomic objectives are targeted:

- International orientation,
- Lean management,
- Short decision making processes, although efficient control,
- Credibility both to financing partners and recipient countries,
- Standardized procedures.

4.3 Products and Services of HFA

HFA shall stand for well recognisable housing finance products with a corpus of transparent quality criteria and supervision.

4.3.1 Customers

HFA is expected to serve the following customers:

Beneficiaries:

- Municipalities, both for their own housing developments (public housing) and for joint ventures with other organisations,
- Commercial housing developers,
- Associations of owners,
- Cooperatives,
- Housing associations,
- Contractors for energy saving measures.

Initiators:

- Commercial banks,
- Investors,
- IFIs,
- DIGH.

4.3.2 Financing and project steering services (core competence)

The services of HFA have to be demand driven and tailor-made. To make housing projects work, the following services seem crucial:

- Accreditation of developers to be integrated into the programme (chapter 4.8.1, p.85),
- Project selection, with due diligence according to specific requirements (chapter 4.8.2, p.86),
- Acquisition of guarantees and capital to be forwarded to project developers and/or commercial banks on site (chapter 4.7, p.80).
- Recommendation for financing: transparent and fast handling in co-ordination with financing banks, municipalities, state housing promotion departments, International Financing Institutions etc. (chapter 4.8.5 “Procedure of financing”, p. 88),

- Support of the financing partners in execution of the financing process (chapter 4.8.5),
- Supervision: application of a system of steering and control (chapter 4.8.6, p.88),
- Standardisation of products (financing models) and procedures (assessment of project partners and development projects).

The team suggests that HFA should operate as an agency. Its main tasks are to work as a broker between local and international banks, international organisations and developers. Developers could be private construction companies or local municipalities in the target countries.

HFA analyses projects ideas from municipalities and international organisations with regard to their feasibility. In addition, HFA can also initiate its own project ideas. For feasible projects, HFA arranges the financing among international and local banks and international organisations. In this context, HFA will make suggestions for possible financing models (p.68). Through the whole lifetime of a project, HFA works as project co-ordinator, mediating between the different parties involved.

The institutional structure will, however, allow HFA to conduct its own policy and implement its own strategic goals.[1]

4.3.3 Expertise and Consultancy services

HFA might serve as know-how pool for the benefit of any customer. It may promote financing options to those with political responsibilities and to market players in CEE/SEE countries and advise national governments, European institutions and market players in housing policy schemes.

4.3.4 Services not covered by HFA

HFA shall concentrate on certain core competences. Services beyond this shall be outsourced, such as bank services, market research, project development or housing management.

4.4 Financing models

In this section, four PPP models for financing housing construction are presented. They were designed by the following criteria:

- they allow growing quantities (housing not only for low, but for middle income groups as well),
- they keep public support as low as possible,
- all of them derive from existing financing models, tried and tested in practice,
- members of the working team have close knowledge of the origin models and so are able to assess their potential and limits.

Any of the four presented models seem to be cost-efficient for the public and cover the above mentioned targets to a large extent:

- the DIGH model of covering the first loss (4.4.1);
- the HFA-Guarantee-Model (4.4.2);
- the HFA-Batch-Financing-Model (4.4.3);
- the HFA-Interest-Guarantee-Model (4.4.4).

[1] See Graph 22, p. 70.

Each of these models has proven its operativeness. However, here, they are regarded as examples. They need to be evaluated in more detail when HFA decides on their implementation.

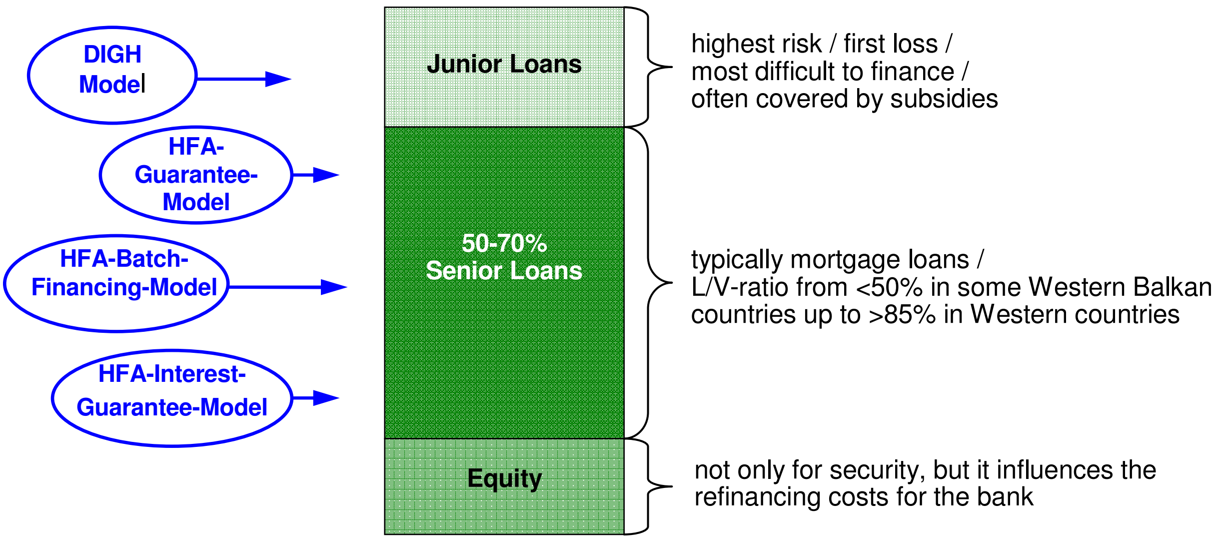
It is expected that HFA will also scrutinise other models, which will be designed by establishing financial cooperation with national and international sources for finance.

The models are dedicated to the institutional financing of rental housing construction, but, in general, they may be applied to owner-occupied housing and to refurbishment projects as well.

All models require capital market mortgages with long maturity and competitive interest rates. This may be attained by introduction of mortgage banks, efficient competition between the commercial banks on site and a well known legal and economic framework for a functioning financing sector.

Graph 21 shows the principal components of commercial housing financing.[1] The division into three sections - Equity, Senior Loans and Junior Loans - allows for a better understanding of how commercial financing services and public backing may support one another. To attain growing quantities of housing construction, a big part of financing should be covered by commercial banks. By contrast, in order to achieve low financing costs, public backing should focus on those fractions of financing with high risk. Additionally, it is particularly cost-effective if otherwise insufficient equity is supported by public funding. The need for such equity substitution will diminish in the long run with the growing solidity of housing developers.

Graph 21: Principal financing components



Source: IIBW

The total interest rate is highly dependent on the different risk components:

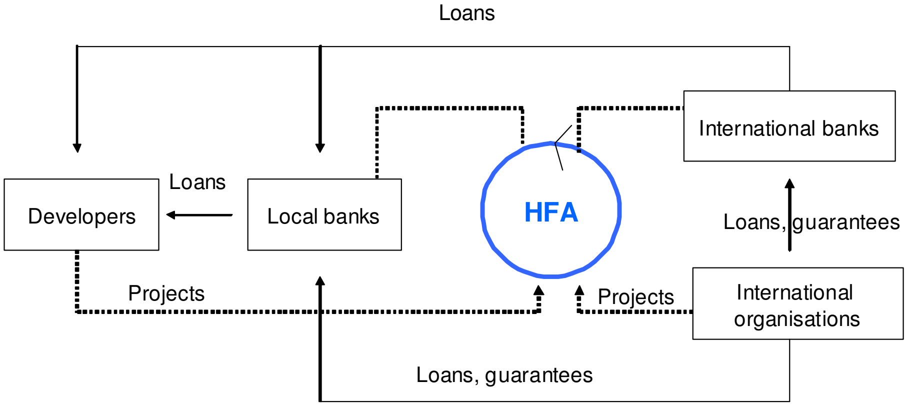
- Project risks may be reduced by sound project feasibility. The project risk for a rental housing project might be high if no rental market is established.
- Currency risks are due to financing in Euros. By financing (refinancing) in local currencies, this cost component may be avoided.

[1] See chapter 2.3.3 "Commercial housing finance", p.34 ff.

- Country risks range from almost zero in some CEE countries up to almost ten percentage points in some Western Balkan countries. This risk component may only be abolished by guarantees from international institutions.

Altogether, HFA financing is organised in a way that is illustrated in Graph 22.

Graph 22: Institutional structure



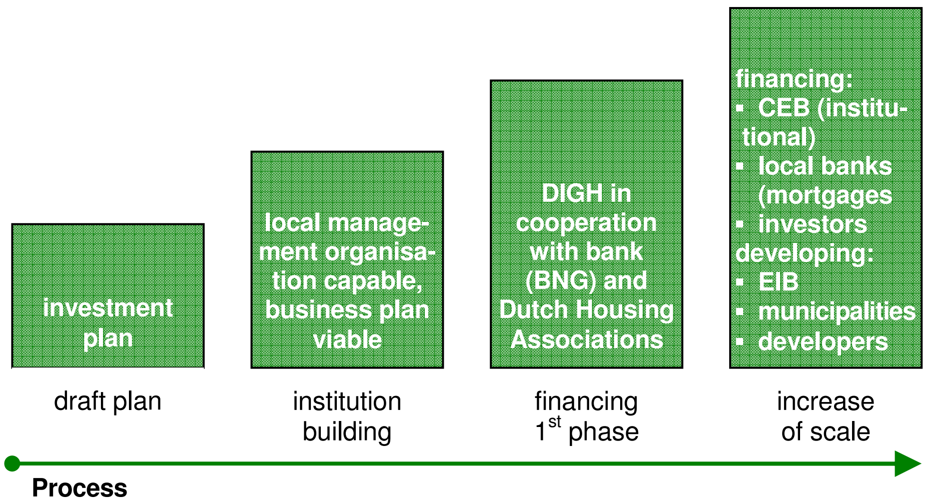
Source: Roy

4.4.1 DIGH Model of Covering the First Loss

This model is contributed by the project partner DIGH – Dutch International Guarantees for Housing. Given the high default risks involved – in refurbishment projects they may exceed 20% - financing often fails on the question of who will cover the first loss. Hence, the financing models have to address this question in particular.

The project partner DIGH has announced that they will take over this part for a limited number of pilot projects. DIGH might also extend recent practice in project financing to HFA. For this, DIGH has combined own financing for viable projects with the finding of guarantees for their own loans.

Graph 23: DIGH Model – chain of activities

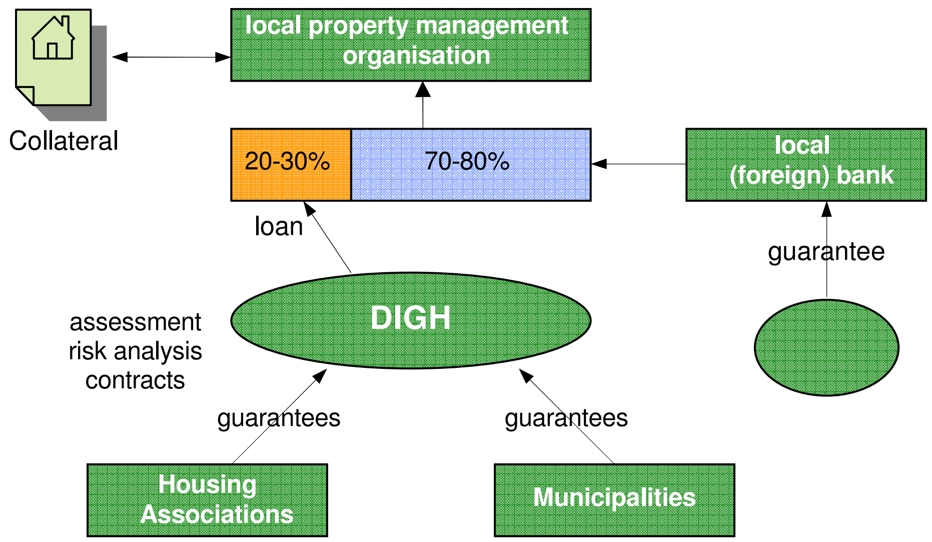


Source: DIGH

For Development Banks as financing partners, the following added value is provided:
- knowledge of “social housing” in economic and managerial terms,
- knowledge of the markets,
- experience in assessing projects,
- taking responsibility for implementing a pilot project before the banks are at the table for the next stage. This is a form of taking the risk of the first loss in a construction/reconstruction project through taking the risk of a pilot project.

Commercial banks may attain the following added value: In some CEE countries, pilot projects with DIGH showed how local banks could be interested in playing a role in financing energy saving projects. Essential in this financial modelling was that one of the financers was able to take the risk of first loss. Therefore, a risk analysis was made of the payment behaviour of the tenants. Based on this analysis, banks were willing to step in up to a level of 70-80% of construction costs. A financial vehicle can be introduced for financing the local housing entity. Besides that, the IFC encouraged local banks to step in based on a guarantee of 50% of the volume of the loans involved.

Graph 24: DIGH Model of Covering the First Loss



Source: DIGH

Strengths:
+ Available funds and procedure,
+ Coverage of the most risky fraction of financing,
+ Facilitates additional financing by commercial banks and guarantors.

Weaknesses:
- Applicable only for pilot projects.

4.4.2 HFA-Guarantee-Model

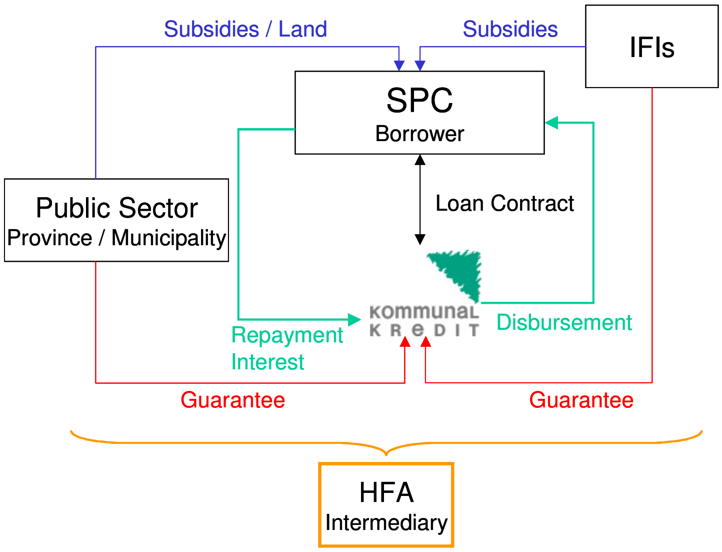
This model has been designed by the project partner Kommunalkredit Austria AG. With this model, the greater part of financing is to be guaranteed. Guarantors might be local or national authorities as well as international institutions. An international example for this kind of model is the Dutch Social Housing Guarantee Funds.

Mode of operation:

- A Special Purpose Company (SPC), either a purely private company or partly (PPP) / fully owned by a municipality/province, receives financing from an International Finance Institution (IFI) and/or the public sector as well as (if applicable) the land in question.
- For the amount of project cost not covered by equity and subsidies, the SPC concludes a loan contract with a commercial bank, e.g. the local Kommunalkredit subsidiary. The security package consists of a guarantee by an IFI for a certain volume of the loan amount, as well as of a guarantee by the public sector for the residual amount. Due to this security package, the commercial bank can finance this project at a price close to the conditions applicable for pure public finance.
- HFA, as an intermediary between the SPC, the IFI, the public sector and the bank, supports all stakeholders in structuring a bankable and sustainable project.

HFA will fulfil the following tasks: lobbying on a political level to stress the importance of public support for social housing projects, a hub for financing/guarantees for all stakeholders and creation of essential preconditions for banks (e.g. securities). HFA can be an intermediary between project developers, municipalities, IFIs and commercial banks, supporting the essential circumstances to result in social housing projects that all stakeholders benefit from. This means cheaper rents for the tenants, greater attractiveness of the municipalities resulting in a higher number of inhabitants and a certain return on investment for the project developer. In practice, HFA could inform and support the project developer concerning financing/guarantees from the public sector. This way, in creating a well-structured and publicly supported project, the financing by local and/or international banks will be more attractive and so result in lower project costs and lower rents. Furthermore, longer maturities can be offered by banks if the security package turns out to be an acceptable one.

Graph 25: Principles of the HFA-Guarantee-Model



Source: Kommunalkredit

Strengths:

+ The whole financing is administrable by commercial banks involved.
+ With national or international guarantees, financing costs should become low enough to attain affordable rents.
+ With this model, financing can become largely independent from public interventions.

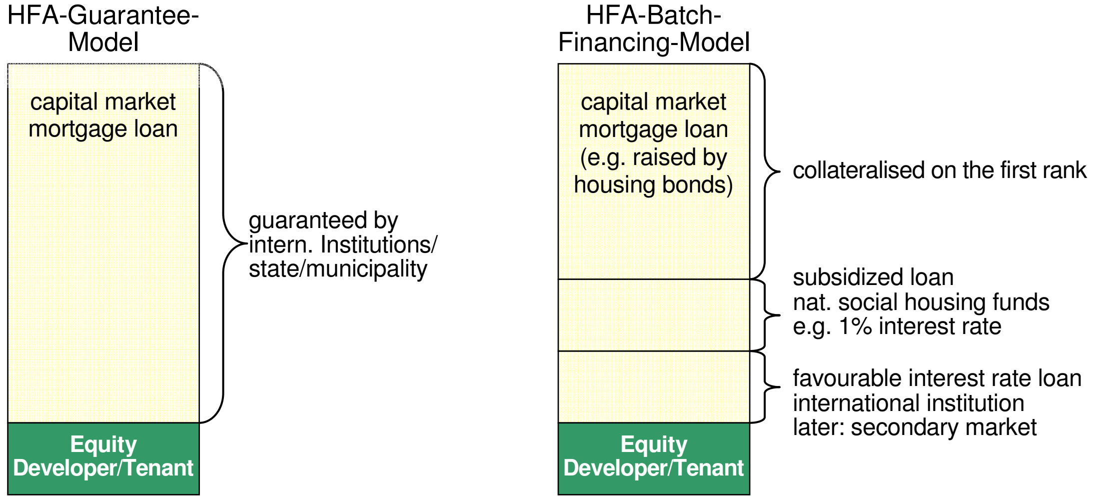
Weaknesses:
- The financing volume to be guaranteed is rather high and accumulative. It is questionable whether national or international guarantors are able to fund this to the necessary extent.

4.4.3 HFA-Batch-Financing-Model

This model is designed by IIBW according the Austrian system of social housing finance, particularly the housing promotion scheme of Vienna Municipality.

Mode of operation:
- Some 50% of construction costs shall be financed by the capital market (senior loans). A proper source would be housing bonds or housing construction convertible bonds. These loans shall be collateralised in the first rank. In this way, the senior loans obtain a favourable L/V-ratio and rather low risk.
- Another 10-20% of construction costs shall be covered by equity from developers and contingently future tenants.
- The remaining 30-40% shall be financed by (subsidised) low interest long term loans (junior loans), collateralised on the second rank. They function as equity substitution to improve the conditions of capital market financing.[1] The financing share of junior loans shall be higher for risky and ambitious projects and lower for standard projects. As a result, the average stake of these loans will decrease in the long run. The junior loans shall be funded partly by national (housing funds) and partly by international sources (Development Banks, international institutions, donors) via an agency like HFA.

Graph 26: HFA-Guarantee-Model and HFA-Batch-Financing-Model



Source: IIBW

In some of the target countries (Kosovo, Montenegro), collateralisation by the second rank does not exist. For these countries, alternative tools have to be introduced, e.g. on contractual basis.

Strengths:
+ The model integrates a variety of sources. This results in risk mitigation and the utilisation of different financing tools, without stressing one single instrument extensively.

1 The example of Austria shows a second function of these public loans. With maturities of 30 years and more, they shift the financing to the future and help to make annuities in the present affordable.

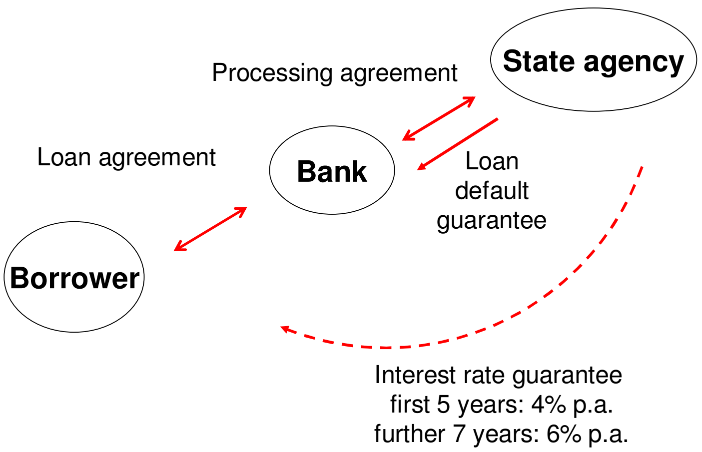
+ Taking the Austrian experience, the model promises to be cost-efficient for the public and applicable for extended construction volumes. Public funding becomes easier over the years because of the growing solidity of the housing companies.
+ It should be possible to produce affordable rental flats in this way.
+ The direct commitment of national housing funds implies a claim for national housing policy. Various spin-off effects are obtainable.[1]

Weaknesses:
- The model is rather complex with several variables.
- Funding long term low interest loans from international sources might be difficult.

4.4.4 HFA-Interest-Guarantee-Model

The model is proposed by the project partner F. Roy, Bankakademie Frankfurt. The government (the state of Rhineland-Palatinate, one of the German Länder) guarantees the borrower through a specific state agency that the interest rate on his mortgage loan will be 4% p.a. for the first 5 years and 6% p.a. for the next 7 years of the loan term. However, the loans with preferential interest are not granted by the state agency, but by an ordinary commercial bank. The loans under this scheme are also guaranteed by the government. Thus, the government issues two guarantees: firstly an interest rate guarantee to the borrower and secondly a loan default guarantee to the lending bank of the borrower. These preferred conditions may not exceed a maximum of 35% of the purchase price of a home. In addition, the borrower is exempt from any administration fees. Eligibility is subject to income thresholds. Graph 27 illustrates the structure of the model.

Graph 27: HFA-Interest-Guarantee-Model



Source: Roy

Advantages for participating banks:
- The bank may deepen and enhance the relationship with the customer.
- The state has issued a warranty for these loans. Consequently, the loans under these schemes are not subject to any capital requirements (e.g. Basle II).
- The bank makes additional profit from different value dates, since the bank settles the accounts with their customer on a monthly basis, but with the state agency on a half-year basis.[1]

[1] See chapter 3.4.2, p.56.

Advantages for the customer:

- The interest cap guaranteed by the state is free of charge for the beneficiary. In case market interest rates are more favourable than the guaranteed interest rate, he/she may cancel the contract without any penalty fees.
- It is a simply structured product that is easy to understand.

Advantages for the government:

- Due to the reduced interest rate, this model reduces the payment burden for the borrower. Low to middle income groups may now be capable of financing a home purchase.
- Because of the guarantee, this model is not a constant burden on the state budget, but rather a contingent liability. Furthermore, the drawing on the guarantee is restricted by the interest rate cap (in case a complete default of the borrower can be avoided). The state has also the chance of generating income if the market interest rate is below the guaranteed interest rate.
- Profit-taking effects of banks or customers will be avoided, especially if interest rates go down. Favourable market conditions will lead to a decreasing subsidy volume.
- Loans will be administered by commercial banks. Hence, this concept means no additional costs for the government. In addition, the state does not interfere heavily with market mechanisms. Instead, the concept tries to link them with government support.

4.4.5 FUNCTIONAL FINANCING VOLUME

The definition of a functional financing volume of HFA is crucial for the design of its business plan. The following criteria are regarded as relevant:

- HFA needs to be visible within local markets. To become effective, an important production output has to be achieved. A reasonable size, of course, depends on local circumstances.
- To attain the aspired cost-efficient administration, HFA has to focus on medium size and larger housing projects with a respective share on local housing markets.
- For efficiency reasons, the local branches of HFA should be continuously occupied.
- HFA is intended to work as pass through for International Development Banks. They usually work with minimum financing volumes per project.
- Once established, working financing models are intended to be multiplied.

These arguments support a strategy to go for a dynamic increase of financing volume within the first planning period of five years. Graph 28 gives an estimate of housing production output financed by HFA in this first planning period. The consequences on the business plan of HFA are described in chapter 4.12, p.99. In following this ambitious trail, patterns of control will grow to be of particular importance.[2]

It is expected that, in the third year of business, a first financing tranche will be processed. To simplify matters, it is assumed that a 20 million Euro loan from an International Financing Institution can be acquired, which covers a structured finance by 50% and is invested into housing projects with two years operating time. This is repeated in the following years, each with an additional 10 million Euro, for alternate pilot countries. In the sixth year, a financing volume of some 180 million Euro may be placed. This is enough for about 3 800 housing starts.

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1 The difference between the preferential interest rate and the market interest rate will be born by the state. If the market interest rate is below the preferential interest rate, the borrower's bank transfers this balance to the state (= additional income for the state).

2 See chapter 4.8.6 "Controlling of projects", p.88 and 4.11.9 "Controlling of business", p.98.

Graph 28: HFA Business Plan - financing volume in millions €

year	1	2	3	4	5	6
Pilot Country 1			20	20	40	40
Pilot Country 2				30	30	50
Pilot Country 3					40	40
Pilot Country 4						50
Total	0	0	20	50	110	180
Estimate housing production (units)	0	0	400	1100	2400	3800

Source: IIBW

4.5 MODEL CALCULATIONS

Given a wide variety of variables, it proves to be difficult to model the different financing schemes under the conditions of countries with a widely different economic background (interest rates, inflation, construction costs, wages etc.). Still, it seems to be worthwhile to define scenarios and depict the resulting calculations. Even though the following graphs have to be regarded as illustrative, they allow an appraisal about the feasibility of a Public Private Partnership in housing finance.

In order to describe the economic performance of the HFA-model, a method developed by IIBW on the Austrian system of housing finance has proved its worth. It shows good findings by comparing financing schemes consisting of commercial loans and monetary support by the public. However, it is not enhanced to include guarantees in the comparative evaluation. Therefore, a comparison of the financing models described in chapter 4.4 is not possible yet, as most of them operate with guarantees.

In contrast, the model shows good results by comparing structured financing with loans and grants from different sources. Thus, the calculations help to evaluate PPP models of housing finance, compared to privately financed and publicly financed housing respectively.[1]

As it is proposed to develop individual financing schemes for different countries, this modelling may illustrate as well, how financing schemes will be developed, tested and, together with persons in the target country, decided. It is a technique that is very applicable to simulating financing schemes before implementing them.

In this section, the following scenarios for an identically defined rental dwelling are calculated:

a) fully privately financed as benchmark,
b) fully financed by the public as benchmark,
c) mixed financed with commercial loans and low interest public loans,
d) mixed financed with commercial loans and annuity grants.

[1] See principal financing components in Graph 21 p.69.

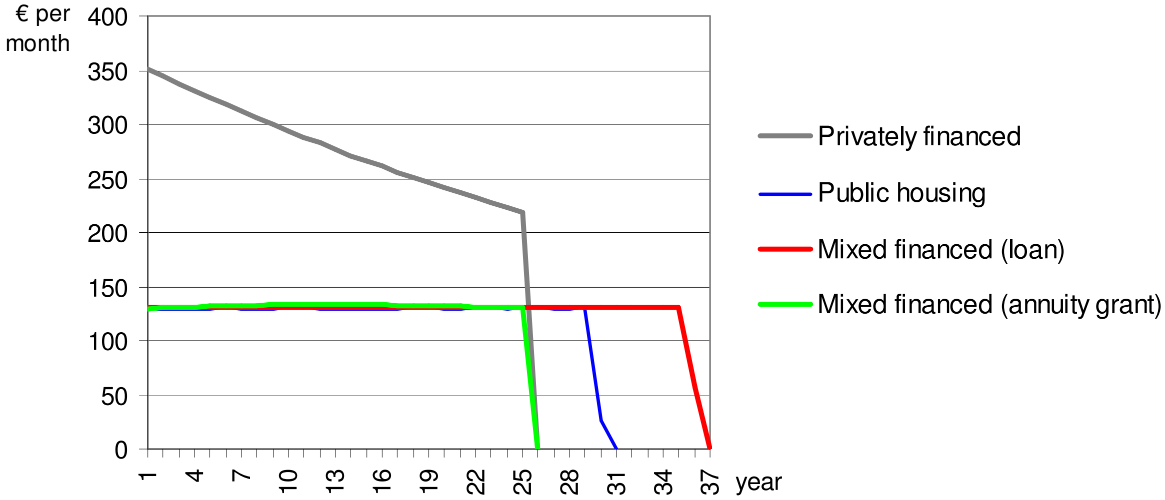
Table 29: Model assumptions

• Land cost	0	Contribution of municipalities or, alternatively, paid by tenants as equity on entering the contract.
• Construction cost incl. VAT (VAT problem see p.79)	800 €/m²	This is a typical situation in CEE. In SEE costs are lower. A reduced VAT for social housing would ease the calculation considerably.
• Equity developer	16 €/m²	2% of construction cost (at the beginning), later to be increased.
• Interest rate of equity	3.5%	10 years no annuity, year 10-20 stable amortisation.
• Equity tenant (down-payment)	40 €/m²	5% of construction cost.
• Interest rate of public loan	1%	e.g. by a state housing fund.
• Interest rate of mortgage loan	7%	variable, possibly with guarantee by state or municipality.
• Maturity of mortgage loan	25	years
• Inflation	2%	fixed assumption for the whole financing period.
• Size of reference household	3	persons.
• Monthly income of reference household	€ 650	Estimation including unofficial incomes, valid for CEE. Incomes in SEE are lower.
• Size of reference apartment	65 m²	
• Cost per month of reference apartment	€ 130	20% housing cost without energy, maintenance, taxes etc. but including increases related to consumer prices.
• Cost per month/m²	€ 2.00 m²	Increases by CPI, thus the rents in real terms are constant
• Subsidy impact of public loans		Following the concept of opportunity costs. The cost of low interest loans derives from the difference between the subsidised interest rate and the market rate with which the public has to refinance itself.
• PPP model		Public loans are repaid after amortisation of commercial loans.

The following output data offer a largely instructive insight into the financing models:

a) Development of rents (annuities) in real terms for the whole financing period (Graph 30),
b) Total construction and financing costs for the tenant and for the public over the whole financing period at present value (Graph 31),
c) Total public expenditure for a given number of subsidised flats (e.g. 10 000 units per year) over the years (Graph 32).

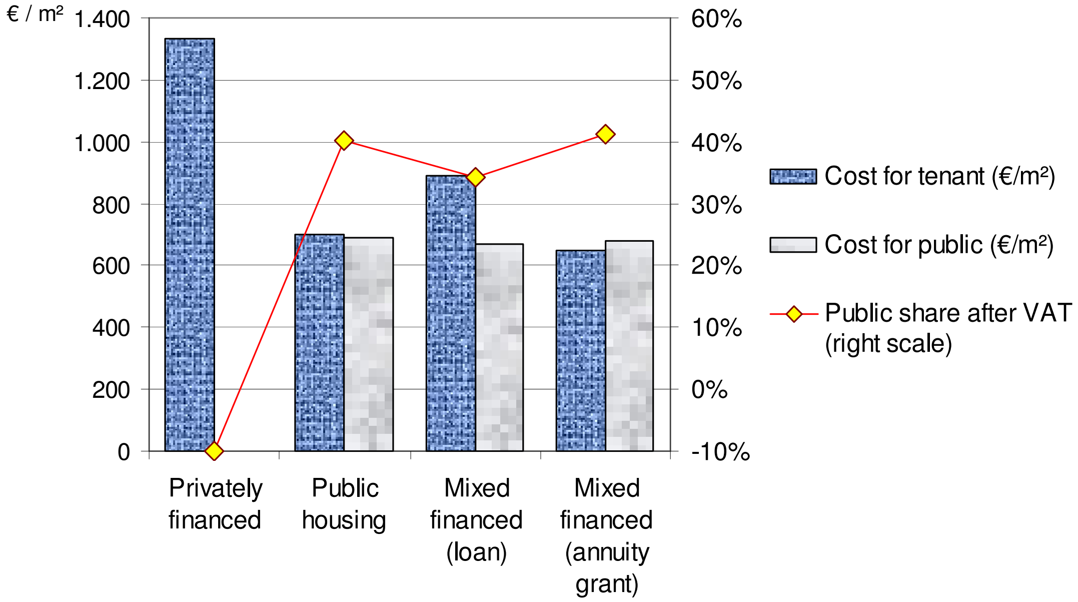
Graph 30: Model calculation – development of rents (annuities) per month in real terms at current prices



Re. “Privately financed” is calculated with nominally stable repayment, which appears in real terms as descending curve. By contrast, all other financing models have indexed annuities.

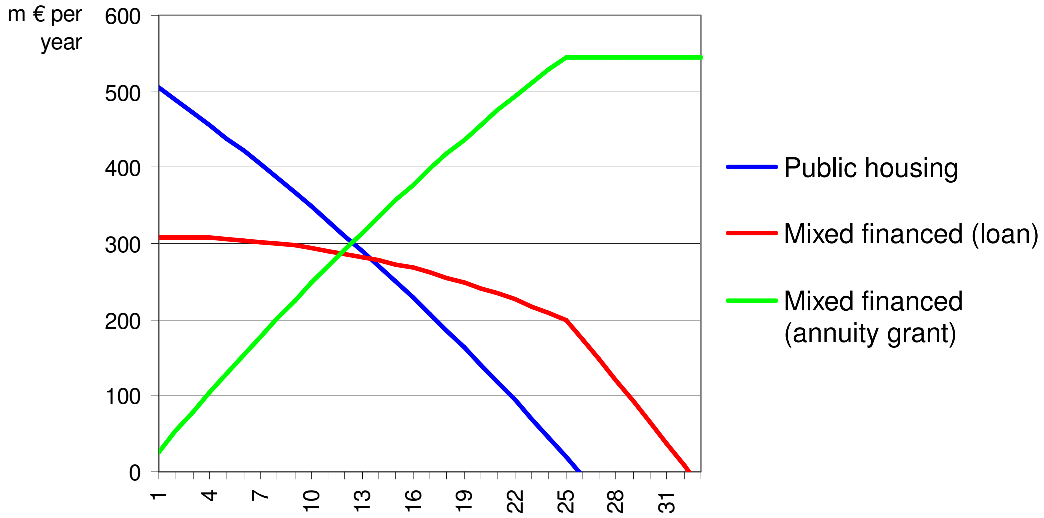
Source: IIBW

Graph 31: Model calculation – total cost for tenants and public construction and financing cost over the whole period of financing at present value



Source: IIBW

Graph 32: Model calculation – public liquidity cost public expenditure given 10 000 subsidised units per year, in nominal terms



Source: IIBW

Results for privately financed housing

- Under the given, realistic conditions, privately financed rental housing is unaffordable with rents of 5.40 €/m² (Graph 30). It would cause housing costs of above 50% of an average household income.
- As a matter of course, privately rental housing is a bargain for the public. It provides VAT on construction costs, which are not balanced by the rents, as they are tax-free in most CEE/SEE countries.[1]
- As an obvious result, private rental housing will hardly become a product for an expanded market.

[1] See section below, "VAT problem".

RESULTS FOR PUBLIC HOUSING:

- For comparison, public housing is calculated with 2.00 €/m² annuity. In practice, the rent level in this segment is much lower. With 1.00 €/m², the financing period would rise from 31 years to more than 50 years and the comparative costs would rocket upwards. With repayable loans, such a model would no longer work. That is why public housing is not refinanced in this way, but directly from public budgets. This cannot be described as economically sustainable.
- 10 000 units per year lead to public costs of 500 million Euro. The yearly cash requirement decreases if public housing is financed by loans and not – as very often – directly from public budgets.
- Due to the very high costs for the public, this kind of housing production only makes sense – if at all – for the small fraction of most needy households. If focused in this way on poor families, public housing units easily may downgrade and become ghettos.

RESULTS FOR MIXED FINANCING:

- Both models – mixed financed with low interest loans and with annuity grants – are calculated to result in monthly rents (annuity) of 2.00 €/m².
- Under the given assumptions, these models only show in some areas better results than the models described above. For both, it is feasible to reach 2.00 €/m² and, hence, affordable rents, which are likely to be accepted by the market. Costs for tenants and the public are similar to the public-housing-model. But it is possible for governments to produce a lot more units than by public housing. The assumed 10 000 units would cost 300 million Euro per year with the mixed financing model that uses commercial loans and low interest public loans (Graph 32) and it would cost less than 30 million Euro in the first year with the mixed financing model that uses commercial loans and annuity grants. With the latter, public expenditure would, of course, increase from year to year, as for a long period, the old financing contracts have to be served.
- Financing conditions with mixed models may improve, particularly if they are combined with the establishment of a solid rental housing sector. Examples of Western countries prove that a growing social housing sector, designed such that market forces can work at their best, may achieve considerably better conditions in construction, financing and management costs than commercial competitors. In unitary or integrated rental markets, the social housing sector is even able to dampen the price level of the commercial housing sector.[1]
- All in all, it seems to be proven that mixed financing models are feasible with less than one third of public funding (as the share of public financing on total construction and financing costs over the whole period of financing, see Graph 31).
- In an environment with high capital market interest rates, public financing with low interest loans seems to be favourable. If capital market interest rates are low, annuity grants prove to be advantageous.
- Improvements in the macro-economic situation cause a considerable reduction of necessary public funding.

VAT PROBLEM

VAT is a heavy burden for the calculation of affordable rental housing. In most CEE and SEE countries, there is, following an exemption on taxation rules assigned by EU, full VAT on construction cost, but no VAT on rents. This regime lowers the rent level for the existing rental stock, but makes new construction even more improbable, as the VAT on construction costs cannot be balanced with a VAT towards consumers. To promote rental housing, it is strongly advisable to take advantage of the current EU agreement (2006) of reduced VAT rates on labour-intensive services such as housing or social/rental housing.

[1] See chapter 3.1, p.47.

4.6 A MODEL FOR REFURBISHMENT PROJECTS

It is a decided goal of HFA's activities to encourage the maintenance and repair of multi-family dwellings in the region. First, HFA should play a part in enabling the repair of many multi-family apartment blocks, which has been neglected in the preceding decades. Second, long-term solutions and sustainable structures for the management and repair of the existing housing stock should be sought. Legal frameworks play a decisive role for achieving this long-term goal. The following HFA support can be imagined:

- Through HFA's activities, funds from international and national financing institutions should be channelled to the renovation of common parts in existing owner-occupied apartment blocks in order to support the inhabitants' lack of equity for these renovations. For targeted support, an income-tested rehabilitation subsidy could be calculated.
- For the long-term safeguarding of future management and repair of common parts, these subsidies could be subject to the implementation of efficient owner associations or cooperatives on part of the inhabitants. These associations, which could be set up under the framework of private law, should secure the management of common parts during the existence of the building and should organise their timely and necessary rehabilitation.
- In order to provide a long-term solution, these associations will be required to collect a contribution fee from the owners of apartments within the buildings. These contribution fees could be subject to further income-tested assistance through national institutions, if housing affordability for some inhabitants is at stake.

The key aim of this model is to encourage the creation of lasting legal frameworks for necessary rehabilitation expenses and, at the same time, support apartment owners with (initial) difficulties in contributing to these expenses.

4.7 CAPITAL AND GUARANTEE ACQUISITION

Due to existing constraints in economic circumstances, legislation and practical questions such as the lack of adequate land registers, the acquisition of efficient guarantees for loans will be crucial for the success of the HFA. This applies to loans from international financial institutions as well as to private capital acquired either on the international capital market or in the recipient countries. Efficient guarantees – or their absence! – would have a significant impact on the interest rates to be paid and for the Agency as such on its international rating. However, the fact cannot be ignored that real estate would be the best guarantee under the conditions of appropriate legislation, adequate land registers, a functioning judiciary and sound economic development. Under such circumstances, guarantees could be given to the borrowers that interest rates and, therefore, reimbursement would not exceed certain limitations.

4.7.1 INTERNATIONAL INSTITUTIONS AS GUARANTORS

The main problem in acquiring guarantees from international financial institutions (IFIs) seems to be that these institutions – notwithstanding their political and/or social purpose – themselves usually ask the borrower for guarantees. “Preferred” guarantor of a loan is normally the state where the project is located. In other cases, the IFIs reserve the right to assess the financial, economic and other elements of the guarantor.

In that respect, loans coming from the CEB through the intermediation of the HFA to the constructor/ organiser will normally require guarantees from the recipient state. In cases where this will not be feasible, but loans from the CEB are desirable, the extent to which the Selective Trust Account could be used to reduce the higher interest rates, applied because of higher risk, could be negotiated.

The EIB does not have as strict rules as the CEB, but will obviously also look to the security of the loan, according to the bank's criteria. Through the 'Structured Finance Facility', which offers more flexibility than the Selective Trust Account of the CEB, a broad mix of financial products is provided, including possible guarantees. To what extent guarantees go with EIB loans and whether guarantees can be given within the objectives of the bank to loans coming from other sources has to be explored.

The EBRD provides various types of guarantees. These range from all-risk guarantees, whereby the Bank covers lenders against default regardless of the cause, to partial risk-specific contingent guarantees covering default arising from specified events. In all cases, the maximum exposure must be known and measurable and the credit risk must be acceptable. Precise legal definitions of the events guaranteed and pricing are handled on a case-by-case basis. However, the EBRD only provides guarantees for 'large' projects (5 to 250 million EUR), not for small and medium projects. So guarantees may not be available for individual projects, but could be for country programmes of the HFA or for the HFA and its activities as such.

The World Bank[1] issues guarantees directly and through the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group. IBRD and IDA Partial Credit Guarantees cover a portion of scheduled repayments of private loans or bonds against all risks. These guarantees are usually provided for privately funded public projects. MIGA guarantees insure against certain non-commercial risks (i.e., political risk insurance, which insures against events such as transfer restriction, expropriation, breach of contract, war and civil disturbance) to eligible foreign investors for qualified investments in developing member countries. Eligible countries were, in the years 2000–2005, practically all CEE and SEE countries outside the EU and, among the new EU members, the Czech Republic and Poland. Beneficiaries were, in the majority of cases, Austrian financial institutes, among them Bank Austria-Creditanstalt, Raiffeisen Group and Hypo Alpe Adria. That means that this form of guarantee would be available for financial institutes that cooperate with the HFA. MIGA insures new cross-border investments originating in any MIGA member country and destined for any other developing member country. Yet types of foreign investments that can be covered include equity, shareholder loans and shareholder loan guaranties, which limits the applicability to HFA activities and will certainly depend on the final structure and ownership of HFA. However, these possibilities should play a role in the final decisions on structure and shareholders.

What has to be not only explored but also initiated would be the issue of guarantees by non-financial international institutions, e.g. the European Commission. Yet it is very doubtful whether the EC would be prepared to introduce such instruments, as the EU has its financial instrument in form of the European Investment Bank. Most EU member countries are also members of the CEB. That could open up another opportunity: CEB has been seeking for a long time the participation of the EC and the EIB as shareholders. Social housing falls without any doubt into the mandate of the CEB.[2] If there were the political will to improve social housing in CEE and SEE as an important aspect of social cohesion and political stability, then it could be of interest to the EU to strengthen CEB for this purpose through the entry of the EC and the EIB. This could be envisaged under the condition that the CEB issues guarantees for private capital flows to social housing. Another possibility would be that EIB and CEB

[1] The "World Bank" is made up of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IMF, another essential part of the Bretton Wood Institutions, provides loans to countries experiencing balance-of-payments problems.

[2] CEB Administrative Council Resolution 1480 (2004) …c. Social housing: Projects should provide decent housing for people with low incomes. Projects may involve access to home ownership or rented housing through: the construction of new housing, the renovation and refurbishment of existing housing, the conversion of buildings into housing.

form a joint venture that would have similar tasks to MIGA, but targeted only at social housing and eligible also for non-shareholder loans.

4.7.2 Recipient countries as guarantors

Recipient countries as guarantors will play a major role in the guarantee system for HFA and its activities. That may be in the form of guarantees to financial institutions (international as well as private) that give loans through the intermediation of HFA to social housing projects directly or to issue guarantees for these investments in social housing in the respective country. In the end, the form of guarantees by national governments may be subject to the definite structure and operation of HFA. It may be negotiated with the national government on a case-by-case basis or, preferably, provided in form of a framework agreement between the national government and HFA. Another, even more preferable, form would be the provision of national guarantees by law under certain conditions, obviously not restricted to HFA. Such guarantees by law could be limited to foreign investment or loans for social housing in order to bring foreign capital to this sector of investment.

Another form of guarantees by governments (or government agencies) would be the Rheinland-Pfalz model[1] where an interest rate maximum is guaranteed in favour of the borrower. This model will, of course, give no direct security to the money lender but it will have positive impacts on its situation. Stable interest rates, which cannot go beyond the guaranteed level, will facilitate the return of the borrowed money and, therefore, give indirect security. It puts, of course, additional burdens on governments in times of rising interest rates (from which countries without triple-A-ratings suffer in anyway). That is why the readiness of the countries to enter into such a system will have to be explored.

4.7.3 Capital funding from capital market

Raising capital from the capital market will be a major source for HFA no matter which model is finally chosen. The availability of such capital will depend on the level and quality of guarantees to be provided. The involvement of HFA itself will depend on whether the international or the national capital market of the beneficiary country is concerned. In the case of capital from the national capital market of the beneficiary country, guarantees will be sought either from the national government/national housing funds and municipal institutions or through mortgage. Beside expertise, project development and, perhaps, supervision, HFA will not have to play a major role in this process. As far as capital from the international capital market is concerned, HFA may be the broker for the capital to be provided for national, regional and municipal programmes as well as for individual projects. That can be direct loans from banks, consortia of banks or bonds issued by banks or consortia of banks. It would be desirable to have in a consortium of banks issuing bonds, banks from the beneficiary country on board. In the long run, there is also the possibility of having equity funds investing directly in social housing projects.

4.7.4 Capital funding from development banks

All four major development banks have shown direct and indirect support of housing projects, albeit by varied means.[2] Their support in the capital funding of HFA's activities is, therefore, possible and desirable.

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1 See chapter 4.4.4, p.74.

2 See chapter 2.7.1, "Activities of Development Banks", p.45.

- CEB, as mentioned before, has declared social housing as one of its priorities. Rented housing is explicitly mentioned among the eligible projects. Refugees, displaced persons and migrants, i.e. persons with obvious housing problems, are declared 'priority target groups'. People living below the poverty line (<60% of median national income) and, therefore, also with difficulties of access to adequate housing are declared 'vulnerable target groups'. The Bank finances three types of projects/programmes:
  a) Individual projects (IPs): These projects concern a single field of action and a single site, or several sites that are limited in number and technically linked.
  b) Sector-based projects (SPs): These comprise a number of sub-projects in one or several fields of action and come under national or regional development programmes for the sector(s) concerned.
  c) Multi-project programmes (MPs): These programmes are confined to funding a large number of eligible small-scale projects (awarded a Bank loan not exceeding € 5 million), regardless of the fields involved.

  This obviously offers flexibility for the possible activities of the HFA, taking into account that, for IPs and SPs, the loan of CEB must not exceed 40% of the eligible costs.

- The EIB's task, as the European Union's financing institution, is to contribute towards the integration, balanced development and economic and social cohesion of the Member Countries. Social housing projects are specifically eligible for EIB funding in support of initiatives of urban renewal, sustainable development and social cohesion.[1] These European objectives underlie the EIB's lending priorities and warrant its involvement. The most recent example of this involvement dates from May 2006, when the EIB joined forces to support the urban and social regeneration schemes of local authorities in "sensitive urban areas" throughout France. The programme is co-financed by international and national institutions and amounts to 500 million Euro. In 2004, the EIB approved a loan of 250 million Euro to Société Wallonne du Logement (SWL) for the upgrading and renovation of social housing in Wallonia. In previous years, loans for part-financing the construction and refurbishment of rented social housing in Catalonia and for the rehabilitation of social housing in the city of Lisbon were provided. EIB support is adjusted to the particular requirements of the eligible projects, often requires co-financing by national institutions of the countries concerned, and usually takes the form of long-term loans.

- EBRD investment is aimed at taking risk that supports private investors and does not crowd them out and applying sound banking principles, as well as promoting structural and sectoral reforms. Social housing will not be found explicitly among the sectoral policies of the EBRD, but developing the local construction and building materials sectors is among them. HFA as such, either at the international level or in its national branches, could be considered as a project under EBRD's *property operations policy*.

- The World Bank (International Financial Corporation (IFC)) also offers financial products to private sector projects in developing countries. In order to be eligible for IFC funding, a project must meet a number of IFC criteria: the project must be located in a developing country that is a member of IFC, it must be in the private sector, technically sound, have good prospects of being profitable, must benefit the local economy and be environmentally and socially sound, satisfying IFC environmental and social standards as well as those of the host country. Housing finance plays an important role in the World Bank's overall financial sector strategy and is clearly and inextricably linked to the overarching mission of reducing poverty and improving people's lives. World Bank and, in particular,

[1] Tsenkova (2005): 99, 101.

IFC see in housing finance an important contribution to social stability and economic development. In Primary Mortgage Markets, financial assistance is provided to primary mortgage market players (e.g. banks extending housing loans, specialized housing finance originators) through equity participation, loans, credit lines and warehouse lines. In Secondary Mortgage Markets, financial assistance to secondary mortgage market entities and conduit lenders through equity investments and warehouse lines is provided as well as the creation of Multi-Seller Conduit Vehicles for issuing Mortgage Backed Securities (MBS) or other bonds.[1] World Bank (IFC) Funding may be, therefore, a major source for capital funding from international development banks, in addition to CEB loans.

4.7.5 CAPITAL FUNDING FROM EU-INSTITUTIONS

The financial instrument of the European Union is the EIB (the European Central Bank is restricted to currency policy). Therefore, realistically, neither guarantees nor capital funding should be expected from non-financial EU institutions. The EU and its institutions, in particular, the European Commission, may support social housing policy through other means, like strengthening the CEB through accession by itself and/or the EIB with the objective to get CEB even more engaged in social housing finance. In extraordinary cases[2] (which are not in the focus of the HFA), the EU may encourage donors to pledge money for housing projects. EU structural funds (European Regional Development Fund (ERDF), European Regional Development Funds in the framework of regional policy reform, European Social Fund (ESF) and The European Social Fund, from 2007) are to a certain extent available for the new Member States in CEE and also Bulgaria and Romania as from 2007, and Croatia and Macedonia at a later stage).[3] Financial support in the area of economic and social cohesion, before accession, is available from the “structural pre-accession instruments”. There seems to be space for flexibility as the structural funds are aimed at, among other things, productive investment to create and safeguard sustainable jobs, investment in infrastructure, development of the endogenous potential by measures which support local development and employment initiatives, and the activities of small and medium-sized enterprises. The “structural pre-accession instrument” as well as the “Instrument for structural policies for pre-accession” will be more difficult to use, though, as their primary goals are environment and transport infrastructures.

4.7.6 NEED FOR ACTION

When establishing the HFA, all possibilities of equity funding by IFIs, in particular, the World Bank / IFC shall be explored. General agreements with World Bank / IBRD and IDA shall be sought in order to acquire partial credit guarantees and in specific cases of higher political risks, guarantees of MIGA should be acquired, where applicable, due to the structure of HFA and its projects (equity, shareholder loans), either for lenders to the HFA or for HFA’s own investments. Also, all possibilities of getting guarantees from EIB and EBRD have to be explored. For capital funding, a mix of funding from the capital market (with as many guarantees as possible and financially affordable) and of a basket of credits from IFIs would be desirable. Preferred partners will be the World Bank / IFC and the CEB. In particular, for CEB funding, framework agreements with the recipient countries to achieve their readiness for state guarantees are recommended. For projects targeted to vulnerable groups or in extreme low income areas, the possibilities of CEB’s Selective Trust Account and EIB’s Structured Finance Facility to obtain lower interest rates and even grants should be exhausted. Other, not yet existing, options are subject to political initiatives.

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[1] See also the IFC brochure on Housing finance: Garcia et al. (2005).

[2] E.g. for political reasons, to solve a long standing conflict where refugees cannot return without adequate housing or with no chance of return.

[3] See chapter 2.7.1, p.45.

4.8 REALISATION OF PROJECTS

In this section, very practical questions for the everyday business of HFA are posed. It is about the preconditions of cooperation, about selecting partners and projects, the controlling of projects and the distribution of funds.

When applying financing models such as those designed in chapter 4.4, it is crucial to search for tailor-made solutions for any case. However, this seems to run contrary to another important target, the cross-country standardisation of products. Yet, when explored further, this turns out to be no contradiction. Standardisation is to be applied for refinancing and controlling matters. The financing schemes, e.g. the method for involvement of public funds and the preferred tools, as well as the interaction with the legal environment, need to be designed in close cooperation with persons responsible on local and national level. Case-by-case solutions, though, should be avoided.

As a result, it seems reasonable to develop an exemplary financing model for rental new construction, refurbishment of residential buildings and, if necessary, other applications, for each country that enters into cooperation with HFA.

4.8.1 ASSESSMENT OF HOUSING DEVELOPERS AND CONSTRUCTION COMPANIES

A major criteria for successful activities of HFA is long term trouble-free cooperation with local companies in the real estate and construction sector. For this reason, a sound selection process for cooperation partners is as crucial as strict controlling mechanisms.[1]

A partner's track record should show its experience in projects with similar complexity, volume and life span in the country in question. Of course, good and stable creditworthiness and back-up by strong owners is also required. The following selection standards may be applied:

a) Integrity and eligibility:[2]
   No conviction for membership of a criminal organisation, bribery, fraud, infidelity, illegal receiving of presents, misuse of subsidies, money laundering or other delicts, which put the creditworthiness and eligibility of the company in question into doubt. Also, no ongoing bankruptcy proceedings, no heavy breach of social, environmental or labour regulations, no arrears in payment of taxes and social insurance, no false information regarding their eligibility and capacities.
b) Capacity and technical effectiveness:
   Proof of capacity, reliability, financial and economic trustworthiness and technical effectiveness.[3]
c) Financial conduct:
   Sound credit history, readiness to invest equity, transparent relations with other industries to avoid conflicts of interest.
d) Partnerships:
   In the case of Special Purpose Vehicles or other forms of cooperation, all partners shall meet the selection criteria. For sub-contractors, clear regulations have to be applied as well.

It has yet to be clarified whether HFA projects as Public Private Partnerships are subject to the particular national Law for Public Placing. Austrian LPHA do not fall under this regulation.

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[1] Controlling of projects - see chapter 4.8.6, p.88.

[2] a) and b) according to §§ 68, 70 ff. of the Austrian Law for Public Placing (Bundesvergabegesetz 2006 – BvergG).

[3] For housing developers see chapter 4.8.4a), p.87.

4.8.2 ASSESSMENT OF DEVELOPMENT PROJECTS

HFA, as intermediary organisation, will define prerequisites for housing development projects to be included in the programme, will select them following a due diligence process and will recommend its financing to the financing partners involved. Finally, supervision of its realisation shall be part of HFA's duties as well.[1]

The following criteria may be applied for the evaluation and selection of projects:

a) Assessed developers following the selection criteria described in chapter 4.8.1,
b) Proven demand (e.g. internet survey, statement of municipality),
c) Principles of land purchase (e.g. price for the plot proven to be appropriate according to an expert opinion),
d) Transparent calculations, standards of financial procedures, minimum equity of developer, economic performance of involved institutions,
e) Guaranteed standards of tenancy: guaranteed rent within defined margins, upper limit for equity of tenants, limitation of lease, protection from eviction, terms of housing management etc.,
f) Quality of development: legal status of property, conceptualisation, finance, sociology, technical and ecological standards, architecture etc.,
g) Standards in handling the construction process: transparent procedures of tender and awarding of construction services, daily construction records etc.,
h) Approved support of local authorities,
i) Application of a defined instrument of steering and control, with standards of documentation,
j) Valid zoning plan,
k) Development concept,
l) Building permit.

All facts must be tabled. The project feasibility has to be assessed by expert opinions (e.g. on the value of property, zoning potential etc.). The assessment procedure shall be standardised to minimise administrative costs of all partners.

4.8.3 MEASURES TO DAMPEN CONSTRUCTION COSTS

With a system of incentives and sanctions, participating market players shall be encouraged to achieve stipulated results with minimal costs. The following measures help keep construction costs down and thereby minimise subsidy requirements:[2]

- Transparent tendering and awarding of construction services,
- Invitation of local and supra-regional companies to the tenders,
- Fixed price offers, including defined delays,
- No changes of conception behind schedule,
- Quality control and their active promotion,
- Transparent and quick procedure of payment,[3]
- Preventing interventions in the construction process by the public.

A heavy burden for affordable rental housing is its VAT regulation, see section “VAT problem”, p.79.

[1] See chapter 4.8.5 ”Procedure of financing“, p.88.
[2] Compare Model calculations, chapter 4.5, p.76.
[3] See ”Procedure of financing“, chapter 4.8.5, p. 88.

4.8.4 MARKET PLAYERS FOR CONSTRUCTION, INVESTMENT AND MANAGEMENT

In many Western European countries, housing associations or cooperatives play the roles of property developer, long term investor in rental housing and housing manager.[1] The introduction of a Third Sector in housing (between state and private) might be an important or even inevitable future step to improve housing conditions in CEE/SEE. The feasibility study in hand focuses on housing finance as key factor to make affordable housing work. It seems important to design the financing scheme in a way that works under present conditions in the recipient countries and not only in tandem with institutional and legal reinforcement.

Therefore, HFA is designed to reach its targets even without an established social housing sector in the respective countries. Nevertheless, the functions that this sector covers in countries like Austria have to be fulfilled in one way or another in any area of application.

Existing or establishing market players may meet the demands:

a) PROPERTY DEVELOPERS

A rental housing project evaluated positively might be constructed (as general contractor) by a commercial property developer or by a construction company, assuming its assessment according to chapter 4.8.1. Property development is much more than just erecting a building. In a context that an investor shall assume ownership of the building, rent it for an indefinite period of time and manage it properly, the property developer shall fulfil the following functions:[2]

- Function as principal by proxy of the investor,
- Duty on the interests of a third party (investor, tenants),
- Function as trustee for customers and clients,
- General responsibility regarding design, tender of construction works, commissioning, financing, legal and economic management, commercialisation, providing legal surety for future tenants, controlling in legal, economic and quality terms.

b) INVESTOR

Rental housing requires investors with long term interests. Affordable rents are only obtainable with moderate expectations of (future) profits. In the economic situation of today, this limitation may be expected only by investors with additional interests:

- Parties, unions and lobby groups might be interested to serve their clientele with affordable dwellings,
- Banks or insurance companies might be interested in long term assets, secondary businesses or strategic partnerships, e.g. with municipalities,
- Municipalities might be interested for different reasons: They mostly are responsible for the local public housing administration. In line with rising house prices, not only low but middle income groups need support in housing as well. The HFA model will provide housing construction with much lower need for investment by the public, compared to the usual model of public housing.[3] Investing in this kind of project has an interesting perspective for strategic partnerships,
- Charity organisations might regard this kind of investment as efficient given their mandate. An interesting option is the property of land of some charity organisations and, in particular, of churches.

1 See chapter 3, p.47.

2 Following the model of a real estate developer in Austria.

3 See chapter 4.5, p.76.

c) MANAGEMENT

Housing management is a weak point in many CEE/SEE countries, particularly regarding long term maintenance investment. Starting with a new scheme of housing construction, it is strongly recommended to introduce a sound model of management and maintenance as well.[1]

4.8.5 PROCEDURE OF FINANCING

The complex procedure of refinancing and disbursement of funds to the housing developer may work as follows:

a) Project approval:
   A housing project is to be approved by HFA following the procedure described in chapter 4.8.2 (p.86).

b) Risk assessment:
   In the beginning, the commercial banks probably will insist on approving the individual project risks by themselves. Later, to reduce administrative costs, the risk assessment should be covered by HFA.

c) Structuring of finance:
   The necessary financing is to be structured following a country-specific financing model according to chapter 4.4 (p.68).

d) Syndicate financing:
   The commercial banks included within HFA authorise a syndicate financing. A syndicate together with banks allows HFA to conduct banking activities without the need for its own concession.[2] Syndicate financing also means a spread of risks for the included banks.

e) Secondary market refinancing:
   As a precondition for a sustainable business model, the syndicate financing has to be capable of secondary market refinancing. The opportunity of applying the financing structure for covered bonds or ABS-structures (if legally allowed) should especially be taken into account. For capital and guarantee acquisition for refinancing from national and international sources, see chapter 4.7, p.80.

f) Easier practice later on:
   To minimise administrative costs of all partners, the standards and exemplary financing models are undergoing a detailed examination by all financing partners. For the individual housing projects, a simplified mode of review shall suffice.

g) Disbursement of funds:
   The release of finances has to take place under strict and transparent conditions. The following procedure may be applied:

procedure	release of financing
• Approval of the plans by the local building authority	10%
• Start of construction works	10%
• Completion of structural works, shell and core	30%
• Further release following progress of construction	
• Approval of completion by local building authority or construction supervisor	45%
• After end of warranty period (3 years)	5%

h) Controlling:
   See next section.

4.8.6 CONTROLLING OF PROJECTS

On the basis of a sound assessment procedure for housing developers and construction companies (chapter 4.8.1, p.85), the following minimum requirements for project controlling have to be attained:

a) The construction process is primarily controlled by the commissioned housing developer.

1 See chapter 4.6 "A model for refurbishment projects", p.80.

2 See chapter 4.11.5, p.96.

b) For HFA, the construction process is additionally supervised by independent local chartered surveyors, who inspect:
   - the progress of construction according to the progress chart,
   - the quality of construction according to the tender,
   - of particular importance is the final inspection.

   This evaluation is relevant to the release of finance (see above);
c) The housing developers are to be controlled by HFA in the following respects:
   - Commissioning of construction works only after tenders to contractors with the best performance.
   - The final settlement of the developer is scrutinised with regard to compliance of the completed building (final inspection) with the initially guaranteed performance of the project and with regard to land and construction costs, rent levels, architectural patterns, installed building materials, energy consumption etc.
   - Possible sanctions on insufficient results are to hold back payments and, above all, exclusion from future participation in the HFA programme.

For the controlling of the financial behaviour of HFA, see chapter 4.11.9, p.98.

4.9 COMPLIANCE WITH EU LEGISLATION BY CONTRACTUAL TIES

As HFA will structure its financing usually with contributions from public funds (loans, grants, guarantees), it is a matter of State Aid. Therefore, EU legislation on Competition and State Aid has to be considered. As chapter 3.5 ("Social housing and EU-legislation", p.57) thoroughly described, social housing is, under distinct conditions, excluded from the general prohibition of State Aid.

In the Member States, a number of different schemes of authorisation of social housing organisations are in operation.[1] A fundamental part in specifying the public service obligation for these operators and stipulating their formal and functional design is played by the Limited-profit (Housing) Laws and special Housing Subsidies Laws within the Member States.

As it is a declared target of HFA to be effective under current conditions, it has to be operative even without a Third Sector in housing. As a matter of fact, EU Law does not presuppose the implementation of special limited-profit housing associations to fulfil social housing tasks, but clearly enables the integration of commercial builders if certain rules are obeyed. In other words, there is a way to integrate state subsidies to commercial housing construction.

The following rules have to be considered:
- The operator has to be entrusted with the clearly defined operation of services of general economic interest in the field of social housing. For this reason, target consumer groups are legally defined by means of setting income limits or specifying allocation procedures for the future apartments.
- Public subsidies may amount only to what is necessary to cover costs incurred to discharge these public service obligations and are, therefore, considered a compensation for these services. This results in the implementation of the limited-profit principle for the operations concerned and the specification of the admissible rent levels or sales prices. EU Law allows for a reasonable profit as a rate of return on own capital in consideration of the particular risks incurred.[2] Any overcompensation

[1] See Czischke (2005).
[2] See chapter 3.5, p.57.

of up to 20% of the annual compensation granted may be carried forward to the next period without infringement of EU Law.
- If an undertaking receiving compensation to deliver services of general economic interest is also active in other markets, separate accounts for commercial and social housing activities must be kept in order to facilitate transparency and control.
- In order to determine the undertaking most eligible for the fulfilment of the tasks and the level of compensation needed to discharge the public service obligations, a public procurement procedure should be implemented and the parameters on the basis of which the compensation is calculated must be established in advance. Alternatively, the level of compensation may be determined on the basis of an analysis of the costs which a typical undertaking, well run and adequately provided with appropriate means, would have incurred.

If these requirements are met, commercial builders in addition to limited-profit housing associations may participate in the fulfilment of public service obligations. For commercial operators, the most efficient way to do this is to set up special purpose vehicles such as project companies for social housing activities. This not only enables increased transparency, as required by EU Law, but also improves risk-allocation to special projects and can make use of better financing conditions resulting from easier access to investment and equity capital.

It is, therefore, the combination of these clearly defined requirements for any housing operators to be able to fulfil public service obligations and the procurement procedure for special social housing projects that guarantee a “level playing field” as a basis for efficient results and consistency with EU competition legislation.

As a result, the objective and functioning of HFA is clearly in line with EU legislation if the operators or social housing projects benefiting from HFA support observe these regulations. If HFA observes the described legal requirements stipulated in EU Competition Law, is in line with major political initiatives and objectives, and assists in fostering further competition in the housing markets of CEE and SEE countries, then there are sufficient reasons for HFA to not only be consistent with EU policy but also be most welcome.

4.10 Congruence with National Housing Policy Issues

Four countries declared their willingness to cooperate in the establishment of HFA. They were selected in order to have pilot countries from CEE EU member states, SEE candidate states and Western Balkans countries in transition. Taking the pilot countries Slovakia, Romania, Kosovo and Montenegro, the whole variety of development status in the region is covered.

In developing a financing instrument to increase rental housing construction, it was intended to bridge legal deficiencies in the recipient countries. Nevertheless, a sound legal framework improves the chances that it will succeed:
- Non-profit law applicable for HFA projects: In most pilot countries, a non-profit-regime exists, but is restricted to non-capital organisations like associations or foundations. As shown in the example of Austria, it is advantageous to have limited-profit housing associations (LPHA) in the legal form of capital (limited liability) companies as well.[1]
- Cadastre and land registration.

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1 See chapter 3.2.1, p.50.

- Foreclosure regulations.
- Clarified restitution.
- Sound legislation on property rights.
- Accounting regulations are unified in EU member states and this is on the way in candidate states. For Western Balkan countries, individual improvements have to be decided.
- Contract law for housing developers is a useful tool to secure consumer rights for owner-occupied flats. It exists in none of the pilot countries.
- Owner-occupied flat law.
- General stability of the law and the enforceability of titles within appropriate periods of time are major preconditions for a successful development.

4.10.1 SLOVAKIA

As for all pilot countries, Slovakia is in urgent need of a boost in housing construction. Demand for affordable housing is especially high amongst lower and middle income groups. Household incomes are considerably below CEE average and the inequality of income distribution, regional inequality and the risk-of-poverty rate are higher than in the neighbouring countries. Rents have increased from 2000 to 2003 by more than 60%, which is about double the CEE5 average. Yet still rent levels are clearly below those of neighbouring countries. Due to below average incomes, the housing expenditure rate is one of the highest in all EU25, mainly because of comparably high energy expenditures of households. At the same time, social expenditure by the state is one of the lowest of all Member States. On the other hand, state expenditure on housing is around 1.4% of GDP, considerably higher than the CEE average. Housing provision is at only 350 dwellings per 1 000 inhabitants, 25% below EU15 average. In 2003, the construction rate approached 2.6 completed flats per 1 000 inhabitants, half of EU15 average. Particularly in the booming western parts of the country, housing demand is rising. Such demand is documented to be 237 000 units within the decade to come. Due to the extremely high number of dwellings in high-rise buildings (38%), the need to improve the conditions for housing refurbishment is also urgent.[1]

Thus, Slovakia generally welcomes new initiatives to increase housing construction. However, as in all new Member States, the legal and fiscal environment has been stabilising in previous years. In particular, the ambitious Flat Tax regime does not allow any exemptions in taxation, including for a social housing sector.

The following aspects of Slovak housing policy are in line with the HFA model:
- There is already a focus not only on lower, but also middle income groups. A set of programmes has been introduced, although mainly with regard to refurbishment and energy efficiency projects.
- The state is committed to housing policy, which is expressed by the comparably high state expenditure rate on housing.
- A non-profit housing sector has been introduced, although the conditions of operations may be too strict and the prospects of fast growth in the sector are limited.[2]
- The banking sector is well established. The interest spread has almost reached a Western level. Most of the banks involved in the HFA Feasibility Study are, at present, in place.
- The State Fund of Housing Development is assigning low interest loans, but not to commercial housing developers.

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[1] Eurostat Database, PRC Boucentrum International (2005), Housing Statistics in the EU (2005), IIBW.

[2] See chapter 3.3.2 on the "Slovak non-profit housing scheme", p.54.

- Slovak economic policy strives to strengthen markets. The HFA programme may contribute to this in the fields of construction, housing development and banking.
- The Slovak Flat Tax regime is generally compatible with the HFA programme.

In the following aspects, divergences have to be addressed if HFA is to be active in Slovakia:

- HFA financing models generally assist the supply side. By contrast, most Slovak housing promotion programmes operate with demand side subsidies. This change of housing promotion policy has to be resolved.
- It is intended to utilise the potential of commercial housing developers in order to raise the construction rate considerably (besides existing non-profit companies). Today, these market participants are not eligible for access to loans from the State Fund of Housing Development. As shown in chapter 4.9 (p.89), there is a clear way for integrating commercial housing developers into a housing promotion scheme in compliance with EU State Aid regulations. This step should be taken to make HFA effective.
- It has to be clarified as to which concessions and permissions are necessary that a HFA branch may be active in Slovakia.[1]
- To strengthen the non-profit housing sector, capital companies (limited liability companies) should be integrated into the regime. Following the Austrian model[2], this seems to be a precondition to attain capable undertakings that are able to bear such risks as are inevitable in housing development. Yet the HFA programme is designed in such a way that a limited-profit sector is no precondition for operation.

4.10.2 Romania

Romania will be entering the European Union soon, but this will change the conditions into which the the HFA programme must be integrated very little. In general, Romania is much in need for a boost in housing construction for lower and middle income groups.

Even though the population has decreased in the past, there is a burdensome housing demand, particularly in the metropolitan areas. Over the next decades, Bucharest is going to grow rapidly. The average household income is, because of the numerous rural population, the lowest of all SEE countries and far below the CEE average. On the other hand, housing expenditure as percentage of household income is extremely low, probably due to the very high owner-occupancy rate and the large number of self-supporting peasants. However, this will change in the face of growing migration to the metropolitan areas. The present situation of housing provision has two sides. The number of dwellings per 1 000 inhabitants is, at 373, in the range of the CEE countries (but still 20% below EU15 average), but the dwellings are extremely small, being only 45m^2 on average. The useful floor space per capita is, at 15m^2, less than half the EU15 average. Household size is considerably higher than in Western countries, although it is lower than in most SEE countries. New construction has not recovered yet, despite the vivid activity in condominium housing in Bucharest. 1.3 completions per 1 000 inhabitants is far below a sustainable production number. Housing demand is documented as being 220 000 units within the decade to come. Even though the share of dwellings in high-rise buildings is low compared to other CEE/SEE countries, there is a need to increase housing refurbishment.[3]

1 See chapter 4.11.5, p.96.

2 See chapter 3.2.1, p.50.

3 Housing statistics EU (2005), PRC Boucentrum International (2005)

The following aspects of Romanian housing policy are in line with the HFA model:

- Currently, there is a very low supply of social rental housing in Romania. At the same time, promising model projects such as "Brâncuşi" in Bucharest (Graph 17, p.42) prove the commitment of local and national government to this area. With a housing expenditure rate of 0.5-1% of GDP, Romania is far below EU average, but it is catching up already with some CEE countries.
- The financial sector is established in Romania, but, still, conditions for housing finance are deficient, with too high interest rates and supply dominated by short term loans. Most of the banks involved in the HFA Feasibility Study are at present in place.
- An analogue to HFA has already been created in Romania in the form of the National Housing Agency (ANL), a mediator between banks, developers and individuals. This has the goal of stipulating housing construction, consolidation and rehabilitation of the existing housing stock. ANL mainly provides completed dwellings to eligible groups of the population at prices much below the market value. Besides this, ANL creates financial packages for construction, purchase, rehabilitation, consolidation and extension of dwellings. It is also working as housing developer, for example, in the case of the project "Brâncuşi".
- ANL is the logical partner for HFA to become operative in Romania. A favourable basis of cooperation might be a joint venture. HFA could help ANL enhance housing construction by utilising commercial and international financing partners. By cooperation with commercial housing developers and targeting not only low, but middle income groups as well, the construction output might be forced up materially. Reciprocally, ANL should contribute to the HFA programme with national funds for 20 to 30% of total cost.[1]
- A limitation in access to HFA housing projects to young households seems feasible.

In the following aspects, divergences have to be addressed, if HFA is to be active in Romania:

- As mentioned, it is intended to utilise the potential of commercial housing developers. At present, though, market participants are not eligible for loans by ANL. As shown in chapter 4.9 (p.89), there is a clear way to integrate commercial housing developers into a housing promotion scheme in compliance with EU State Aid regulations. This step should be taken to make HFA effective.
- Housing construction with partly commercial financing results in rents that are well affordable for middle income groups, but hardly affordable for the lowest income households (except where there are additional housing allowances). Hence, ANL and government bodies responsible for housing have to agree to open public funds for middle income groups as well.
- It has to be clarified as to which concessions and permissions are necessary so that a joint venture of ANL and HFA or a HFA branch respectively may be active in Romania.[2]
- As in other pilot countries, the legal form of non-profit organisation exists, but it does not include capital companies. There is no limited-profit housing sector in operation. It is strongly recommended to start building up such a sector.[3] However, the HFA programme is designed such that a limited-profit sector is no precondition for operation.

4.10.3 Montenegro

After independence, which was declared in June 2006, the way for Montenegro to become a EU Candidate is predictable. The Montenegrin economy is still characterised by instability, even though substantial efforts have been made. GDP is growing steadily, whilst inflation and unemployment have gone down and capital inflow is growing. The tourism industry is developing quickly, with an annual

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[1] See chapter 4.5 "Model calculations", p.76.

[2] See chapter 4.11.5, p.96.

[3] See chapter 3 "Excursus: a 'Third Sector' in housing", p.47.

growth rate up to 50%. The housing stock is rather large, but it is disproportionately spread between the coastal area and the metropolitan area around Podgorica. Household incomes are slightly below the SEE average. House prices have grown extremely high with a price-to-income ratio of 17, which is the highest in all the Western Balkans. Besides this, mortgages remain a special product for a few clients/friends of the banks.[1]

The following aspects of Montenegro housing policy are in line with the HFA model:

- Montenegro is a small country. Therefore, new models are easier to develop and implement.
- Montenegro has developed a Housing Policy Action Plan with the help of the Stability Pact for South Eastern Europe. HFA could assist to realise some of its goals.
- The banking system is the least developed in the Balkans. The financing conditions are still deficient, but are improving. Several banks involved in the HFA Feasibility Study are at present in place.
- Montenegro has negotiated a credit line for social housing with CEB. For the moment, the initiative is dormant. It could be reactivated with the help of HFA.

In the following aspects, divergences have to be addressed if HFA is to be active in Montenegro:

- National funds for housing construction have to be established. Co-financing by national or municipal sources is indispensable for the operation of HFA.
- Housing policy is very decentralised. HFA may cooperate with municipalities. However, it seems necessary to develop one consistent model for the whole country. A commitment of the national government in this regard is indispensable.
- There is no limited-profit housing sector in operation. It is strongly recommended to start building up such a sector.[2] However, the HFA programme is designed such that a limited-profit sector is no precondition for operation.

4.10.4 Kosovo

The status of Kosovo is still not decided. This makes any developments difficult. Even though there is a great need in housing, there is still no adequate housing policy. Housing policy is not a special issue and falls within the responsibility of the Ministry of Environment and Spatial Planning. Any public housing fund or state housing programme towards middle and low-income people does not exist.

The financial framework is in place and the legislation for it is excellent owing to the efforts of international organizations. The banking sector was created artificially by international organizations and the biggest part of it is in foreign hands. However, the functioning of banks is problematic as half of the population is not able to show an official proof of income because of the informal economy and high unemployment rates. Besides this, clear and reliable ownership titles are lacking because of a large number of unregistered properties and distrust in the registration system. Loans are given for too short a period, generally not more than two years, and interest rates are still too high. This keeps the biggest part of population out of the banking system. Banking business is complicated as foreclosure procedures are problematic. It is almost impossible to take away property as collateral from its owner and, if a bank succeeds, nobody will buy neighbouring properties.

1 Garcia et al. (2005), Ecorys Hungary (2005).

2 See chapter 3 "Excursus: a 'Third Sector' in housing", p.47.

The following aspects of Kosovo housing policy are in line with the HFA model:

- The creation of new instruments to raise housing construction are urgently needed. Most of Kosovars live with big families in their dwellings and would like to improve their living conditions.
- Kosovo is a small country. The Provisional Institutions of Self-Government in cooperation with international institutions as EU and UNMIK are eager to install functioning structures. HFA might be regarded as the right instrument to bridge legal deficiencies in the way of an upswing in housing construction.
- Kosovo shows serious deficiencies in quality standards of construction. An instrument such as HFA might help to introduce Western standards to the construction crafts and industry.

In the following aspects, divergences have to be addressed if HFA is to be active in Kosovo:

- State authorities have not introduced any support programmes for housing. Co-financing by national or municipal sources is indispensable for the operation of HFA.
- The conditions of commercial financing have to be improved. The banking sector is still very noncommittal regarding housing finance because of the size of informal economy, the high unemployment rate, the absence of clear ownership titles and problems with foreclosure procedures. From the consumer side, there is still distrust in the banking system, as it is regarded as artificially created. The biggest part of population is kept outside the banking system because of high interest rates, low maturity period and the difficulties of showing official proof of income.
- There is no limited-profit housing sector in operation. It is strongly recommended to start building up such a sector.[1] However, the HFA programme is designed such that a limited-profit sector is no precondition for operation.

4.11 Company profile of HFA

4.11.1 Legal form

HFA shall be installed as non-profit limited liability company by Austrian law. The non–profit status shall be defined in the statutes or the articles of association.

This determination is the result of examining such different organisational forms as a bank, a financing agency, a project agency or a fund-like institution, and is approved by the expertise of the Vienna based law firm, Hasberger_Seitz and Partner (see appendix, chapter 5.2.).

4.11.2 Mandate

To meet its goals, HFA shall act in the following ways:

a) Procurement of capital and guarantees for affordable housing and refurbishment projects.
b) Pass-through of capital from International Financing Institutions.
c) Extensive functions in selection, steering and supervision of housing projects.

For the objectives of HFA, see chapter 4.2, p.63 ff. Specific business objectives are listed in chapter 4.2 , p.67.

The legal form of a non-profit or limited-profit company implies, amongst other things, a limitation of profits, a cost-coverage principle and the reinvestment of profits.

[1] See chapter 3 “Excursus: a ‘Third Sector’ in housing”, p.47.

4.11.3 STAKEHOLDERS

Owners/shareholders of HFA might be European Institutions, DIGH, commercial banks and IIBW.

The following administrative bodies are recommended:

- Executive Board, consisting of representatives or experts appointed by the owners.
- Supervisory Board: appointed by the owners, European Institutions, independent experts, e.g. by UNHABITAT, CECODHAS or umbrella organisations of social housing companies from The Netherlands or Austria.
- Advisory Board: appointed by the financing partners, commercial banks, national funds, national policy makers and representatives of municipalities.

4.11.4 LOCATION AND BRANCHES

It is recommended to establish HFA as one company to be active in different countries. HFA's head office shall be located in Central Europe, most likely in the Vienna Region.

The cooperation with local governments, who ought to contribute with subsidies, will necessitate local branches. These branches shall cooperate with local partners through working groups or in the legal form of joint ventures. Local know-how is indispensable with regard to housing development, the construction industry, the financing sector, networks and informal rules.

4.11.5 CONCESSIONS, PERMISSIONS

The legal form of HFA is designed to warrant the largest possible liability, fast feasibility, flexibility and operativeness in the target countries. To accomplish the activities described in chapter 4.3 "Products and Services of HFA" (p.67) in the best possible manner, Hasberger_Seitz and Partner recommend the following setup:

a) A banking concession shall be avoided, owing to the equity requirements and conditions required to achieve one and its controlling standards. For the case of a positive business development, it can be made up later on.
b) For the described field of action, trade authorisations in "Immobilientreuhänder" (realtor) and probably "Vermögensberatung" (investment counselling) will be necessary. The need for an authorisation in "Wertpapierdienstleistung" (services with security papers) shall be avoided.
c) For passing-through of capital, HFA shall act as trustee and lead partner of an underwriting group of banks (which may be shareholders in HFA) and other partners (e.g. local authorities). The capital shall be syndicated by 100% through the partner banks. Participation of HFA in this underwriting group (without a banking concession) might be possible if the group consists of other participants that are not banks as well (e.g. national housing funds).
d) It has to be assured that the HFA profile of activity does not cause the need for additional concessions in different countries of action.
e) It has to be clarified as to whether and which kind of insurance may be applicable for the field of action and the risk profile of HFA.

A final definition of necessary concessions and permissions is only possible after an even more detailed definition of the activities of HFA.

4.11.6 NOMINAL CAPITAL

Following Austrian Corporate Law, the minimum nominal capital for a limited liability company is € 35 000. To attain an appropriate risk profile (Basel II), the nominal capital of HFA should be considerably above this minimum, see chapter 4.12.5, "Capital endowment", p. 101.

4.11.7 KEY PROCESSES

a) Development and continuous improvement of standardised financing models,
b) Negotiations for capital, guarantees and terms of financing with IFIs,
c) Negotiations for capital, guarantees and terms of financing with national housing funds,
d) Negotiations for capital market financing,
e) Negotiations for legal standards in recipient countries,
f) Negotiations with municipalities and local stakeholders for their contribution (e.g. land free of charge),
g) Definition of assessment standards for project partners and projects,
h) Search, selection and assessment of project partners,
i) Search, selection and assessment of projects (due diligence),
j) Project supervision,
k) Suggestion scheme for structured financing,
l) Advisory services for stakeholders, in particular, owners of HFA, national governments, municipalities, market players, International Development Banks and international institutions,
m) Setup of know-how and databases,
n) Communications to stakeholders, partners and the public,
o) Management of business.

4.11.8 SKILLS

Due to the ambitious profile of HFA, the necessary skills are extensive, even at the beginning of activity, when the staff is still small in number.[1] The head office has to cover the following skills:

- Formal preconditions for trade authorisations following chapter 4.11.5 as realtor and mortgage agent,
- Financing and international banking,
- Due diligence,
- General knowledge about housing finance, housing legislation and housing policy in all target countries,
- Excellent negotiating skills,
- Controlling of international projects,
- Intercultural management.

The activities in any target country shall be covered in cooperation with the head office by a local branch. The local branches might work as independent service companies, as joint ventures with a national housing fund or in cooperation with local commercial banks. At the beginning, shared personnel and premises with a partner bank might be feasible. The following skills have to be covered from the outset:

- Formal qualification for national permissions, if necessary.
- Financing and banking,
- Close knowledge of national housing finance, housing legislation and housing policy,
- Close knowledge in local procedures in construction and housing development,
- Due diligence,
- Controlling.

[1] See chapter 4.12.2 "Personnel planning", p. 99.

4.11.9 Controlling of business

Since HFA will not apply for a banking concession, it will be not subject to banking laws, regulatory requirements nor supervision by a Central Bank. Still, it is a matter of self commitment to apply strict standards of controlling. The business idea is strongly dependent on confidence, which HFA needs to enjoy from all stakeholders. Several of the partners have very strict supervisory and control mechanisms to which HFA shall be liable as well. Even more important than that, though, is the potential damage that malpractice or irregularities could cause to the business.

Therefore, controlling is of special significance:

- Controlling of projects, see chapter 4.8.6, p.88.
- The reports from the controlling of projects are submitted to the national authorities responsible for housing promotion and to all financing institutions.
- Controlling of capital flows by the investing banks and international institutions.
- Development of standards of due diligence and controlling of projects together with the financing partners: in the beginning, the investing banks will double-check the housing projects. Later, HFA will have full responsibility for the controlling of projects.
- Usual controlling mechanisms of limited liability companies.
- Additional control by the Supervisory Board.

4.11.10 Staff

HFA shall start with a small team of experts, both in the Head Office and in the branches in pilot countries, and shall grow according to its duties. For details, see chapter 4.12.2 “Personnel planning”.

It is recommended to have two CEOs in the Head Office, who have to cover the skills listed in chapter 4.11.8. In particular, they shall cover the trade authorisations as realtor and mortgage agent. CEO 1 is expected to have outstanding skills in international financing. CEO 2 shall have outstanding skills in housing development and housing economics, with a focus on CEE/SEE.

For the local branches, domestic staff shall be acquired, preferably from commercial partner banks of HFA.

Major duties of HFA shall be outsourced, particularly project controlling matters.[1] There are several reasons for outsourcing this service. First, it will be easier to manage growing volumes. Second, the HFA branches may continue to be small units, which concentrate on their core business. Third, it might be easier to control the controllers. Finally, this step might contribute to the establishment of the profession of chartered surveyors in the target countries.

Further expertise to be outsourced is:

- Book-keeping and balancing for the Head Office and the branches.
- Legal consultancy: It is expected that the legal support needed will be discontinuous, but with very specific requirements for different countries. This can only be covered by local law firms.
- Banking consultancy: It is expected that the commercial banks involved are at service with information and support.
- Consultancy in networking and lobbying: The services of international consultants for support to make things work in any of the target countries, as well as toward International Financing Institutions, is regarded as efficient.

[1] See chapter 4.8.6, p.88.

4.12 Financing of business (Five-year plan)

4.12.1 Earnings from financing surcharges

As we have seen in chapter 4.4.5 (p.75), the functional financing volume of HFA may increase up to 180 million Euro after five years. Surcharges for the financing will be the major income for HFA. The basis for calculation shall be the total financing volume (without equity of developer or tenants), i.e. capital acquired from International Financing Institutions and from National Housing Funds, as well as commercial loans. The reason to take all financing components as the calculation basis and not only, for example, the capital acquired from International Financing Institutions, is that, in this way, all financing models are treated equally.

The management fee may be calculated as 2% of capital, paid upfront. This is 0.1-0.15% of net interest rates on the total maturity of the loans. For the listing of earnings, see Table 35.

4.12.2 Personnel planning

Table 33 shows the personnel planning for the first five years. For further descriptions of the staff, see chapter 4.11.10 above. It should be borne in mind that several services are planned to be outsourced.

Table 33: HFA Business Plan – Personnel Planning

Head Office year	1	2	3	4	5	6
CEO 1 (finances, management)	0.75	1	1	1	1	1
CEO 2 (target countries, housing economics)	0.75	1	1	1	1	1
Assistants to Executive Board	1	1	2	2	2	2
Project leaders		1	2	3	3	3
Assistants to project leaders		1	1	2	2	2
Administration	0.5	0.5	1	1	1	1
No. of employees	3	5.5	8	10	10	10
Branch Pilot Country 1						
Head of unit	0.5	1	1	1	1	1
Project leaders		1	1	1	1	1
Assistants	0.5	1	1	1	1	1
No. of employees	1	3	3	3	3	3
Branch Pilot Country 2						
Head of unit		0.5	1	1	1	1
Project leaders			1	1	1	1
Assistants		0.5	1	1	1	1
No. of employees	0	1	3	3	3	3
Branch Pilot Country 3						
Head of unit			0.5	1	1	1
Project leaders				1	1	1
Assistants			0.5	1	1	1
No. of employees	0	0	1	3	3	3

Branch Pilot Country 4

Head of unit				0.5	1	1
Project leaders					1	1
Assistants				0.5	1	1
No. of employees	0	0	0	1	3	3
Total employees	4	9.5	15	20	22	22

Source: IIBW

4.12.3 Investment & depreciation plan

Investments are necessary, particularly for the equipment and furniture of the offices.

Table 34: HFA Business Plan – Investment & Depreciation Plan

year	1	2	3	4	5	6
Investments in 1 000	50	50	50	50	50	50
Depreciation in 1 000	5	10	15	20	25	30

Source: IIBW

4.12.4 PROFIT AND LOSS PLAN

Revenues and expenses are calculated as follows:

- Earnings from management fee: 2% of total financing volume, paid upfront: see chapter 4.3.2, p.67 and chapter 4.12.1.
- Earnings from consultancy: see chapter 4.3.3, p.68.
- Other earnings: not considered yet.
- Staff: calculated following chapter 4.12.2.[1]
- Outsourced controlling: 0.5% of total financing volume.
- Insurances: no experiences in this question.
- Outsourced other services: see chapter 4.11.10.
- Travel costs and overheads: estimates.
- Depreciation: see above.

Table 35: HFA Business Plan – Profit & Loss Plan

Revenues in 1 000 € year	1	2	3	4	5	6
Earnings from management fee	0	0	400	1000	2200	3600
Earnings from consultancy	40	60	100	150	200	200
Other earnings	0	0	0	0	0	0
Total	40	60	500	1150	2400	3800

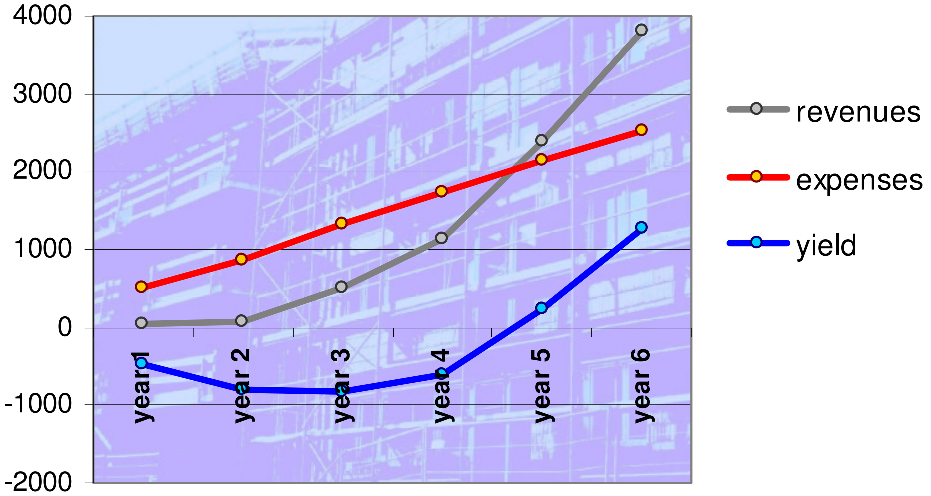
[1] For Austria, calculations roughly follow the LPHA sector. For pilot countries, experience of the banking sector is used:
Monthly gross wages for Head Office staff: CEO € 8 000, project leader € 3 500, other staff € 2 200.
Monthly gross wages for branches: head of unit € 2 500, project leader € 1 500, other staff € 800.
Total premium: 15% of yearly total gross wages, max. two monthly wages.
Increase of wages by 2% per year in head office and by 3% in target countries on € basis.

Expenses in 1 000 € year	1	2	3	4	5	6
Staff	350	660	910	1150	1240	1270
Outsourced controlling		0	100	250	550	900
Insurances						
Outsourced other services	40	60	80	100	100	100
Travel costs	100	100	140	140	140	140
Overheads (rent, working expenses)	20	40	70	90	100	100
Depreciation	5	10	15	20	25	30
Total	515	870	1315	1750	2155	2540

Source: IIBW

Following the Profit & Loss Plan, HFA is expected to incur losses for the first three years. After this, the Yield curve becomes positive (Graph 36). If profits and losses develop in this way, it might be feasible to reduce the HFA management fee slightly after, say, five years.

Graph 36: HFA Business Plan – Yield Curve



Source: IIBW

4.12.5 CAPITAL ENDOWMENT

HFA is regarded as enterprise of medium risk in the first few years. On the one hand, business will only start if the Feasibility Study in hand is accepted by major stakeholders. HFA shall not invest its own equity in housing finance and will handle the controlling patterns particularly carefully. On the other hand, the amount of money involved is fairly large. Real estate is never without risk. Fairly precarious are, in particular, deficiencies in controlling of projects if HFA is to be held responsible for losses.

It is, therefore, recommended to fund HFA with equity of 3 million Euro!

This will be enough to run the Head Office and some branches for three or four years, provided no unexpected liabilities occur. After this period, a decision has to be taken about whether or not to continue. The economic forecast of this feasibility study suits as benchmark. If HFA is close to (either below or above) the depicted trail, it seems feasible to continue.

As a contingency plan, a shut-down of HFA with Head Office and branches should be possible without further obligations, provided there has been no serious wrong conduct by the management.

Capital may partly be endowed as shareholder loan and complemented by means of specific public programmes. However, for reasons of a sound risk profile of HFA, the equity should consist for the most part of own capital, provided by the shareholders.

4.12.6 LIQUIDITY PLAN

As a result of the yield curve, the liquidity of HFA is negative for the first five years. In the sixth year, it ought to become positive.

Table 37: HFA Business Plan – Liquidity Plan

in € 1 000 year	1	2	3	4	5	6
Equity	3000	2525	1715	900	300	545
Revenues	40	60	500	1150	2400	3800
Expenses	-515	-870	-1315	-1750	-2155	-2540
Total	2525	1715	900	300	545	1805

Source: IIBW

4.12.7 STEPS TO FORMATION

To put HFA into operation, the mutual commitment of several stakeholders is necessary (see 4.11.3). It is recommended to take the following steps:

a) Letter of intent of future owners regarding their capital commitment with the condition that b) and c) are realised.
b) Letter of intent of IFIs expressing their willingness to make use of HFA for placing investments for housing construction and refurbishment in CEE/SEE.
c) Letter of intent from at least one target country expressing its willingness to allow implementation of HFA, including a capital commitment to contribute to a structured financing by public funds.

With the commitment of these three groups of stakeholders, HFA is ready to fly.

4.13 SWOT ANALYSIS

Strengths and weaknesses of the proposed financing models are described in chapter 4.4.1 to 4.4.4 p.70 ff.

STRENGTHS OF HFA

- Heavy demand for this kind of service. At present, only inadequately working models are available.
- An experienced international project team from all relevant disciplines.
- All proposed financing models are tested in practice.
- Support from important stakeholders such as IFIs, pilot countries, European institutions and commercial banks.

WEAKNESSES

- Structural weaknesses in target countries.
- A relatively small institution for a big challenge.

Opportunities

- Support of development of rental sector in CEE/SEE countries.
- Commitment of pilot countries.
- Commitment of stakeholders.
- Opening of EU regional funds for housing matters.

Threats

- No decision and public commitment by relevant policy makers for an instrument to promote affordable housing.
- Too many changes in strategic positions of housing policy (frequent electoral changes).
- Policy makers may think that implementation of HFA is affecting existing national housing policies and they may regard HFA as an undesirable influence from abroad.

4.13.1 Risk analysis

Business risks

- All normal managerial risks have to be considered.
- Specific risks of a multinationally active enterprise, e.g. intercultural differences, differences in legal framework and taxation, different languages, specific controlling difficulties.
- HFA must not finance housing projects with own equity.
- Project controlling has to be executed most accurately, according to the state of technique, the legal framework in the target country and, eventually, by bridging deficiencies in the profession of chartered surveyors in a country.

Business risks are lowered due to the differentiated controlling mechanisms.

Political risks

- The CEE/SEE region still suffers from very frequent changes of political power. Therefore, it might easily happen that negotiated financing models, including those with contributions from national funds, may get lost overnight.
- The pressure of political influence, particularly at the local level, might be strong. It may only be resisted by steady support from national authorities.

Risks for financing institutions

- Risk analysis of housing projects is step by step delegated to HFA. HFA has to prove its trustworthiness before the involved financing institutions lower their usual level of project controlling.
- Risks for financing institutions differ with the financing models described in chapters 4.4.1 to 4.4.4. For the “HFA-Guarantee-Model” (4.4.2), the cook ratio for the financing institutions depends on the cook ratio applicable to the respective guarantor (province, municipality and/or IFI). If the project is, for example, fully guaranteed by a Slovak province or municipality, the applicable cook ratio is 20%. For the “DIGH Model of Covering the First Loss” (4.4.1) or the “HFA-Batch-Financing-Model” (4.4.3), the more risky parts of financing ought to be carried by IFIs together with national funds, which results in a favourable L/V ratio for the commercial banks.
- The financing models and controlling patterns respectively are designed in a way to minimise financing risk.

4.14 Conclusion and expected results

The introduction of an intermediary organisation like HFA will lead to a substantial improvement of affordable housing in CEE and SEE. The first steps of such an agency will be small ones, but, in the course of establishing, this instrument may gain remarkable results:

- The importance of an increase in rental housing construction has been demonstrated. HFA will be an efficient tool to realize this.
- HFA represents a promising strategy to fill the gap between fully subsidized public housing and privately financed upscale rental housing, with less public expenditure than municipal housing and better social and economic performance than private housing.
- HFA will also be a leverage for housing refurbishment.
- The model accelerates the development of institutional mortgage finance.
- HFA will not collide with other initiatives in housing finance. HFA uses existing instruments and models, combining them in the most efficient way. In this context, Western European housing finance models serve as guidelines.
- HFA will become an efficient facilitator for commercial banks to increase their financing volume with specific respect to institutional finance.
- HFA will contribute to the stabilisation of residential construction and institution building in housing development and housing management.
- HFA may also be helpful to national governments to implement individual housing policy schemes.
- HFA will become an efficient intermediary for international development banks to transform their products according to local needs.
- For all participants, HFA will become a catalyst and a well-recognised third party for the realisation of housing development projects aimed at raising housing affordability for middle and lower income groups.
- HFA is meant as a market facilitator. It promotes the markets of housing finance, construction and housing development by sustainably growing volumes, as well as through high and strictly-controlled quality criteria.

5 APPENDIX

5.1 PEOPLE AND INSTITUTIONS

5.1.1 Project Advisory Board

CHAIR:

▫ Stability Pact for South Eastern Europe:	Erhard Busek	e.busek@idm.at
▫ OSCE :	Bernard Snoy (deputy chair)	bernard.snoy@osce.org

INTERNATIONAL INSTITUTIONS:

▫ UNECE:	Wolfgang Förster	foe@m50.magwien.gv.at
▫ World Bank / IFC:	inquired	

DEVELOPMENT BANKS:

▫ CEB:	inquired	
▫ EBRD:	inquired	
▫ EIB:	Mateu Turró	turro@eib.org

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5.1.3 Financing Partners for Feasibility Study

INSTITUTIONAL PARTNERS

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Ministry for Economy
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A 1011 Vienna

Vienna Municipality
Dept. for Housing
Promotion
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Dutch International
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Austrian Association of
Cities and Towns /
financed by the Austrian
Foreign Ministry
City Hall
A 1082 Vienna

COMMERCIAL BANKING PARTNERS

Bank Austria
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A 1090 Vienna

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Am Stadtpark 9
A 1030 Vienna

5.2 RECHTLICHE ERSTBEURTEILUNG[1]

Gegenstand dieser Beurteilung ist die, im Folgenden dargestellte, geplante Geschäftstätigkeit durch eine österreichische Gesellschaft (HFA) und die damit im Zusammenhang stehenden öffentlich-rechtlichen Voraussetzungen, wobei Details der Geschäftstätigkeit noch nicht feststehen, weshalb eine abschließende Beurteilung noch nicht erfolgen kann.

1. Zugrunde liegender Sachverhalt

Geplant ist die Etablierung von gefördertem sozialem Mietwohnbau in zentral- und osteuropäischen Staaten. Gegenstand der Tätigkeit von HFA ist Abwicklung derartiger Projekte nach der in den Zielländern geltend Rechtslage, wobei noch nicht feststeht, ob dies durch Tochtergesellschaften bzw. Zweigniederlassungen im jeweiligen Zielland, oder durch HFA direkt von Österreich aus erfolgen soll. Ebenso steht noch nicht fest, ob mit ausländischen Partnern, allenfalls in der Gestalt von PPP-Modellen, zusammengearbeitet werden wird. Beabsichtigt ist ferner beratend bei der Entwicklung von Mietwohnbauprojekten tätig zu werden und eine standardisierte Projektentwicklung zu erarbeiten.

Damit im Zusammenhang soll die Beschaffung bzw. Vermittlung von Kapital bzw. Förderungsgeldern für die Errichtung bzw. Renovierung von Mietwohnungsobjekten in zentral- und osteuropäischen Staaten Gegenstand der Geschäftstätigkeit von HFA sein. In Erwägung gezogen wird auch die treuhändige Abwicklung der Projektfinanzierung bzw. Förderungsabwicklung durch HFA.

Die folgenden Ausführungen beschränken sich ausschließlich auf die österreichische Rechtslage, die rechtlichen Voraussetzungen in den Zielländern bedürfen einer Beurteilung nach den, in dem jeweiligen Land geltenden Normen. Der Anwendung österreichischer Rechtsnormen auf im Ausland stattfindende Geschäftstätigkeit von HFA, insbesondere in wie weit im Ausland abzuwickelnde Projekte von den Berechtigungstatbeständen nach österreichischem Recht erfasst werden, kann ebenfalls erst nach Feststehen der noch festzulegenden Modalitäten abschließend beurteilt werden.

Für die Ausübung der Tätigkeit kommen insbesondere Berechtigungen nach der Gewerbeordnung (GewO) und zwar Gewerbe der Immobilientreuhänder bzw. der Vermögensberatung, sowie eine Konzession nach dem Wertpapieraufsichtsgesetz (WAG) in Frage. Festzuhalten ist, dass sowohl die GewO als auch das WAG Ausnahmen vom Anwendungsbereich für nicht auf Ertrag gerichtete bzw. gemeinnützige Unternehmen vorsieht. Die Beurteilung, ob eine dieser Ausnahmebestimmungen greift, kann nach Feststehen der Ausrichtung der geplanten Tätigkeit erfolgen.

2. Immobilientreuhänder (§94 Z 75 GewO):

2.1 Unter dem Oberbegriff des Immobilientreuhänders versteht die GewO die Teilbereiche Immobilienmakler, Immobilienverwalter und Bauträger. Es handelt sich dabei um ein reglementiertes Gewerbe, für dessen Ausübung ein Befähigungsnachweis zu erbringen ist.

2.2 Als vom Tätigkeitsbereich des **Immobilienmaklers** umfasst sieht die GewO im Wesentlichen folgende Tätigkeiten an:

1. Die Vermittlung des Kaufes, Verkaufes und Tausches von unbebauten und bebauten Grundstücken.

[1] Expertise by Peter Wagesreiter, Hasberger_Seitz & Partner, Rechtsanwälte GmbH, Vienna, from 7 July 2006.

2. Die Vermittlung von Bestandverträgen.

3. Den Handel mit Immobilien einschließlich des Mietkaufes.

4. Die Vermittlung von Beteiligungen an Immobilienfonds (ausgenommen von Anteilsscheinen. Die Vermittlung von Wertpapiergeschäften ist Wertpapierdienstleistungsunternehmen im Sinn des WAG vorbehalten).

5. Die Beratung und Betreuung für die in den Ziffern 1 bis 4 angeführten Geschäfte. Gewerbetreibende, die zur Ausübung dieser Tätigkeit berechtigt sind, sind auch zur **Vermittlung von Hypothekarkrediten berechtigt**.

2.3 Das Betätigungsfeld des **Immobilienverwalters** umfasst sämtliche Tätigkeiten, die zur Verwaltung von bebauten und unbebauten Liegenschaften, deren Erhaltung, Instandsetzung, Verbesserung und Sanierung notwendig und zweckmäßig sind.

2.4 Der Tätigkeitsbereich des **Bauträgers** umfasst die **organisatorische und kommerzielle Abwicklung von Bauvorhaben** (Neubauten und durchgreifende Sanierungen) auf eigene und fremde Rechnung. Darüber hinaus ist der Bauträger berechtigt, diese Gebäude zu verwerten.

2.5 Immobilientreuhänder sind auch berechtigt, im Rahmen ihrer Gewerbeberechtigung und ihres Auftrages ihre Auftraggeber vor Verwaltungsbehörden, Fonds, Förderungsstellen und Körperschaften öffentlichen Rechts sowie bei Gerichten zu vertreten, sofern kein Anwaltszwang besteht. Keine Anwaltspflicht besteht vor Verwaltungsbehörden, Förderungsstellen, Fonds (zb Wohnbauförderungsfonds) und Körperschaften öffentlichen Rechts.

3. **Vermögensberatung (§ 94 Z 75 GewO):**

3.1 Unter Vermögensberatung iSd Bestimmung ist zu verstehen: Beratung bei Aufbau und Erhalt von Vermögen und der Finanzierung unter Einschluss insbesondere der Vermittlung von Veranlagungen, Investitionen, Personalkrediten, Hypothekarkrediten und Finanzierungen.

Unter Vermögensberatung sind unter anderem Finanzdienstleistungen zu verstehen, soweit diese der GewO unterliegen. In diesem Zusammenhang bestehen weitreichende Abgrenzungsprobleme gegenüber Bankgeschäften und den Befugnissen nach dem WAG. Das Gewerbe „Vermögensberater und Verwalter von beweglichem Vermögen“ ist zum größten Teil im Finanzdienstleistungsgeschäft aufgegangen, für das die Bestimmungen des WAG gelten.

Als Zwischenergebnis ist daher festzuhalten, dass für die beabsichtigte Tätigkeit die gewerberechtlichen Bestimmungen für Immobilientreuhänder sowie, je nach Ausgestaltung der Projektfinanzierung, allenfalls auch die Bestimmungen für Vermögensberater zur Anwendung gelangen.

4. Finanzdienstleistungen nach dem WAG:

4.1 Durch das WAG wurde ein Sondergewerberecht für Wertpapierdienstleistungsunternehmen geschaffen, das je nach Ausgestaltung der Projektfinanzierung zur Anwendung gelangen kann.

Gemäß § 19 Abs. 1 WAG ist ein Wertpapierdienstleistungsunternehmen, wer

1. eine oder mehrere der Dienstleistungen gemäß § 1 Abs. 1 Z 19 BWG gewerblich erbringt,

2. kein Kreditinstitut gemäß § 1 Abs. 1 BWG ist und
3. seine Berechtigung zur Erbringung von Dienstleistungen gemäß § 1 Abs. 1 Z 19 BWG nicht auf die §§ BWG 9 ff (Niederlassungs- und Dienstleistungsfreiheit) gründet.

Die Erbringung der in § 1 Abs. 1 Z 19 BWG genannten Dienstleistungen **bedarf der Konzession der Finanzmarktaufsicht (FMA)**, soweit nicht bestimmte Ausnahmetatbestände, wie etwa gemeinnützige Tätigkeit) greifen.

4.2 Gemäß § 1 Z 19 BWG sind unter Finanzdienstleisungsgeschäft im Sinn dieser Regelung die Erbringung folgender Dienstleistungen in Bezug auf Finanzinstrumente, sofern diese Dienstleistungen das Halten von Geld, Wertpapieren oder sonstigen Instrumenten **nicht** umfassen, sodass der Erbringer der Dienstleistungen diesbezüglich zu keiner Zeit Schuldner seiner Kunden werden kann, zu verstehen:

a) Beratung über die Veranlagung von Kundenvermögen (in Bezug auf Finanzinstrumente) **Vermögensberatung**

b) Verwaltung von Kundenportefeuilles mit Verfügungsvollmacht im Auftrag des Kunden (in Bezug auf Finanzinstrumente) **Vermögensverwaltung**

ad a) und b): Finanzinstrumente in diesem Sinn sind: Wertpapiere, Geldmarktinstrumente, besondere außerbilanzmäßige Finanzgeschäfte gemäß Z 1 bis 4 der Anlage 2 zu § 22 BWG (wobei auch alle verkauften Optionen zu berücksichtigen sind), ausländische Kapitalanlagefondsanteile gemäß § 24 Abs. 1 Investmentfondsgesetz, soweit diese keine Wertpapiere verkörpern.

c) **Vermittlung** von Geschäftsgelegenheiten zum Erwerb oder zur Veräußerung folgender Instrumente: Vermittlung von Wertpapiergeschäften
   - Wertpapiere,
   - Geldmarktinstrumente,
   - Finanzterminkontrakte,
   - Kauf- und Verkaufsoptionen auf Wertpapiere und andere Finanzinstrumente einschließlich gleichwertigen Instrumenten
   - Zinsterminkontrakte und Zinsausgleichsvereinbarungen (Forward Rate Agreements, FRA), Zins- und Devisenswaps sowie Swaps auf Substanzwerte oder auf Aktienindizes,
   - alle von den o. a. Instrumenten abgeleiteten Instrumente

Für die genannten Finanzdienstleistungen ist grundsätzlich eine Konzession nach dem WAG erforderlich. Ob das WAG auf den hier zu beurteilenden Sachverhalt anwendbar ist, wird im wesentlichen von der Art der Finanzierung der Projekte abhängen. Die Projektentwicklung und Bauausfühung selbst werden keine Wertpapierdienstleistungen darstellen, eine Anwendbarkeit des WAG kann sich jedoch etwa durch eine Finanzierung im Zusammenhang mit Immobilienfonds ergeben, welche nach Feststehen der Details zu prüfen wäre.

Festzuhalten ist, dass der Handel mit Finanzinstrumenten und jede Dienstleistung, die das **Halten von Geld oder Wertpapieren (Instrumenten) von Kunden umfasst,** ein konzessionspflichtiges Bankgeschäft darstellt und daher von einer Konzession gemäß § 19 Abs. 2 WAG (Finanzdienstleistung) nicht gedeckt wird. Bankenkonzessionen gemäß § 4 Abs. 1 BWG werden ausschließlich durch den Bereich Bankenaufsicht in der Finanzmarktaufsichtsbehörde vergeben.

5. Zusammenfassung:

5.1 Für die geplante Geschäftstätigkeit durch HFA zur Entwicklung von gefördertem Mietwohnbau in zentral- und osteuropäischen Staaten sowie für die Vermittlung von Finanzierungen bzw. Förderungen für die Errichtung und die Instandsetzung von Mietwohnbauprojekten in Zentral- und Osteuropa kommt grundsätzlich eine Berechtigung für das Gewerbe der Immobilientreuhänder bzw der Vermögensberater in Frage. Sofern die angestrebte Tätigkeit eine Finanzdienstleistung im Sinn von § 1 Z 19 BWG darstellt, wäre darüber hinaus eine Konzession nach dem WAG erforderlich.

5.2 Eine Funktion der österreichischen Gesellschaft auch als Treuhänderin, die das zur Verfügung gestellte Kapital treuhändig verwaltet, ist mE nicht zulässig. Zwar kann die Gesellschaft gemeinsam mit den, die Mittel zur Verfügung stellenden Institutionen die Bedingungen der Freigabe der treuhändig verwalteten Mittel anhand eines strukturierten Projektablaufplanes erarbeiten, eine direkte Verwaltung von Finanzierungsmittel wäre jedoch grundsätzlich dazu legitimierten Berufsgruppen (Rechtsanwälten und Notaren) vorbehalten. Je nach Ausgestaltung wäre mit dem treuhändigen Halten von Geldern auch die Gefahr der Qualifikation als Bankgeschäft verbunden, die eine entsprechende Konzession erforderlich machen würde.

Um das Erfordernis einer Konzession nach dem BWG zu vermeiden könnte die Abwicklung der Finanzierung durch ein mitfinanzierendes Kreditinstitut erfolgen. Nach gemeinsamer Festlegung eines konkreten Projektablaufplanes durch HFA, kann auf dessen Grundlage die Freigabe der Mittel je nach Projektsabschnitt definiert werden. Dies würde einen einfachen und transparenten Ablauf gewährleisten, da das Projekt einheitlich über ein Institut abgewickelt werden kann, wobei durch HFA der tatsächliche Projektforschritt und damit im Zusammenhang die Freigabebedingung der Mittel zu definieren wäre.

Wien, am 7. Juli 2006

Peter Wagesreiter

5.3 EU LEGISLATION

As there is no legal basis in the EC Treaty that allows housing policy to be developed at the EU level, housing generally falls within the sphere of competence of the Member States. Nevertheless there are several EU laws and regulations at a more general level that clearly have an impact on housing policy legislation at the national level. This influence also derives from a whole variety of political initiatives at European level that range from the enforcement of housing rights and social inclusion to the attempts of efficiently integrating the new Member States.

For any policy measure within the sphere of housing - and social housing in particular - it is therefore necessary to be in line with the wider EU legal framework and these initiatives. For any housing finance agency for CEE and SEE countries, which are or in the near future will be integrated within the European Union, the following considerations and requirements will guarantee its consistency with EU policy.

The fundamental support of EU bodies for social housing policy measures is most explicitly captured in the following statement of the European Commission*: "Social housing is fully in line with the basic objectives of the EC Treaty. It is a legitimate element of public policy and as it is limited to what is necessary it is in the interest of the Community that social housing is supported".* (European Commission, decision 209/2001). Yet, in order to evaluate specific housing policy measures (such as e.g. object-side subsidies to social housing construction) as to their consistency with EU policy, it is above all essential to consider European State Aid and Competition legislation.

EUROPEAN STATE AID AND COMPETITION LEGISLATION

EU State Aid policy is governed by articles 87-89 of the EC Treaty. Article 87(1) of the EC Treaty lays down the general principle prohibiting State Aid which is capable of distorting competition and affecting trade between Member States. Apart from this general prerequisite the Treaty provides for a range of categories of exemptions. Firstly, Article 87(2) lists categories of State Aid that are deemed to be compatible with the common market. Obligation of prior notification applies to them without exception, though once it is established that the aid comes within the scope of one of these exceptions, the Commission cannot withhold its authorisation and must regard it as compatible with the common market. These exemptions include State Aid of a social nature granted directly to the consumers (e.g. housing subsidies). Secondly, Article 87(3) sets out the categories of aid which may be considered to be compatible with the common market, subject to the Commission's scrutiny. The Commission has a wide margin of discretion when assessing compatibility of the aid, but must take into account all relevant factors. The national interests of a Member State or the benefits obtained by the recipients of aid do not themselves justify the positive exercise of the Commission's discretionary powers. Moreover there is no requirement that the Commission permits a proposed measure solely because it is in conformity with one of the objectives of Article 87. Rather the proposed aid must be necessary for the attainment of those objectives and the duration, intensity and scope of the aid must be proportionate to the importance of the intended result. Finally, Article 86(2) establishes an exception with respect to undertakings entrusted with the operation of services of general economic interest. It provides that: "[such] undertakings [...] shall be subject to the rules contained in this Treaty, in particular to the rules on competition, in so far as the application of such rules does not obstruct the performance, in law or in fact, of the particular tasks assigned to them. The development of trade must not be affected to such an extent as would be contrary to the interests of the Community." Article 86(2) constitutes the central provision for reconciling the Member States' interest in using certain undertakings as an instrument of fiscal, economic, or social policy with the Community's interest in safeguarding compliance with the rules on competition and the preservation of the unity of the common market. Although the test of compatibility under Article 86(2) is different from that under Article 87(2) and (3), the practical outcome may be the same, in view of the Commission's fairly wide discretion in deciding under Article 86(2) whether or not the Community's interests are adversely affected. This brings Article 86(2) into line with the general derogations of Article 87.

As is usually the case with the very general regulations of the European Treaty, the clarification of the Articles in question was later advanced by Decisions of the European Commission and especially by judgements of the European Court of Justice. Under these, the following provided important insight on Competition legislation for the field of housing policy:

- The European Court of Justice's ruling of 5 March 2002 (case C 515) that recognized the general interest nature *"of the objective to maintain a supply of affordable main homes"*,
- The Judgment of the Court of First Instance of 18 January 2005 (T 93/02), that recognizes the general interest nature of social housing financing and develops the concept of "general interest use" with respect to the savings resources allocated to social housing financing,
- The Commission allowed the Irish State to provide bank guarantees for borrowings by the Housing Finance Agency (HFA). The HFA is a public body, which provides loans to local authorities for the funding of social housing construction. In Ireland local authorities have the statutory obligation to provide social housing. No charge is made by the State to the Agency for the provision of the guarantee. The Commission decided that the guarantee does neither constitute State Aid on the basis of Article 86 of the EC Treaty nor on the basis of the exemptions in Article 87. This is an important decision, which clarifies the position of social housing with regard to State Aid rules. The Commission regarded the provision of "a good dwelling in a good housing environment to every household and especially the most socially disadvantaged" as a service of general interest. (case N 209/2001).
- Other recent decisions of the European Commission concern public subsidies for housing developers aimed at promoting home-ownership amongst socially disadvantaged groups in deprived urban areas in the UK. The Commission allowed such funding on the basis of economic rather than social arguments. (cases N 497/01 and N 239/02)

As for the question of the legitimate height of public service compensation it was the famous judgement in the case of Altmark Trans GmbH and Regierungspräsidium Magdeburg vs. Nahverkehrsgesellschaft Altmark GmbH (ECR I –7747 2003) that finally established a general framework. Here the Court of Justice held that in the field of public service compensation in order to escape the State Aids regime of Article 87, four cumulative criteria have to be met. First, the recipient undertaking must actually have public service obligations to discharge, and the obligations must be clearly defined. Second, the parameters on the basis of which the compensation is calculated must be established in advance in an objective and transparent manner. Third, the compensation cannot exceed what is necessary to cover all or part of the costs incurred in the discharge of the public service obligations, taking into account the relevant receipts and a reasonable profit. Finally, the undertaking which is to discharge public service obligations, in a specific case, should be chosen pursuant to a public procurement procedure which allows for the selection of the tenderer capable of providing those services at the least cost to the community. If that is not possible, the level of compensation needed must be determined on the basis of an analysis of the costs which a typical undertaking, well run and adequately provided with appropriate means so as to be able to meet the necessary public service requirements, would have incurred (in discharging those obligations, taking into account the relevant receipts and a reasonable profit for discharging the obligations). The Altmark case judgment therefore establishes the general case for evaluating state subsidies: Where subsidies are regarded as compensation for the services provided by the recipient undertakings in order to discharge public service obligations, they do not constitute State Aids and are therefore legitimate, if the mentioned four criteria are met.

LATEST DEVELOPMENTS

For social housing as a particular field in the common market, a special agreement on its benevolent treatment within the context of State Aid regulations was finally reached in 2005 and declared in a Decision by the Commission in November of that year (Commission Decision of 28.11.2005, L 312/69). It was a long process until this agreement was finally reached: A decision ratified in 2004 as part of a new EU State Aid package confirms that Member States are under no obligation to attain the approval of the European Commission before allocating aid for the provision of social housing. The decision applies to housing provided for "…disadvantaged citizens or socially less advantaged groups, which due to solvability constraints are unable to obtain housing at market conditions". The enforcement of a notification obligation would not only be beyond the administrative capacity of the Commission but could also potentially compromise the ability of the social housing sector to fulfil their tasks. Recognising this, the Commission originally proposed to exempt social housing providers from the obligation to notify state aid in 2004. This proposal was however unexpectedly challenged by a European Parliamentary resolution issued in February of 2005 on the grounds that "...these sectors are also of interest to private operators…" and that "...the granting of subsidies may have a detrimental effect on competition…"

This challenge led to extensive debate between EU Governments throughout the Luxembourg presidency of the European Union. The resulting compromise reflected in the European Commission's latest decision responds to the Parliament's warning by arguing that hospitals and social housing undertakings "...have specific characteristics that need to be taken into consideration…" and that "...the intensity of distortion of competition in those sectors is not necessarily proportionate to the level of turnover and compensation". (Commission Decision of 28.11.2005, L 312/69, (16).) "Accordingly, […], undertakings in charge of social housing providing housing for disadvantaged citizens or socially less advantaged groups, which due to solvability constraints are unable to obtain housing at market conditions, should benefit from the exemption from notification provided for in this Decision, even if the amount of compensation they receive exceeds the thresholds laid down in this Decision, if the services performed are qualified as services of general economic interest by the Member States." (idem).

The Commission stipulates however that measures to ensure that undertakings are not overcompensated for the service provision must be implemented. In the case of social housing, overcompensation for the fulfilment of a public service obligation may be tolerated as long as it stays within a certain threshold and is carried forward to the next period: "The revenue of undertakings entrusted with the operation of services of general economic interest in the field of social housing may vary dramatically, in particular due to the risk of insolvency of leaseholders. Consequently, where such undertakings only operate services of general economic interest, it should be possible for any overcompensation during one period to be carried forward to the next period, up to 20 % of the annual compensation." (idem, (10)). Any overcompensation amounting to more than 20% of the annual aid granted will count as an infringement of EU rules. The new package also stipulates that if an undertaking receiving state aid to deliver services of general interest is also active in other markets, separate accounts must be kept.

Furthermore, in its Article 5 this Commission's Decision also lays down clear guidelines for the calculation of the adequate public services compensation and stipulates which costs should be taken into consideration. The Decision allows for a reasonable profit to be included, which "…shall take account of all or some of the productivity gains achieved by the undertakings concerned during an agreed limited period without reducing the level of quality of the services entrusted to the undertaking by the State." (idem Article 5 (1.)). A clarification of the term 'reasonable profit' is also provided in order to facilitate the calculation: "For the purposes of this Decision 'reasonable profit' means a rate of return on own capital that takes account of the risk, or absence of risk, incurred by the undertaking by virtue of the intervention by the Member State, particularly if the latter grants exclusive or special rights. This rate shall not normally exceed the average rate for the sector concerned in recent years. In sectors where there is no undertaking comparable to the undertaking entrusted with the operation of the service of general economic interest, a comparison may be made with undertakings situated in other Member States, or if necessary, in other sectors, provided that the particular characteristics of each sector are taken into account. In determining what constitutes a reasonable profit, the Member States may introduce incentive criteria relating, in particular, to the quality of service provided and gains in productive efficiency." (idem Article 5. (4.)).

Let us consider the Viennese method of integrating commercial developers into social housing provision as an example of efficiently implementing these EU legislations. The Housing Subsidies Acts of the Austrian regions function as a link between EU-Competition legislation and the granting of housing subsidies to individuals or the construction sector. In order to qualify for state subsidies housing developers have to meet certain requirements not as rigid as those laid down in the Limited-Profit Housing Law which defines the right and obligations of the special-status limited-profit housing associations. The requirements vary throughout the nine Austrian regions, but usually entail the claims specified in Chapter 4.6.1. If these requirements are met, commercial builders in addition to limited-profit housing associations may participate in the public procurement procedure held by Vienna public authorities since 1995 in order to develop certain large and connected areas in the outskirts of the city. Usually, commercial developers set up special purpose vehicles such as project companies to meet these requirements efficiently and to make use of better financing conditions through easier access to investment and equity capital. The fundamental claim of EU competition legislation to clearly separate commercial and social housing activities is thereby executed. The tender offers filed by developers are evaluated by a professional jury according to certain criteria entailing not only cost-efficiency, but also aspects of constructional quality, ecology and urban planning. The most feasible and eligible project qualifies for public funding in the sense of public loans or other forms of subsidies which are granted in the form of private contracts and not according to public law. These procurement procedures in Vienna have contributed considerably to the increase of construction quality and the decrease of public funding requirement in the field of social housing. This example clarifies that there are efficient possibilities for setting up legal and structural frameworks for integrating commercial builders in the provision of social housing without infringement of EU Law and at the same time not being dependent on the existence of a functioning limited-profit infrastructure on the housing market for fostering social housing construction.

Summing-up, it is with the Decision of the Commission of November 28th of 2005, that more explicit guidelines for social housing policy making were finally established. All in all the special position of social housing within the common market was stipulated, allowing for far-reaching concessions within the State Aid regime. Also, the Member States' discretion in the definition of services of general economic interest, in the field of social housing and its compensation was confirmed. It is therefore clear that any Housing Finance Agency which operates in line with the described legislation in the field of social housing will not face any legal impediments to its efficient functioning. Furthermore, a wide range of political initiatives and activities at European level confirm that a HFA for CEE and SEE countries will be fully consistent with present and future EU Policy making.

HUMAN RIGHTS AND POLITICAL INITIATIVES

As we have seen, the discretionary power of the Member States within the field of housing policy lies in the general principle of subsidiarity and for state subsidies in housing policy especially in their power to define services of general economic interest and the scope of social policy. The discretionary power of the Commission lies in the fact that exemptions of the state aid regime are vaguely formulated and leave a substantial freedom of manoeuvre in taking state aid decisions. Within the field of social housing policy Member States and the Commission have shown to use their respective rooms to manoeuvre to support initiatives such as the HFA. The intentions and goals of the Housing Finance Agency clearly are in line with the following political declarations and initiatives at EU and Member State level. They show, that the promotion and development of social housing by Member States responds to the national and community general interest and helps achieve the major objectives of the Treaties (social and territorial cohesion, employment, implementation of the Charter of Fundamental Rights, Lisbon strategy, energy, etc).

The European Council of Nice adopted the EU Charter of Fundamental Rights. Article 34 § 3 reads as follows: “In order to combat social exclusion and poverty, the Union recognizes and respects the right to social and housing assistance so as to ensure a decent existence for all those who lack sufficient resources, in accordance with the rules laid down by Community law and national laws and practices.” Within the legislations of several Member States a general right to housing and the public obligation to meet the population’s housing need is established. (see Czischke CECODHAS 2005, p. 22).

The yearly meetings of the European Housing Ministers and their policy recommendations have played a fundamental role in widening the field of action of social housing policy. Under these initiatives, the opening of Housing to become eligible for funding under the Structural Funds, and the possibility of using a reduced VAT rate on housing services deserve special attention. The Ministers of Housing of the EU Member States and the Accession States met in Prague on 14 and 15 March 2005 on the theme of prefabricated high-rise buildings. In several new Member States the prefabricated high-rise is the dominant form of accommodation. A substantial part of the prefabricated high-rise is, however, in a deplorable state and in need of urgent repair. Several governments encounter serious difficulties to find the necessary resources for this huge task. That is why most Ministers of the new Member States called at the meeting for more flexibility in the use of Structural Funds to enable them to appoint part of the funding for the renovation or rebuilding of unsustainable prefabricated high-rise. The opening of the Regional Development Fund to housing projects was proposed in the latest discussions on the New Financial Framework, which should provide the financial means necessary to address effectively and equitably future internal and external challenges, including those resulting from disparities in the levels of development in an enlarged Union. Paragraph 59 of the proposed Financial Perspective 2007-2013 proposes to make it possible for new Member States (EU 10 + Bulgaria and Romania) to make use of structural funds for ‘housing projects’: “The ERDF may also contribute to the financing of housing projects in the EU10, Romania and Bulgaria. The modalities for such support shall be laid down in a Regulation of the Council and the European Parliament on the basis of a proposal from the Commission.” European initiatives such as Jessica (Joint European Support for Sustainable Investment in City Areas) may also be included into these initiatives. Jessica is an optional facility offering Member States the possibility to allocate funds to Urban Development Funds or Holding Funds in order to forward the investment to PPPs or projects included in an integrated plan for sustainable urban development. It therefore channels ERDF contributions to Urban Investment.

On January 29th 2006, an agreement on the extension of the possibility of reduced VAT rates on labour-intensive services was reached at European level. Member States may apply this waiver to levy

VAT rates below the 15 per cent EU legal minimum permanently to “supply construction, renovation and alteration of housing provided as part of a social policy.”

Housing has been fully integrated in the layout and guidelines of the EU strategy against poverty and social exclusion, reaching from the European Council of Nice and Lisbon to the assessments of the National Action Plans. Here are some examples:

- The Nice European Council reached an agreement on the common objectives for the EU strategy against poverty and social exclusion. In the area of housing two objectives were specified: The implementation of “…policies which aim to provide access for all to decent and sanitary housing, as well as basic services necessary to live normally having regard to local circumstances (electricity, water, heating, etc.) and “…to put in place policies which seek to prevent life crises, which can lead to situation of social exclusion, such as indebtedness, exclusion from school and becoming homeless.”
- The European Council of Lisbon highlighted the multidimensional nature of social exclusion and the importance of housing for an effective social inclusion strategy. The conclusions of the Lisbon summit read: “The European Council invites the Commission and the Council to mainstream the promotion of inclusion in Member State’s employment, education and training, health and housing policies, this being complemented at the level of the EU by action under the Structural Funds within the present budgetary framework.” The EU recognizes at the highest level that the Structural Funds should play a role to make housing policies more inclusive.
- The first joint report by the Commission and the Council on social inclusion (Council 15223/01) of 12 December 2001 affirms in particular that “All Member States recognize that the importance of access to decent quality housing is a key condition for social integration and participation in society”, that “Given the importance of housing expenditure in the total household budget (on average 25% in the EU), higher rents have particularly strong knock-on effects on residual incomes of lower income households, often pulling them far below the poverty line”, that “The thrust of initiatives by Member States in their NAPs is geared essentially at overcoming the deficiencies in their national housing markets in order to assure lower-income sections of the population access to decent and affordable housing” and that “Member States make use of a range of measures to stimulate and increase the supply of decent low-cost housing. These include: provision of social housing subsidies by the majority of Member States…”
- The joint report by the Commission and the Council on social inclusion of 2004 proposes six action priorities for 2005 including: “…developing access for the most vulnerable and the people most exposed to the risk of social exclusion to decent housing…”
- The Council of Europe approved a statement on housing entitled “A dynamic housing policy as an element of European social cohesion” in which it calls on Member States of the Council of Europe to “pursue the ratification of the Revised Social Charter so that all member countries recognise the right to housing as a fundamental social right and a factor in social cohesion” (article 31 of the revised charter).
- The PHARE Programme plays a fundamental part in funding the EU enlargement. In the past few years several projects in the area of housing have received funding, especially projects with the aim to promote access to decent housing for low-income groups. This shows how housing policy is officially regarded as an important instrument in the EU enlargement process.

With its aim to promote affordability of decent housing and a diversification of the housing supply in CEE and SEE countries the Housing Finance Agency functions as a fundamental instrument in safeguarding main EU objectives such as social cohesion, the mitigation of territorial tensions and the social and economic integration of the new Member States. Additionally, in promoting a functioning rental market and the diversity of the housing supply in these countries the HFA helps to increase competition in the housing markets leading to more efficient and socially desired results. The promotion of a rental housing market also improves labor mobility and therefore follows the Council's recommendations on Member States' employment policy (2003/579/CE): "The geographical mobility of the workforce is restricted, which is due in part to structural obstacles such as the poor operation of the housing market".

As a result, the objective and functioning of the Housing Finance Agency is clearly in line with EU legislation and political initiatives. If the HFA observes the described legal requirements stipulated in EU Competition Law, is in line with major political initiatives and objectives and contributes to foster further competition in the housing markets of CEE and SEE countries there is sufficient reasoning that the HFA will not only be consistent with EU policy but will be most welcome.

5.4 DATA

Table 38: Housing related data in comparison

	Year	EU 15	CEE 5	SEE	CZ	HU	PO	SK	SL	KOS	MON	RO
MACRO-ECONOMY												
GDP per capita[1]	2004	24.500	12.500		15.900	13.600	11.100	11.700	17.900			
GDP growth[2]	Ø 96-05	2,2%	3,8%		2,4%	4,1%	4,2%	4,2%	3,9%			
GDP growth[3]	Ø 02-05	1,5%	3,7%		3,5%	3,9%	3,5%	4,9%	3,6%			
GDP growth[4]	2004	2,3%	5,0%	4,8%	4,4%	4,6%	5,3%	5,5%	4,2%	0,0%	0,0%	5,5%
GDP growth[5]	Ø 05-07	1,9%	4,2%		4,5%	3,8%	4,1%	5,6%	4,0%			
Change rel. comsumer prices[6]	95/03	0,0%			37,4%	36,2%	21,5%	36,1%	0,0%			
POPULATION												
Population[7]	2004	383.250	65.670	57.493	10.020	10.110	38.170	5.380	2.000			21.734
Growth[8]	90-04	4,7%	-0,2%	-5,0%	-1,5%	-2,5%	0,4%	1,8%	0,1%	0,0%	0,0%	-4,5%
Forecast[9]	03-20	3,5%	-1,2%		-1,2%	-9,1%	0,5%	2,4%	-3,9%			
Population aged 65 and over[10]	2003	45%	42%		45%	50%	40%	34%	0%			
Foreign population[11]	2004	0,0%			2,3%	1,1%	0,1%	0,5%	0,0%			
Households[12]	2003	152.810	23.360	17.361	3.828	3.857	13.331	1.666	679	370	191	7.320
Average household size[13]	2003	2,5	2,8	3,3	2,6	2,6	2,9	3,2	2,9		3,2	3,0
Income per Household[14]	2003	24.805	4.798	2.507	7.306	5.406	3.790	2.137	13.523	3.856	2.400	1.452
Unemployment rates[15]	2004	8,1%	14,8%		8,3%	6,0%	18,8%	18,2%	6,0%			
Inequality of income distribution[16]	2004	5,0	4,5		3,4	3,3	5,0	5,4	3,0			
At-risk-of-poverty rate before social transfers[17]	2004	41%	27%		21%	17%	31%	28%	16%			

1 Def.: €, laufende Preise, Kaufkraftparitäten; Q: Statistik Austria.

2 Q: Eurostat.

3 Q: Eurostat.

4 Q: Eurostat.

5 Q: Eurostat.

6 Def.: EU 15=100; Q: OECD Factbook 2005.

7 Def.: in 1.000; Q: Statistik Austria (2005).

8 Q: Housing statistics EU (2005).

9 Q: Housing statistics EU (2005).

10 Q: OECD Factbook 2005.

11 Def.: Ausländische Nationalität Stichtag 1.1.04; Q: Statistik Austria (2005).

12 Def.: in 1.000; Q: PRC (2005).

13 Q: PRC (2005).

14 Def.: netto, € pro Jahr; Q: PRC (2005).

15 Def.: Arbeitslose Personen in % des Beschäftigungspotenzials (Beschäftigte und Beschäftigungslose).; Q: Eurostat.

16 Def.: Verhältnis des Gesamteinkommens des obersten Einkommens-Quintils zum untersten Einkommens-Quintils (äquivalentes verfügbares Einkommen); Q: Eurostat.

17 Def.: Anteil der Personen mit weniger als 60% des nationalen Median-Einkommens (= Schwellenwert für Armutsgefährdung) vor Sozial-Transfers. Pensionen gelten als Einkommen und nicht als Sozial-Transfer; Q: Eurostat.

	Year	EU 15	CEE 5	SEE	CZ	HU	PO	SK	SL	KOS	MON	RO
At-risk-of-poverty rate after social transfers[1]	2004	16%	15%		8%	12%	17%	21%	10%			
Dispersion of regional employment rates[2]	2004	11,1	6,8		5,6	9,4	6,4	9,0	0,0			
HOUSING PROVISION												
Housing consumption as % of private consumption (national accounts)[3]	2003	23,0%	23,6%	0	23,5%	18,1%	24,8%	26,5%	19,7%	0,0%	0,0%	0,0%
Housing consumption total (national accounts)[4]	2003	€ 233	€ 67	0	€ 78	€ 58	€ 65	€ 67	€ 113	€ 0	€ 0	€ 9
Housing consumption energy (national accounts)[5]	2003	€ 36	€ 24		€ 28	€ 18	€ 24	€ 27	€ 29			
Housing Expenditure as % of household income[6]	2003	24,6%	26,5%	0	17,1%	34,2%	29,4%	19,6%	10,8%	0,0%	0,0%	7,7%
Housing Expenditure Rent/Mortgages[7]	2003	17,8%	1,3%		3,6%	2,3%	0,0%	1,6%	0,7%			
Housing Expenditure Energy/Service[8]	2003	5,9%	19,7%		12,0%	17,3%	24,8%	15,6%	8,9%			
% persons living in low-income households owners[9]	2003	12%	0,0%		7,0%	9,0%	15,0%	0,0%	11,0%			
% persons living in low-income households rent[10]	2003	24%	0,0%		8,0%	16,0%	16,0%	0,0%	0,0%			
Social Quality of Environment total[11]	2004	16%										
Social Quality of Environment Poor households[12]	2000	18%										
HOUSING STOCK												
Dwelling stock[13]	2003	178.888	22.933	18.207	4.366	4.134	11.763	1.885	785	0	0	8.129
Dwellings per 1.000 inhabitants[14]	2003	467	349	346	436	409	308	350	393	0	0	373

1 Def.: Wie FN 17; Q: Eurostat.
2 Def.: Verhältnis der Abweichung der Beschäftigungsraten nach NUTS 2-Regionen; Q: Eurostat.
3 Q: Housing Statistics in the EU (2005).
4 Def.: € per month; Q: Housing Statistics in the EU (2005).
5 Def.: € per month; Q: Housing Statistics in the EU (2005).
6 Q: PRC (2005).
7 Q: PRC (2005).
8 Q: PRC (2005).
9 Def.: Unter 60% des Medians der äquivalenten Einkommens nach Kaufkraftstandard; Q: Housing Statistics in the EU (2005).
10 Def.: Wie FN 9; Q: Housing Statistics in the EU (2005).
11 Def.: Anteil der Haushalte mit Beeinträchtigung durch Kriminalität oder Vandalismus in ihrer Wohnumgebung; Q: SRZ-Auswertung auf Basis des EU-Wohnungspanels (ECHP2000).
12 Def.: Wie FN 11, unterstes Einkommens-Quintil; Q: Wie FN 11.
13 Def.: In 1.000; Q: Statistik Austria (2005); PRC (2005); Housing Statistics in the EU (2005); Czischke, D. (2005).
14 Q: Statistik Austria (2005); OECD Datenbasis; PRC (2005); Housing Statistics in the EU (2005); Czischke, D. (2005).

	Year	EU 15	CEE 5	SEE	CZ	HU	PO	SK	SL	KOS	MON	RO
Owner occupation[1]	2003	63%	68%	84%	47%	92%	66%	76%	82%	0%	0%	81%
Social rental[2]	2003	13%	25%	0	34%	4%	32%	19%	7%	0%	0%	3%
Private renting[3]	2003	22%	5%	0	16%	4%	2%	0%	3%	0%	0%	16%
Share multi-family dwellings[4]	2003	47%	54%		57%	34%	63%	52%	28%			43%
Share high-rise dwellings		14%	34%		34%	23%	39%	38%	12%			11%
Housing stock < 1945[5]	2003	26%	23%		26%	27%	23%	12%	24%			
Housing stock 1945-1990[6]	2003	63%	67%		66%	66%	64%	82%	69%			
Housing stock > 1990[7]	2003	11%	10%		8%	7%	12%	7%	8%			
% of stock privatised 1990-2004			17%	18%	12%	15%	18%	31%	23%	0%	0%	27%
Average useful Floorspace[8]	2003	90	70	52	76	75	68	56	75	0	0	45
Useful Floorspace per capita[9]	2004	37	25	16	29	28	22	26	30	0	0	15
HOUSING CONSTRUCTION												
Dwellings completed total[10]	2003	1.927	233		27	22	163	14	7			
Social housing in % of completions[11]	2003	7%	10%		26%	5%	7%	28%	0%			
Dwellings completed per 1000 inhabitants[12]		5,1	3,5	ca. 1,3	2,7	2,1	4,3	2,6	3,7	0,0	0,0	1,3
Gross fixed capital formation in housing[13]	Ø 01-03	4,8%	3,3%		2,8%	4,9%	3,5%	1,7%	3,6%			
Investment in Residential[14]	95/03											
Housing demand[15]	03-13	18.400	2.500	0,0%	550	0	1.650	237	77	0	0	220.000
ENVIRONMENT												
CO2 emissions change[16]	95-02	4,0%	-11,4%		-5,0%	-6,8%	-15,0%	-7,3%	0,0%			
Energy supply per unit of GDP[17]	2003	0,17	0,26		0,31	0,21	0,24	0,31	0,00			

1 Q: Housing Statistics in the EU (2005); Statistik Austria; Czischke, D. (2005); PRC (2005).
2 Q: PRC (2005); Housing Statistics in the EU (2005); Czischke, D. (2005).
3 Q: Housing Statistics in the EU (2005); Statistik Austria; Czischke, D. (2005); PRC (2005).
4 Q: PRC (2005).
5 Q: PRC (2005).
6 Q: PRC (2005).
7 Q: PRC (2005).
8 Def.: m² pro Wohnung; Q: Housing Statistics in the EU (2005).
9 Def.: m²; Q: Housing Statistics in the EU (2005).
10 Def.: in 1.000; Q: Housing Statistics in the EU (2005).
11 Q: Housing Statistics in the EU (2005).
12 Q: Housing Statistics in the EU (2005).
13 Def.: in % des BIP; Q: Housing Statistics in the EU (2005).
14 Def.: Ø real; Q: Marterbauer, M., Walterskirchen, E. (2005).
15 Def.: in 1.000; Q: PRC (2005).
16 Def.: CO2 Emissionen aus Energieverbrauch; Q: OECD Factbook 2005.
17 Q: OECD Factbook 2005.

	Year	EU 15	CEE 5	SEE	CZ	HU	PO	SK	SL	KOS	MON	RO
HOUSING MARKET												
House price increase nominal[1]	Ø 95/03											
Rent increase[2]	Ø 00-03	2,8%	9,9%		5,7%	9,6%	7,4%	18,3%	9,4%			
Relative price level indices for housing costs (EU15=100)[3]	1995	100,0	0,0		0,0	0,0	0,0	0,0	0,0			
Relative price level indices for housing costs (EU15=100)[4]	2002	100,0	43,8		39,5	36,1	37,4	26,8	64,4			
Cost of social rental per m²[5]	2004	3,92	0,00		0,62	0,52	0,00	0,70	0,00			
Cost of private rental per m²[6]	2004	6,18	0,00		1,24	2,36	0,00	0,00	0,00			
GOVERNMENT												
Government expenditure[7]	2002	0%			0%	53%	46%	0%	0%			
Total tax receipts[8]	2004	41%	35%		39%	38%	33%	33%				
Property taxes as share of all taxes[9]	2002	0%			0%	0%	0%	0%	0%			
Social expenditure[10]	2003	24%	21%		20%	20%	23%	18%	0%			
HOUSING FINANCE / HOUSING PROMOTION												
Mortgage loans to GDP[11]	2003	44,6%	7,8%	0,0%	3,0%	7,8%	4,7%	8,2%	0,0%	1,1%	0,1%	0,0%
Long term interest rates[12]	2004	0,0%			4,8%	8,2%	6,9%	5,0%	0,0%			
Housing expenditure of state budget[13]	2003	3,3%		0	4,0%	0,0%	1,1%	2,8%	1,1%	0,0%	0,0%	1-2%
Housing expenditure of GDP[14]	02/03	1,6%					0,5%					

1 Q: Marterbauer, M., Walterskirchen, E. (2005).
2 Def.: Mietenindex, jährlicher Durchschnitt; Q: Housing Statistics in the EU (2005).
3 Def.: EU 15=100; Brutto-Miete inkl. Energie, Kaufkraftparitäten; Q: Housing Statistics in the EU (2005).
4 Def.: Wie FN 3; Q: Housing Statistics in the EU (2005).
5 Q: Housing Statistics in the EU (2005).
6 Q: Housing Statistics in the EU (2005).
7 Q: Ball, M. (2005).
8 Def.: % des BIP; Q: OECD Datenbasis.
9 Q: Ball, M. (2005).
10 Def.: % des BIP; Q: OECD Factbook 2005.
11 Q: Housing Statistics in the EU; Ecorys (2005).
12 Def.: Sekundärmarktrendite in %; Q: Statistik Austria (2005).
13 Q: PRC (2005).
14 Q: Ball, M. (2005), PRC (2005).

5.5 COUNTRY PROFILE SLOVAKIA

Housing is one of priorities of the Slovak State, 2-3% of the State budget are spent on housing yearly. The most of State programme on housing are directed towards renovation in order to increase energy savings, as well as modernisation and refurbishment of multi-storey housing stock and surrounding residential environment. The State created several bodies which provide subsidies for housing. The State Fund of Housing Development provides subsidies for renewal of housing stock and construction of new flats. The Fund of National Property supports creation of public rental housing for low-income households. The Ministry of Construction and Regional Development provides subsidies for elimination of structural failures in multi-family apartment houses. The Slovak Guarantee and Development Bank with the State as the only shareholder provides loans for construction of new housing.

Besides of this Slovakia has a row of programmes to support low and middle income groups. The State Concept for Housing Policy provides loans for renovation. The Programme of support for low-income groups helps to pay energy bills. The Family Self-Sufficiency Programme provides public housing and resources to eligible families to achieve economic independence.

The housing needs are driven by refurbishment of multi-family apartment blocks and high share of illegal housing. Slovakia has a relatively young housing stock, the biggest part of which was constructed during the period 1955-1996 but the most of dwellings in multi-family prefabricated apartment blocks need to be refurbished. Another problem is the high share of informal housing, mainly occupied by the Roma population.

The mortgage market is well developed in Slovakia. The ”Bauspar”-scheme (contract saving scheme) is introduced already for a period of 5 years with support from the State (100 Euro yearly). After this period loans with interest rate below 7% and long maturity period are available. Besides of this the State Fund of Housing Development offers loans with interest rate between 2.3% and 6% and maturity period of 10-30 years.

5.5.1 Institutions

RESPONSIBLE MINISTRY FOR HOUSING:

- Ministry of Construction and Regional Development is responsible for national housing policy, legal framework for housing, methodology for modernisation, refurbishment and regeneration of housing stock.
- Department of Construction sets technical norms and standards for construction components.
- Department of Housing sets technical norms and standards relating to buildings.
  Prievozska 2/B, SK-811 01 Bratislava, Slovakia.
  Minister: László Gyurovszky.

CONTACT PERSONS IN MINISTRIES (2005)

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CONTACT PERSONS IN MUNICIPALITY (2005)

PUBLIC HOUSING FUND

- The State Fund of Housing Development provides subsidies for renewal of housing stock and for construction of new dwellings[1]. In 2005 the Fund offered 250 million SKK with maturity of 20 years to legal entities. The goal was renewal of multifamily houses.
- The Fund of National Property supports programmes for housing development with the aim to create rental apartments in the public rental housing sector for low-income households.
- The Ministry of Construction and Regional Development provides subsidies for elimination of system, mainly structural failures in multi-family houses, which are oriented to municipalities, condominiums and housing management companies[2], in 2005 subsidies made up to 50% of acquisition construction costs.
- The Slovak Guarantee and Development Bank, where the State is the only shareholder, provides housing loans to entrepreneurs or municipalities who develop owner-occupied or rental housing units in multifamily houses, the maximum credit per one flat makes over 70.000 SKK and is given for a period more than 10 years.

5.5.2 Characteristics of housing policy

GENERAL CHARACTERISTICS OF HOUSING POLICY

- During the last decade the main features of housing policy were defined by the processes of reduction of demand and supply subsidies, general deregulation of the housing market and privatization.
- Housing policy is defined by two components: the Conception of the State Housing Policy and the Housing Development Action Plan.
- 2.8% of the State budget was spent on housing in the year 2002.
- Issues of modernisation and refurbishment of multi-storey housing stock as well as of the surrounding residential environment are the most dominant in housing policy.
- Most of the State programmes are directed towards renovation in order to increase energy saving, in the year 2003 the State spent 19 million SKK from its budget on energy efficiency in housing sector, namely on adoption of EU directive on energy performance in buildings, adaptation of standards for heating and cooling equipment, training of professionals on energy efficient and renewable energy equipment and spreading of information to commercial banks.
- Only non-profit organizations whose majority owner is municipality or the State are eligible for a State subsidy.

CHARACTERISTICS OF HOUSING POLICY IN RESPECT TO RENTAL HOUSING FOR MIDDLE AND LOWER INCOME GROUPS

- Loans at preferential terms for housing construction and renovation are provided to households with income below a specific limit.

[1] Act No. 124/1996 Coll. on the State Fund for Housing Development, the Regulation of the Government of the Slovak Republic No. 137/2000 Coll. on Programs of housing stock renewal and the Decree of the Ministry of Construction and Regional Development of the Slovak Republic No. 143/2000 Coll. on details of request content for rendering subsidy from means of the State Fund for Housing Development

[2] Bylaw of the Ministry of Construction and Regional Development of the Slovak Republic No. 4/2004 for providing subsidies to elimination of system failures

- The State Concept for Housing Policy facilitates access to favourable loans for flat' s renovation, one of the main goals of the concept for 1995-2000 was to retain a qualitative housing standard of 307 housing units per 1000 inhabitants[1].
- The Programme of Support for low-income households aims to help them to pay increasing energy bills.
- The Family Self-Sufficiency Programme coordinates the use of public housing and resources to enable eligible families to achieve economic independence.
- Municipalities are constructing rental flats whose realization is subsidized by the Ministry of Construction and Regional Development.

CHARACTERISTICS OF HOUSING POLICY IN RESPECT TO REFURBISHMENT OF MULTI STOREY HOUSING STOCK

- Acute refurbishment need in multi-storey houses especially with the mixed ownership.
- Housing capacity in residential buildings is covered by almost 90% through typified buildings, constructed using mostly the panel technologies[2].

DIVISION OF AUTHORITY IN HOUSING

National Government:

- In 2003 the Slovakian Ministry of Construction and Regional Development took over competencies concerning territorial planning and construction code from the Ministry of Environment.
- In 2003 the Programme of reformation of the state administration was launched.

Provinces:

- Slovakia is divided into eight administrative units.
- Part from housing related competencies passed from the State administration to the local authority.

Municipality:

- Conditions of the State financing still do not allow municipalities to decide on and implement long-term investments and development policies.
- De – facto monopolies of housing maintenance companies still exist within the Slovakian municipalities.
- Responsibilities for public rental housing were shifted from the national government towards municipalities[3], municipalities became clear responsibilities and power in planning and building regulation[4].
- Flats and non-housing spaces which previously were in responsibility of Housing Boards were transferred to the ownership of municipalities[5].

5.5.3 Housing Law

CHARACTERISTICS AND RECENT DYNAMICS IN TENANCY LAW

- Absence of rental housing law.
- The Civil Code creates excessive protection of tenant's rights which poses constraints on landlords, for example, the need to provide "substitute housing".

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1 Social Aspects of Sustainable Development in the Slovak Republic (2001), Agenda 21, UN, New York

2 FRAMES

3 Law of the Parliament of Slovak Republic No. 518/1990 Coll. on the transition of the foundation function from national committies towards municipalities

4 Act on Planning and Building

5 Law of the Parliament of Slovak Republic No. 138/1991 Coll. on the municipal property

- According to UNECE the “legal regulation of rental housing discourages any significant investment in the rental sector”.

CHARACTERISTICS AND RECENT DYNAMICS IN CONDOMINIUM LAW

- Lacks the legal regulation of the management and administration of mixed ownership housing[1].
- Absence of special laws for condominiums and of condominium compulsory in mixed-ownership but the registration of condominiums is on place.
- Absence of cooperative housing law.
- The Slovak law poses clear obligation to provide administration of dwellings after privatization either by the condominium of flat owners or by a housing management company[2], the obligation includes establishment of a fund of operation, maintenance and repair.

CADASTRE AND REGISTRATION

- Lack of a clear legal framework for different types of ownership leads to disputes and lawsuits.
- In the area of public housing the low costs and generous rights to pass on public housing tenancies to relatives contributes to the low “turnover” in public housing and leads to few vacancies for people in need.

LEGAL OBSTACLES RELATED TO HOUSING

- Slovakia’s overall legislative system related to housing needs has to be further developed to make it fully comprehensive and consistent[3].
- Creation of a specialized law which regulates activities of a Construction Saving Bank to protect the customer is necessary[4].

5.5.4 Housing stock

HOUSING TENURE

- Volumes of the State property which can serve as a basis for new construction and renovation was reduced dramatically during the privatization process.
- In the year 2001 (from total dwellings) 47.1% were dwellings in owner-occupied family houses, 26.7% - owner occupied dwellings in multi-family houses[5].
- In the year 2002 (from total rental) only 0.1% of all housing dwellings were private rental and 3.7% public rental, the biggest part of all dwellings were owner occupied 75.9% (table 1).

Table 39: Housing Tenure (% from total rental)

Total rental	Owner Occupied	Private rental	Cooperative	Public rental	Others
18.7%	75.9%	0.1%	14.9%	3.7%	5.4%

Source: PRC for 2002

1 Amendment to the Act on the Ownership of Apartments and Non-Residential Premises aims to create conditions for more efficient management

2 Act No. 182/1993 Coll. on Flat Ownership Transfer

3 Country Profiles on the Housing Sector: Slovakia (1999), UNECE, Geneva

4 Pfeiffer H., (2004), Saving models, managed by deposit taking banks, in which housing finance techniques are available, Sarajevo

5 Census of dwellings in 2001, Statistical Office of Slovakia

- The social housing makes the biggest part of all rental dwellings (18.6%), the share of private rental dwellings is negligible (0.1%). Slovakia has the share of social rental housing which is higher than EU average (12%) but at the same time it has the smallest number of private rental dwellings from all EU 25.
- The share of privately occupied dwellings increased significantly during the last decade, in 1991 there were 50.2% owner occupied dwellings, in 2001 this number increased up to 73.8%. At the same time the share of the State, municipal, and enterprise rental housing decreased from 27.7% in 1991 to 6.5% in 2001. An increase of owner-occupied housing sector and the parallel decrease of rental housing restricted labour mobility in the country[1].
- In the year 2004 - 88.4% of all housing stock was inhabited permanently and 11.6% uninhabited.

AGE OF HOUSING STOCK / MAINTENANCE

- Slovakia has a relatively young housing stock which stagnated during the last years, the biggest number of housing stock was built in the period between 1955 and 1996 years (table 1), most of the dwellings were built in 1970-1980 (25.6%), 1980-1990 (21%) and in 1960-1970 (20.1%).
- The smallest amount of dwellings (only 6.7%) was built during the transition period and after in 1990-2001 which is even lower than the post-second world war period (15.1%).
- From 869.472 dwellings occupied in multi-family houses, over 775.000 need refurbishment.

INFRASTRUCTURE

- Territory of Slovakia is relatively well prepared for further housing development from the infrastructure viewpoint.
- Highways, electrified double-track railways lines, and systems of energy and power supply are currently available in this country.

INFORMAL HOUSING

- Many squatter settlements are occupied by Roma population. One of every three Roma, or one of every 40 Slovak citizen live in these settlements far beyond of mainstream of the Slovak society[2].
- Romani settlements increased in number and size during the last decade, in 1988 there were 278 settlements, in 1997 – 516[3], in 1998 – 591 and in 2000-616[4].
- In the so-called marginalized regions of Eastern Slovakia such as Banska Bystrica, Prestov and Kosice, the number of separate Roma settlements increased dramatically[5], there are relative few settlements in central and western Slovakia. More than 120.000 Roma live in isolated settlements in the Eastern Slovakia, almost 50.000 of them are children and half of them is under six year old. One of the biggest settlement is the Lunik IX settlement situated near Kosice where municipal authorities concentrated 4000-5000 Roma.
- In average there are 13.000 housing units with an average of almost nine people per dwelling[6]. In many of which there is no running water and electricity and the water in wells is often contaminated because the settlements lack an adequate sewage system. Average unemployment rate is 88.5%.

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1 Cervenova L., The Development of the Non-Profit Housing Sector in Slovakia, Bratislava, 2005
2 Zoon I., On the Margins – Slovakia: Roma and Public Services in Slovakia, Open Society Institute, 2001
3 National Human Development Report, Slovakia 2000, UNDP
4 Vasecka M., “The Roma” in Slovakia, 2000
5 Vasecka M., “The Roma” in Slovakia, 2000
6 Jurova A., Development of Roma Problems in Slovakia after 1945, Bratislava, 1993

5.5.5 Population / Housing provision

HOUSEHOLDS

- Average household size: 3.2.
  - 31% of all households have one child, 12% are with only one parent, 5% are single-person households.

HOUSING PROVISION

- Quality of housing provision in urban/rural areas:
  - More than 57% of population resides in the urban areas.
  - Slovakia is characterized by the small number of large cities.
  - The biggest part of economically active population is occupied in Bratislava (9.1%) or its surroundings (15.2%).
- Proportion of population with insufficient housing provision:
  - Faster growth of housing prices than the income resulted in a definite housing shortage in urban areas and the low purchase power parity of population.
  - The deficit of dwellings in Slovakia is about 250.000 dwellings[1].
- Housing stock per 1000 inhabitants: 321 (in 2002).
- Average living space per dwelling:
  - Medium – sized dwellings with three rooms (40-60 m) are the most common (41.1%).
  - Two-room dwellings are the second frequent type (19.7%).
- Average living space per capita: 17 m^2.

INCOME AND HOUSING COST

- Average household income lowest quartile / median: 2.100 Euro in the year 2002.
- Average housing cost to income ration:
  - In the year 2004 19.6% of household income were devoted to rent, maintenance, repair and housing services including electricity, heating and hot water.

5.5.6 Markets

PRIVATE RENTAL MARKET

- Market share: 0.1% (in 2002).
- Recent dynamics:
  - Started to develop recently in Slovakia.
  - Offers rental dwellings, which are often provided on the black marketfor a very high price.

PUBLIC/SOCIAL RENTAL MARKET

- Market share: 3.7% (in 2002).
- Rent level capital, large cities, suburban areas:
  - Is restricted just for persons able to provide such criteria as monthly household income which should not exceed three and a half fold of living wages.
  - Period of use of social rental dwellings shall not exceed three years.

CONDOMINIUM MARKET

- Market share: 75.9% (in 2002).
- Price level (A-standard, average location) capital, large cities, suburban areas:

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[1] Szabova A., How to make the housing stock refurbishment more effective in Slovakia. Bratislava, 2005

- Average acquisition costs for a social rented dwelling is SKK 20,000 per m2 and SKK 30,000 – 40,000 per m2 for a privately owned dwelling.
- Recent dynamics:
  - 31% of all dwelling stock was privatized during the period 1990-2004.

5.5.7 Housing construction

NEW CONSTRUCTION

- Completed flats in terms of housing tenure (1995-2004):
  - Newly contracted housing in Slovakia decreased in the year 2001 (10,321 flats) in comparison to the year 2000 (12,931) and increased again in 2002 (14,213).
  - During the period 1993-2002 the number of dwellings increased on 4%.
  - 2.6 newly constructed dwellings per 1.000 inhabitants.
  - Detached housing experienced the most significant drop during the last decades.

Table 40: New residential construction

2002	2003	2004	2005	2002-2005
11.8%	2.4%	-3.8%	9.0%	4.8%

Source: Euroconstract 6/2005

- Public/social housing construction:
  - Housing construction by co-operative and municipalities fell steadily until the year 2000, but since then this decline has generally reversed.
  - Presently social housing is developed by municipalities using the State subsidies and is accessible only for low-income households.
  - Volumes of the State housing subsidy make around 30% maximum of construction costs.

REFURBISHMENT

- Refurbishment of multi storey housing estates:

Table 41: Residential Renovation

2002	2003	2004	2005	2002-2005
7.9%	28.4%	-16.8%	1.0%	5.1%

Source: Euroconstract 6/2005

5.5.8 Housing developers

- Existing commercial housing developers (biggest companies, owners, market performance, reliability):
  - Municipal non-profit housing organizations are eligible for the State subsidies in case if an average acquisition cost per 1 m^2 does not exceed 21.430 SKK[1].

[1] The Direction of the Ministry of Construction and Regional Development No. V-1/2004 on rules for putting up subventions for rental housing development

5.5.9 Finance

MOST IMPORTANT BANKS IN HOUSING FINANCE / INSTITUTIONAL FINANCE

- The World Bank points out that commercial banks are cautious with investments into private residential sector as the responsibilities of various beneficiaries from banks' view point are unclear[1].

CONTRACT SAVING SCHEME (BAUSPAREN)

- The volumes of mortgage market are growing fast by the end 2002 the volume of residential mortgage loans amounted to 168 million Euros, in 2003 this level almost doubled. Contract saving schemes were introduced in 1992 and attracted already 2.6 million clients..
- Presently contract saving loans are the main source of housing finance in Slovakia (69%), mortgage loans account for the second place (19%) and the State Housing Fund (12%) for the third. Most of construction loans were taken for modernisation and reconstruction (51%), for purchase of housing (29%) and new construction (20%).[2]
- Optimal loan conditions (Pfeiffer, H.) in Slovakia would be: long terms of 8to 20 years after two-year waiting period, interest rates are fixed at 3-7%, interim loans are available at 6.5%-7.99%, collateral of less than 300.000 SKK for 1 guarantor, over 300.000 SKK for mortgage conditions, no limitation shall be posed on the amount of a loan .

MORTGAGE SCHEMES / MORTGAGE MARKETS

- Saving are made for the period of 5 years with early support from the state (around 100 Euro). After five years a loans with interest rate below 7% and maturity period.
- From 2001 a State subsidy of 2.5% of interest rates is available for hypothec loans which results in 4.7% and maturity period of 20 years.
- State Fund of Housing Development offers starting from 2003 loans with interest rates between 2.3%-6% and maturity period of 10-30 years.
- Programme for State Aid to Flat Construction by Providing Guarantees to Bank Loans provides up to 100% guarantee to Association of Owners or Enterpreneurs who provide reparation and reconstruction of common parts of flats buildings.

[1] Energy Efficiency Action Plan for 2002-2012, prepared by the World Bank and the Ministry of Economy of the Slovak Republic

[2] Komendantova-Amann (2006).

5.6 COUNTRY PROFILE ROMANIA

Housing represents prior national interest and is a goal for both, central and local government. Yearly 1%-2% of the State budget is spent on housing, mainly on subsidies for housing refurbishment and energy efficiency measures. Subsidies from the State budget are provided in the amount of up to 30% from the construction cost for completion of unfinished residential units situated in multi storey residential buildings for low income groups, disabled and young people. Another kind of subsidies covers up to 20% of costs for retrofitting of multi storey building ranked in the seismic risk class 1. Besides of these loans over 25 year loans with 0 interest rates are provided. The local government has three major objectives for housing policy such as new rental housing for low-income households and young people and improvement of technical infrastructure quality of the existing social housing stock. Recently the National Housing Agency was created in order to stimulate new housing construction, rehabilitation and consolidation of existing stock.

Even though the State provides subsidies, the construction of new social housing is currently negligible. This situation is caused by the lack of public funding and new point of view that social housing in Romania is not needed. But the present situation proves that the social housing is urgently needed. The number of homeless people is growing. Part of these people is victims of natural disasters as a large number of housing units were left unconsolidated after the last three earthquakes. Part of people simply cannot afford housing because of high purchase prices and rent level. The need for housing is especially high among young people, 75% of households in the age between 18-25 years urgently need housing. The process of segregation which started during transition period caused creation of ghettos with high social insecurity, big number of unemployed and high level of crime, mostly in multi-family apartment blocks.

Housing needs are driven mostly by replace and upgrade of the existing units:

- In multi-family apartment blocks 35% of all occupied units are in need of infrastructure upgrading. More than a half of all housing units need to be refurbished. In 1999 - 56% of all residential buildings were fully amortized, in 20 years probably 80% of all dwellings will come to an end of their life.
- Another problem is a high share of illegally constructed dwellings which made by the year 2001 0.1% of all housing. The share of slums is especially high in Bucharest and makes up to 25% of its housing stock.
- There are still huge regional disparities in terms of access to piped water, sewage system and gas. The situation is especially acute in the rural areas.
- The forth problem is that the poor insulation standards in prefabricated houses lead to losses of 30-35% of energy, the renovation of these dwellings is urgently necessary.

The volume of mortgage market for renovation and purchase of dwellings is growing fast. But the most of mortgages are still given for a short period and the interest rate level is still too high (9%-25%). The biggest constrains for mortgage market are the high unemployment rate and the low level of wages.

5.6.1 Institutions

RESPONSIBLE MINISTRY FOR HOUSING:

- Ministry of Public Works, Transport and Housing (MLPTL).
- Urban Project, one of central agencies of MLPTL, is responsible for national housing policy.
- National Centre for Human Settlements is a specialized department inside of MLPTL which is occupied with identification of mechanisms to achieve sustainable habitat.

PUBLIC HOUSING FUND

- National Housing Agency[1] (ANL) was created to stimulate new housing construction, rehabilitation and consolidation of existing stock. It concludes five types of contracts, between: client and ANL, ANL and developer, client and developer, bank, client and ANL.
- ANL represents cooperation between the State, commercial banks and potential clients for new homes, it offers financial products and manages their use as packages.

5.6.2 Characteristics of housing policy

GENERAL CHARACTERISTICS OF HOUSING POLICY

- Housing represents national interest as 1%-2% of the State budget are spent yearly on housing mainly in form of the State subsidies for reconstruction works of main structures, housing refurbishment and energy efficiency measures.
- Housing is a goal for both, central and local governments. The housing provision is in responsibility of local authorities and the State provides necessary financial resources[2].
- Housing needs are caused by refurbishment and by new construction for definite groups of population. On the local level the government has following objectives of housing policies: new rental housing for low income households[3] and young people[4], improvement of technical infrastructure quality of the existing social housing stock.

CHARACTERISTICS OF HOUSING POLICY IN RESPECT TO RENTAL HOUSING FOR MIDDLE AND LOWER INCOME GROUPS

- Rental stock is still subsidized through rent controls which is commonly recognized as an obsolete method. Some sources mention a poor targeting of subsidies in the area of public rental housing. Rents for a dwellings shall cover expenses related to management, maintenance and repairs, land and building taxes, the cost of investment according to the period established in compliance with the legal provisions and the profit, which is negotiated by the parties[5].
- The State subsidies cove up to 30% of construction cost for completion of unfinished residential units situated in multi storey residential buildings for low income, disabled and young people. The State subsidies cannot exceed 30% and are available only to those who purchase housing for a first time.
- Public housing gives priority to the following groups: young married couples (each below 35 years old), young people leaving social care establishments (after 18 years old), first and second-degree disabled people, other people with handicaps, pensioners, veterans, war widows and persons loosing their homes through restitution, public housing is finances from local budgets[6].
- Seven groups of population (among them young married couples aged up to 35 on the date of purchase of the dwelling, participants in the 1989 Romanian revolution and their families, persons skilled in agriculture, education, health, public administration, as well as clergymen and others supported by local councils who settle in rural areas) are entitled to a single subsidy varying between 500.000 lei and 30 per cent of the dwelling's contract purchase price, the main support has to come from the local budget[7]. The remainder after the initial compulsory downpayment of 10 per cent can be paid in monthly instalments over 20 years.

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1 Established by the National Housing Agency Act 152/1998

2 Housing Act 114/1196

3 Housing Law no 114/19961

4 Housing Law no 152/1998

5 Housing Act 114/1996

6 Law 189/1998

7 Government Ordinance 19/1994

CHARACTERISTICS OF HOUSING POLICY IN RESPECT TO REFURBISHMENT OF MULTI STOREY HOUSING STOCK

- The State has a special mechanism to provide refurbishment of multi-storey housing in the regions under risk of natural disasters. The State subsidies cover up to 20% of costs for retrofitting of multi storey housing building ranked in the first seismic risk class (over 25 year loans with 0 interest rates).
- The social segregation process in multi-storey housing is on early stage. The higher income families move out of apartment blocks, a number of poorest families are concentrated in multi-storey houses. The segregation process leads to creation of ghettos, high unemployment, crime and insecurity in multi-storey houses.
- The legislation on Homeowner Associations is complex and benefits of creation of such association are unclear to the dwellings' owners. This results that the management of multi-storey houses was delegated only in 20% of all condominiums to a Homeowner Association.
- A Homeowner Association can take decisions of maintenance and reconstruction of the whole building or of a part of it in case if at least a half plus one of all homeowners agree[1].

DIVISION OF AUTHORITY IN HOUSING

- The National government is responsible for financing of objectives of housing policy.

Municipality is responsible for:

- Ihousing provision on the local level for definite groups of population.
- creation and maintenance of infrastructure.
- administration of public housing stock and approval of level of rents.
- identification and monitoring of stock of non-privatized dwellings[2].

5.6.3 Housing Law

CHARACTERISTICS AND RECENT DYNAMICS IN TENANCY LAW

- A new law on public property was drafted but implementation of the new system of property legislation is slow and the proposed legislation does not include an enforcement mechanism.
- The tenants enjoy protection in case of restitutions as contract of rent is valid within five years and the level of rents is fixed[3].
- Maximum rent for public or private housing unit is fixed by law and cannot exceed 25 per cent of the family's monthly income or of the national average.
- If tenant is recognized as eligible for social housing the maximum rent equals 10 per cent of family' s monthly gross income calculated over the past 12 months, the difference with the property's nominal rent is subsidized by the local authority.

CHARACTERISTICS AND RECENT DYNAMICS IN CONDOMINIUM LAW

- The ownership in blockhouses was fragmented into multiple ownerships of separate apartments within condominiums.
- The dwellings purchased by using mortgages are exempt from real-estate tax for 10 years.
- Foreigners cannot own land but they may lease property and thus plots of land[4].
- Foreign investments can be used for purchase and construction of buildings but not where they are for residential use[5].

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1 Law 5/1973 on the status, organization and functioning of tenants' associations, Housing Act of 1996

2 Law 85/1992, Government Resolutions 441/1991, 383/1992 and 678/1999

3 Government Emergency Ordinance 40/1999

4 Law 18/1991 amended in 1997 and Law 54/1998

5 according to Law 35/1991

CADASTRE AND REGISTRATION

- Cadastre legislation is uncompleted since there is no legal obligation to register land transfers and 50 years ago private land was transferred to the public domain and the biggest number of the registers was lost.
- Cadastre contains following information: description of a building or a housing unit, registration of ownership rights and registration of any division of rights (mortgage, real estate privileges and income assignment for a period longer than three years, sequester, etc.).

LEGISLATION ON THE BANKING SECTOR

- From 1999 credit banks, the National Housing Agency, the Savings and Deposits Bank and other financial institutions are authorized to grant mortgage credits[1].
- Although the legislative framework establishing NHA and mortgage credit mechanism is in place, the instruments themselves are not developed.

LEGAL OBSTACLES RELATED TO HOUSING

- An unclear title to much urban land and identity of landowners. Since 1990 - 70% of titles` issues were contested in court.
- A great number of documents are still unclear about how to obtain land for construction, its ownership and costs as well as about construction issues.
- The slow implementation of the new system of property registration and the absence of enforcement mechanisms.
- The housing services' supply sector is neither covered by legislation nor regulated.

5.6.4 Housing stock

HOUSING TENURE

- Highly dominant share of single-family houses (95.1% of all residential buildings) and high share of privately owned housing units (97.5% of existing housing stock).
- 27% of total housing stock was privatized between 1990 and 2004.
- 40% of total stock is in prefabricated blocks.
- Proportion of dwellings in apartment buildings is smaller than in other transition economics (39.2%), from this number 42.8% are in multi-family houses and 11% are high-rise dwellings.
- The houses in urban areas are the most problematic.

AGE OF HOUSING STOCK / MAINTENANCE

- The biggest part of dwellings in apartment blocks (77.1%) was constructed in the period 1945-1990.
- After 1990 the number of newly constructed buildings decreased significantly.
- Presently only 30.000 housing units are built annually which is 0.35% of the existing housing stock.
- 80% of newly constructed housing is privately financed.
- More than 50% of stock is aged between 30 and 55 years.
- 56% of all residential buildings were fully amortized by the year 1999.
- 80% of all dwellings will be fully amortized by the year 2019.
- Many buildings have static deficiencies, only in Bucharest there are already 4.700 such buildings.

[1] according to Law 190/1999 on Mortgage Credit for Investment in Property

INFRASTRUCTURE

- There are huge regional disparities in terms of access to piped water, sewage system and gas. The most of households in urban areas are equipped with amenities. In rural areas only one from ten rural houses has piped water indoor and a sewage installation.
- District heating from local heating stations is used only in 39.1% of all occupied dwellings around the country. It is mostly used in urban areas (71.9% from the whole consumption).
- 60.1% of all households use gas installations.
- 94.9% of all households in rural areas use solid-fuel stoves (94.9%).

INFORMAL HOUSING

- 0.1% of the whole housing stock was represented by illegal constructions in 2001.
- The share of slums was especially high in Bucharest and by the year 1992 made up to 25% of all housing stock.

5.6.5 Population / Housing provision

HOUSEHOLDS

- The average household size decreased from 3.1 persons per household by the year 1992 to 3.0 persons per household by the year 1998.
- The housing needs are not driven by population growth as presently there is no growth even in Bucharest taking into account migrations from rural areas but by the needs of refurbishment.

HOUSING PROVISION

- Quality of housing provision in urban/rural areas:
  - Percentage of urban population in Romania (54.6%) is much lower than the EU average (73%).
  - 10% of all population resides in Bucharest.
  - Urban/rural construction ration shifted in Romania towards rural construction as in 1990 it was 85.4:14.6, in 1999 it became to be 35:65.
  - Significant number of housing units is not used for permanent living.
  - Rural infrastructure is generally poor and some households are still missing access to piped water, rural population is aging, there are strong migration tendencies of migration of young population to cities and poverty is more spread in rural areas than in urban ones.
- Proportion of population with insufficient housing provision: 9% from all Romanian citizen with strong need, 13% with potential need, 75% of households in the age between 18-25 years.
- Housing stock per 1000 inhabitants is 348[1] which is bigger than average of the region (304) but smaller than the EU average (490).
- Average living space per dwelling: 37.5 m^2, 2.6 rooms per dwelling, 1.19 persons per room, 2.64 persons per apartment.
- Average living space per capita increased from 11.5 m^2 in 1992 to 11.8 m^2 in 1997 and to 14.4 m^2 in 2003 but still is the smallest in EU25.

INCOME AND HOUSING COST

- Average household income lowest quartile / median: 2.400 Euro.
  - Average monthly income was 179 Euro in 2003 and 204 Euro in 2004.
  - Gross annual income per capita is 686 Euro[2].

[1] Popescu D., Bejan I., Kalogerakos M., Housing Finance in Romania

[2] Sustainable Refurbishment of High-Rise Residential Buildings and Restructuring of Surrounding Areas in Europe (2005), Report for European Housing Ministers' Conference held in Prague, Czech Republic

- Price of a new minimum-standard two-room flat is about $18.000 to $21.000.
- National Housing Agency plans to charge $12.000 for a flat (excluding taxes, financial costs etc.).
- The price for a family house in Bucharest varies from $25.000 up to $100.000.

- Average housing cost to income ration: 17[1].
  - The price of existing housing is not too high with respect to income but the new housing is unaffordable.
  - Ratio of the price of existing housing to income ranges from 2.4 to 6.6.
  - 7.7% of household's expenditure are on housing, 0.5% - on housing maintenance and repair, 0.2% - on house rent/mortgage and 7% - on house energy and service[2].
  - Income segregation is a big problem in multi-family and high-rise apartment buildings.

5.6.6 Markets

PRIVATE RENTAL MARKET

- Market share: 4.1% of total stock are rental apartment.
  - The housing market is developing fast during the last years.
  - Extensive privatization contributed to development of a fluid real estate market that offers a wide range of prices and amenities.
  - Most of transactions involve transfer through privatization and not construction of new flats.
- Rent level (A-standard, average location) capital, large cities, suburban areas: 900-6300 USD per month in Bucharest[3].

PUBLIC/SOCIAL RENTAL MARKET

- Market share: 2.6% of total stock.

CONDOMINIUM MARKET

- Market share: 82% of total stock.
- Price level (A-standard, average location) capital, large cities, suburban areas: average of 350 USD per m^{2,} 900-2200 USD per m^2 in Bucharest, A-standard apartments are situated in historical centre of the capital and on its north.
- Recent dynamics:
  - Mismatching between housing costs and income: 25% of owners are indebted against their cooperation.
  - Lack of qualified condominium managers, most of them are pensionists.
  - Reduction of subsidies for condominiums 35% until 2007.
  - Price of apartments is 30% lower during construction phase than after its completion but future owners must pay a deposit of 30% before the start of construction period.

5.6.7 Housing construction

NEW CONSTRUCTION

- Completed flats in terms of housing tenure (1995-2004):
  - In 2002, 87% of the new housing construction was built with private finance and 66% of them were constructed in rural areas.

1 Housing Finance in the Western Balkans (2005), Madrid

2 Sustainable Refurbishment of High-Rise Residential Buildings and Restructuring of Surrounding Areas in Europe (2005), Report for European Housing Ministers' Conference held in Prague, Czech Republic

3 Gaspar A., Construction Markets of Romania up to 2007, Budapest, 2004

- Public/social housing construction:
  - Construction of new social housing is currently negligible.
  - The lack of public funding and new point of view that social housing in Romania is not needed.
  - Growing number of homeless people, those who cannot afford high housing prices and victims of natural disasters prove that social housing in Romania is urgently needed.

- Recent dynamics:
  - Investments into construction of public buildings have been reduced to minimum.
  - Construction activities increased by 2.8% in 2000 and by 10% in 2002 (total annual change in %), after decreased again.
  - Most of new flats are of good quality but affordable only for a small part of population.
  - Size of construction companies in EU-10 is larger (17 employees per firm average) than in EU-29 (6 employees per firm average).
  - Growth of construction sector by 9% in 2004 comparatively to the year 2003.

REFURBISHMENT

- Refurbishment of multi storey housing estates:
  - The most critical problems are in multi-family structures: 2.5. million units (35% of all occupied units) are in need of infrastructure upgrading.
  - Poor insulation standards in prefabricated houses that leads to losses of 30-35% of energy, huge energy losses from district heating systems (more than 50%) before dwellings are reached.

- Recent dynamics:
  - The most problematic houses are in urban areas.
  - The process of segregation started during transition period leads to creation of ghettos with high social insecurity, big number of unemployed and high level of crime in the apartment blocs.
  - A large number of units were left unconsolidated after the last three earthquakes.

5.6.8 Housing developers

- Existing commercial housing :
- Most construction companies prefer to finance themselves through their own sources and down payments from buyers during construction process (informal economy is 33% of GDP).
  - The number of building companies is continuously growing, in 2002 there were 16.567 building companies, 185 of them had over 250 employees.
  - From foreign companies most active are Strabag and Bechtel, both are participants of the Romanian motorway construction program.
  - The Romanian Builders and Contractors Association gathers around 1000 enterprises (80% of all construction projects).

Table 42: Main Romanian Building Companies

Company	Internet Address
ACMS	Calea Vistorei nr. 126 sectorul Bucuresti Phone: (40-21) 210 4319 Fax: (40-21) 210 4322 www.acms.ro
Baumeister	Sos. Vestului nr. 12 Ploiesti Phone: (40-244) 192 683 Fax: (40 244) 118 331

Arcom	Sts. Virgiliu nr. 81 sectorul 1 Bucuresti Phone: (40-21) 628 2044 Fax: (40-21) 312 0129
Compania de Constructii Bucuresti	Bd Lascar Catargiu nr. 46 – sectorul1, Bucuresti Phone: (40-21) 659 2210 office@ccb.ro
Civica Group	Strada Mumorului 92 Scheia Phone: (40-230) 526601 Fax: (40-21) 230 526636
Gerom-Consortiul Industrial	Strada Daranesti 14 Petrosani 2675 Phone: (40-74) 465 2828 www.gerom.com
NIRO-95	Soseaua Atumati 13 Bucuresti Phone: (40-21) 240 7978 www.nirogroup.ro
Refarom	Strada Carierei 127 Brasov Phone: (40-268) 414153 Fax: (40-268) 472623 www.refarom.ro
SAEM ENERGOMONTAJ	Calea Dorobantiloti nr. 103-105 sectorul Bucuresti Phone: (40-21) 230 1135 Fax: (40-21) 230 0194 www.saem.ro
Energoconstructia	Calea Dorobantilori nr. 103-105 sectorul Bucuresti Phone: (40-21) 230 2025 Fax: (40-21) 230 5349 www.energoconstructia.euroweb.ro
MBM Construct 95	Strada Ialamicioarei 13 Bucuresti Phone : (40-21) 260-0196 Fax: (20-21) 260 0197 www.mbm95.ro
Pentaco	Strada Romulus 64 Bucuresti Phone: (40-21) 321 7437 Fax: (40-21) 321 6290 www.pentaco.ro
Recon	Strada Alexandru Ioan Cuza 31 Brasov Phone: (40-268) 41 6214 Fax: (40-268) 47 2970 www.recon.activ.ro

Source: Gaspar A., Construction Markets of Romania up to 2007 (2004)

5.6.9 Finance

MOST IMPORTANT BANKS IN HOUSING FINANCE / INSTITUTIONAL FINANCE

- In 1999 there were 34 banks in Romania, from them 19 were foreign owned.
- Now there are 15 commercial banks and 2 mortgage loan companies.
- Romanian loan market is dominated by few commercial banks which fund housing loans for short-term deposits.
- Savings and Deposits Bank is the main source for construction loans.
- National Housing Agency (NHA) creates financial packages for construction, purchase, rehabilitation, consolidation and extension of dwellings.
- NHA is not a financial institution but a mediator between bank, developer and individual. It builds new flats which are sold at reduced price without checking social need of customers.
- Romanian Commercial Bank, the Romanian Bank for Development, BancPost, Transylvania Bank, and the Savings Bank (CEC) already have a small portfolio of market-based housing loans.

- Very high homeownership rate in Romania provides numerous households with a valuable asset that can be used as collateral for purchasing an alternative unit as well as for consumer or business loans.

CONTRACT SAVING SCHEME (BAUSPAREN)

- There is one Bauspar bank.

MORTGAGE SCHEMES / MORTGAGE MARKETS

- Volumes of mortgage market are growing fast, by the end 2002 the volume of residential mortgage loans amounted to 200 million USD, in 2003 this level doubled to 1.1 million USD.
- Most of mortgage loans are provided in foreign currency with interest rates 8%-12% (Table 43).

Table 43: Romanian banks ranks in function of maturity (2004)

Maturity (years)	Lei credits	Euro credits	Dollars credits
25	Alpha Bank, ING Bank	Alpha Bank	Alpha bank
20	BCR, CEC, Banc Post, Raiffeisen Bank, Riraeus Bank	BCR, Banc Post, HVB Bank, Raiffeisen Bank, Piraues Bank, ING Bank	BCR, Banc Post, HVB Bank, Raiffeisen Bank, Piraues Bank
15	BRD, Volksbank	BRD, Volksbank, RIB	BDR, Volksbank, RIB
10	Banca Transilvania	MIRO Bank, CBG, Egnatia Banc, Domenica Credit	MIRO Bank, CDG, Egnatia Banc, Domenia Credit

Source: Popa A., Vasilescu L., Romanian Real Estate and Mortgage Market (2004)

- Mortgages in local currency make 13% from all mortgages due to high interest rates (14%-24.5%) (Table 44).

Table 44: Romanian banks ranks in function of the interest rate (2004)

Interest rate for the "lei" credits (%)	Interest rate for "Euro" credits (%)	Interest rate for "Dollar" credits (%)
Alpha Bank 16-18	Volksbank 8.0	Volksbank 8.0
ING Bank 17-21.3	ING Bank 8.5	ING Bank 8.5
BRD 17.7	HVB Bank 8.53	HVB Bank 8.53
RZB, Raiffeisen Bank 22.0	RZB 9.00	RZB 9.00
BCR 22.16	Alpha Bank 9.25-9.75	Alpha Bank 9.00-9.50
Banc Post 23.0	ABN AMRO 9.5	ABN AMRO 9.5
Banca Romaneasca 24.5	BRD 9.6	BRD 10.2

Source: www.creditipotecar.home.ro

- Mortgage legislation was enacted in 1999, amended in 2002; mortgage lending is carried out by commercial banks and one specialized institution.
- Demand for housing finance can be constraints as economic growth is negative, growth of wages is equal to zero and unemployment is raising, very high level of uncertainty.

Obstacles for mortgage credit demand:

- Costs of houses.
- Low level of population incomes.
- High interest rates for mortgage credits.

- High level of guarantees for mortgage credits solicited by some banks.
- Low level of training for credit petitioner and insufficient publicity for new credit products.

Obstacles for mortgage credit supply:

- Insufficient long term credit supply.
- Lack of protective legal frame for creditors.
- Lack of secondary mortgage market to ensure mechanism of mobilization of long term funds.
- Difficulty to check debtors incomes because of the black market activities.
- Lack of electronic data base for registration of mortgage guarantees.

5.7 COUNTRY PROFILE MONTENEGRO

Even though there is no specific policy on housing in Montenegro, its legislation is developed for successful functioning of mortgage market, 56% of its territory is covered by Cadastre and 70% is already mapped. But mechanisms which guarantee implementation of legislation are absent and the definition of ownership rights is still not clear, partly due to restitution and privatization processes.

The housing need is not driven by the lack of housing. Presently there are 62.088 more dwellings than households, 21.568 of which are in urban areas and 40.520 in other areas. The main reasons for housing needs are:

- Migrations inside the country due to inconvenient living conditions and wars in surrounding republics,
- High share of illegally constructed houses, mainly built by refugees from Kosovo and people who lost during transition period all their savings paid into the Housing Fund,
- The regional disparities which are still strong where some rural areas lack water supply network, feces and atmospheric sewerage, electrical and telecommunication networks,
- Absence of public rental social housing.

The banking sector penetration is among the lowest in the region and only 36% of banking system´s capital is in foreign hands. The mortgage market of Montenegro is the least developed in the Western Balkans and is concentrated in urban areas and the capital. The biggest part of population stays out of the banking activities due to distrust in financial institutions caused by freezing of savings by Milosevic in 1997. Mortgages are till now not the business line but a special service which is offered to a few wealthy clients with whom banks established good relations. Short-term lending is still the main business and the lending interest rates are 12%-14%.

5.7.1 Institutions

RESPONSIBLE MINISTRY FOR HOUSING

Ministry of Environmental Protection and Urban Planning
Rimski trg b.b., Podgorica, Montenegro.
Minister: Boro Vučinić
ministar.ur.pr@cg.yu

CONTACT PERSONS IN MINISTRIES (2005)

- Sinisa Stankovic, Deputy Minister, Ministry of Environmental Protection and Urban Planning.

5.7.2 Characteristics of housing policy

GENERAL CHARACTERISTICS OF HOUSING POLICY

- State housing policy in period 1993-2003 continued to be directed by socialistic criteria of distribution, resources for employees on public enterprises were provided at the level of the Republic.
- Distribution criteria were: number of family members, years of work, educational level etc.

CHARACTERISTICS OF HOUSING POLICY IN RESPECT TO RENTAL HOUSING FOR MIDDLE AND LOWER INCOME GROUPS

- The rent is not paid for apartments intended for socially vulnerable people, the authorized body performs control of such apartment and after termination of vulnerability status the right for using such apartments expires.
- Special attention shall be given to Roma people (12.000 persons) who come from Kosovo and live in collective centres under very poor conditions.

DIVISION OF AUTHORITY IN HOUSING

- Significant efforts are still needed to enable the local authorities to perform their new duties efficiently, especially in field of property tax collection.
- Real estate registration is performed in a major part of the Republic by the regional units, which exist for each town.
- The local authority has a passive role in renting of apartments, just to certify that the parties agreed a contract on renting.

5.7.3 Housing Law

CHARACTERISTICS AND RECENT DYNAMICS IN TENANCY LAW

- Is regulated by the Law on Housing Relations from 1991.
- The law regulates that resolution of housing issues shall be done from own sources, the employer has a right to decide housing problems of his employees by selling apartments on favourable conditions.
- A new housing renting system shall be created which considers maintenance expenses, space and quality of apartments.

CHARACTERISTICS AND RECENT DYNAMICS IN CONDOMINIUM LAW

- Conditions for transformation of public property into private property were laid in the Law on Housing Relations from 1991 as well as a model of selling apartments to its tenants.
- During 2 year (1991-1993) period 95% of all apartments were privatized.

CADASTRE AND REGISTRATION

- Property registration has been fully unified in Cadastre in contrary to Serbia, 56% of Montenegrin territory is covered by Cadastre, the other 44% is covered by the census cadastre which was developed 60 years ago. System is 4 years in operation, 70% of Montenegro is already mapped.
- Cadastre is run by the Real Estate Directorate which is an autonomous State - managed organization with a direct reporting line to the Prime Minister.
- Information in Cadastre includes: physical description of property, information about owners and mortgages, liens and other burdens.

Obstacles:

- Mechanisms which guarantee legitimacy of transactions are absent.
- Clear definition of ownership rights is absent.
- Lack of transparency, only few municipalities have access to Cadastre, no public access through Internet.
- Process of property registration is complicated because of the new Law on restitution.
- Municipalities are often run by opposite political parties which results in the lack of communication among them on property values; appraisal of value by Cadastre differs from those of the Real Estate Municipal Taxation Office.

LEGISLATION ON THE BANKING SECTOR

- The mortgage law, enacted in Fall 2004, permits search of properties and mortgages through Internet, makes mortgage-backed revolving credit lines a subject of one registration fee, reinforces the creditor´s rights and makes the execution easier (out-of-court execution and auctioning is allowed, a new urgent execution procedure is established).
- According to the recent Law on Pledges, guarantees on movable property can be registered through the Internet.

LEGAL OBSTACLES RELATED TO HOUSING

- As result of restitution and privatization no clear ownership of housing units exists.
- No registration possibilities for illegal housing constructions.
- Lengthy registration process as a result of inadequately organized and managed land registry, absence of standardisation forms for property transfers and mortgages, inadequately qualified staff, requirement of excessive physical data on property in order to be registered and delays in validation process.
- Bureaucratic mortgage procedures which demand that mortgages have to be authorized by court clerks who have to notify the Real Estate Directorate.

5.7.4 Housing stock

HOUSING TENURE

- Housing stock: 253,135 housing units, 55.3% are in the cities and 44.7% in other places.
- Building construction made 50-60% of investment of socialist Yugoslavia, after its dissolvation the number of constructed new housing units decreased significantly.
- In 1995 the investments in new housing construction decreased to 1.6% of GDP, the new construction is mainly done by private firms.
- The newly formed market covers only fashionable parts of the cities while other parts remain neglected.

AGE OF HOUSING STOCK / MAINTENANCE

- Housing stock is in bad condition due to the age of buildings, recent conflicts, lack of construction quality standards and control, high illegal and self construction.
- The Law on Housing Relations defines as well conditions of maintenance of common areas of apartment buildings based on market principles, minimum contribution of 8% of the minimum wages is required from every owner or tenant but the enforcement is problematic.
- Mass-buying of apartments by low-income groups complicated the maintenance of common areas.
- There is no alternative to market-oriented urban reconstruction, the new Condominium Law does not regard any longer maintenance of buildings as public interest.

INFRASTRUCTURE

- In the southern part the lack of drinking water is a huge problem which leads to water restrictions during summer.
- Water supply network, feces and atmospheric sewerage, electrical and telecommunication networks must be improved.

INFORMAL HOUSING

- New construction often fails to comply with the terms of building permits issued on the project and as result remains unregistered.
- Big number of property is still unregistered not only in the rural areas of the north, but in Podgorica and the sea coast too.
- Only in Podgorica there are 20.000 unregistered units[1].
- A major part of available building land is occupied by illegal construction which is manifested in creation of new buildings or enlargement of old ones without any licence.
- This situation is caused partly by the lack of town-planning projects, another reason is a large number of refugees (8.474 persons) and displaced people (18.047 persons) and people who paid during years contribution to the Housing Fund but did not receive neither a housing unit or money.
- Infrastructure in such areas is deficient and comprise badly constructed and developed streets, public lightning in bad condition and non-functioning settlements.

5.7.5 Population / Housing provision

HOUSEHOLDS

- Average household size: 3.2.

HOUSING PROVISION

- Quality of housing provision in urban/rural areas:
  - There are 62.088 more dwellings than households, 21.568 of which are in urban areas and 40.520 in other areas.
  - The number of housing units per household increased most rapidly in the coastal areas, surplus of 36.660 housing units compared to households (45.3% in the cities and 54.7% in other areas).
- Significant number of housing units is not used for permanent living.
- Average living space per dwelling: m^2
  - Average number of persons per house is 2.4 in 2003, and was 3.6 in 1991.
  - Considerable decrease of average citizen/housing ratio during the last years.
  - Strong migration to the South of the country, especially to Podgorica, due to inconvenient living conditions and wars in surrounding republics.

INCOME AND HOUSING COST

- Average household income lowest quartile / median: 2.400 Euro.
  - Average salary is 200 Euro.
  - Most households do not have any relations with banks and do not see them as a source of financing.

- Average housing cost to income ration: 17[2]
  - Prices went up during DM-Euro changeover as illegal cash was invested into real estate and other investment alternatives were absent.
  - Average 700 Euro per m^2, 1000-1200 Euro per m^2 in Podgorica, 500 Euro per m^2 in the Nord of country.

[1] Housing Finance in Serbia and Montenegro (2005)

[2] Housing Finance in the Western Balkans (2005), Madrid

5.7.6 Markets

CONDOMINIUM MARKET

- Price level (A-standard, average location) capital, large cities, suburban areas:
  Dramatic rise in housing prices during the last years due to high land and construction costs, companies´ high margins and to geographical mismatch between supply and demand. From the demand side due to internal migration flows, foreign remittances sent from migrants abroad and regard of real estate as a safest investment alternative.

5.7.7 Housing construction

NEW CONSTRUCTION

- Completed flats in terms of housing tenure (1995-2004):
  Residential construction is geared towards high-income people and is financed primarily in cash.

5.7.8 Housing developers

- Existing commercial housing developers:
  Most construction companies prefer to finance themselves through their own sources and down payments from buyers during construction process (informal economy is 33% of GDP).

5.7.9 Finance

MOST IMPORTANT BANKS IN HOUSING FINANCE / INSTITUTIONAL FINANCE

There are 10 commercial banks with a network of 44 branches and 2 micro-finance institutions (Table 45).

Table 45: Banks in Montenegro

Bank	Total Assets (000' s Euros)
Cmogorska Komercial Bank	93.432
Hipotekama Bank	60.232
Podgorica Bank[1]	53.263
Montenegrobank	36.045
Euromarket Bank	29.015
Atlasmont Bank	26.410
Opportunity Bank	17.078
Nik sicka Bank	13.681
Komercijalna Bank	11.363
Pijevaljska Bank	9.242

Source: Housing Finance in Serbia and Montenegro (2005)

- Banking sector penetration is among the lowest in the region but confidence to banks returns, household deposits were 2 million Euro few years ago, now are 44 million Euro.

[1] Podgorica Bank will be privatized soon with 10% share to IFC

- Market share of 3 largest banks in terms of assets is 59%[1].
- Only 36% of banking system´s capital is in foreign hands; foreign banks who like to enter the market are required to set up subsidiaries
- Three banks, Euromarket Bank, Montenegro Bank and Opportunity Bank, are fully foreign owned.
- Significant presence of the State in the banking sector (more than 24%), but participation of the State in share capital has decreased from 62% in 2001 to 24.94% in 2003.

MORTGAGE SCHEMES / MORTGAGE MARKETS

Mortgage markets:

- The least developed mortgage market in the Western Balkans, volume of mortgage loans is around 1 million Euro resulted from the Balkan war, the Milosevic years and a complicated coexistence with Serbia.
- Mortgage market is 0.6% of total loans, 0.4% of total assets and 0.1% of GDP[2].
- Significant amount of money remains outside the banking system due to distrust of financial institutions (freezing of savings by Milosevic in 1997).
- Mortgage market is concentrated in urban areas and the capital.
- With introduction of new mortgage law the market has good potentials.

Mortgages:

- Mortgages are not business line but a special service which is offered to a few wealthy clients with whom banks established good relations as a result there are no standard financial terms or underwriting criteria.
- Average mortgage loan is 25.000 Euro.
- Lending rates on mortgages are 12%-14%, interest rates on deposits 4%-6%, LTV less than 50%.
- Short-term corporate lending is still the main business: the tenure of most mortgage loans nether exceeds 10 years, most are given for 5 years, loans to real estate developers are very rare and maturity seldom exceeds 1 year.
- Mortgage loans are used as collateral for commercial loans or for home improvement but rarely taken for home acquisition or for construction by developers.
- Additional collateral and guarantors are required on mortgage loans because of the poor legal structure.
- Banks regard only commercial property and modern apartments as collateral as the foreclosure of tradition houses is socially plagued.
- Only two financial institutions accept property as collateral for loans: the Montenegro Bank and the Cmogorska Komercial Bank.

1 Housing Finance in the Western Balkans (2005), Madrid

2 Housing Finance in Western Balkans (2005), International Finance Corporation, Washington D.C.

5.8 COUNTRY PROFILE KOSOVO

Even though demand for housing is acute there is no specific housing policy in Kosovo. A significant proportion of population lives in insufficient housing conditions due to recent military conflicts and migration inflows. The need for a new housing is present even among those who already posses a housing dwelling or a house. Kosovars have relatively big flats (70-90 m^2 in average) but this number diminishes as we take into reference high number of persons in households (5.6) and the increasing proportion of young population. In the year 2003 an average living space per capita was below 20 m^2. Besides of this Kosovars still regard real estate as a safest investment alternative.

The housing supply is insufficient. The prices for housing rose dramatically during the last years due to high land and construction costs, companies´ high margins and to geographical mismatch between supply and demand. The residential construction is geared only towards high-income people and is financed primarily in cash. The social housing is almost not present.

At the same time the legislation for mortgage market in Kosovo is excellent due to efforts of international community working there but the market itself is difficult because of the following reasons.

First, the ownership of immovable property must be proved before the property can be mortgaged. It is not easy because of unclear ownership rights which result from:

- restitutions, the fact that some of Cadastre books were taken away and some property was sold during the war adding a third party. A flat which is not registered cannot be mortgaged and this restricts potentials of the mortgage market,
- absence of an Immovable Property Rights Register,
- unfinished privatization process due to complications to determine rightful owners connected with high owner search costs and insecurity,
- because of unfinished privatization the right of use and not the ownership is transferred during the sale contracts,
- apartments in multifamily houses, which make 7% of all housing, are not registered in Cadastre; a real estate developer is registered as an owner of the whole building and only private contracts are concluded with buyers of flats,
- foreclosure procedure is problematic and not uniformly dealt throughout the territory of Kosovo.

As result a housing dwelling or a house which is not registered cannot be mortgaged and this restricts potentials of the mortgage market. The government tried to decide this problem and established in 1999 the Housing and Property Directorate and the Housing and Property Claims Commission in order to decide disputes concerning the possession of immovable property. The final decisions of commission are enforceable and cannot be reviewed by any other authority.

Second, the biggest part of population cannot show official proof of income due to huge size of informal economy (54%) and high unemployment rate (47.2% of total population, 79.4% of 15-19 year old, 69% among 20-24 year old). Besides of this loans are unaffordable to biggest part of population because of high interest rates, very short maturity period and low income level of population. Only 30% of total loans have maturity over 2 years and both are granted by foreign banks Raiffeisen and ProCredit. Even though an average household income is high in comparison to other Balkan countries it happens mainly due to the high number of members per household, informal economy and unequal income distribution. An average household income lowest quartile or median makes 658 Euro per month but an average income per capita is only 186 Euro per month.

5.8.1 Institutions

RESPONSIBLE MINISTRY FOR HOUSING:

Provisional Institutions of Self-Government
Government of Kosovo
Ministry of Environment and Spatial Planning
Permanent Secretary: Muhamet Aliu
muhamet.aliu@mmph.org

CONTACT PERSONS IN MINISTRIES (2005):

- Gazmend Qorraj, Office of the Prime Minister, Kosova Coordinator of the Stability Pact. Nena Tereze n.n. Government Building Room N-211, Prishtine, Kosovo. gazmend.qorraj@ks-gov.net
- Jashar Kastrati, Ministry of Environment and Spatial Planning, Head of Sector for Rent and Condominium. Rruga Nazim Gafurri, Prishtine, Kosovo. jasharkastrati@hotmail.com
- Rame Hamzaj, Ministry of Environment and Spatial Planning, Head of division of policy development. Nazim Gafurri, Prishtine, Kosovo. ramehamzaj@hotmail.com

CONTACT PERSONS IN MUNICIPALITY OF PRISHTINE (2005):

- Lulzim Nixha, Directorate of Urbanism, Director

luli.nixa@gemaile.com

PUBLIC HOUSING FUND (OR THE LIKE):

Does not exist

5.8.2 Characteristics of housing policy

CHARACTERISTICS OF HOUSING POLICY IN RESPECT TO RENTAL HOUSING FOR MIDDLE AND LOWER INCOME GROUPS:

Does not exist.

CHARACTERISTICS OF HOUSING POLICY IN RESPECT TO REFURBISHMENT OF MULTI STOREY HOUSING STOCK:

No specific policy for maintenance of collective housing buildings exists, except individual organizations of resident groups.

National Government:

- Kosovo does not have status of a State but enjoys autonomy from Serbia.
- Most of legislation is created by UNMIK, in 2002 competencies were transferred from UNMIK to the Provisional Institutions for Self-Government (PISG).
- Four administration areas are regarded as ministries and are managed by international organizations, UN, OSCE and EU.
- In 1999 the Housing and Property Directorate and the Housing and Property Claims Commission were established[1] to decide disputes concerning the possession of immovable property.
- The Commission´s final decisions are enforceable and cannot be reviewed by any other authority.

[1] UNMIK Regulation No. 1999/23

Provinces:

- 19 administrative departments were created by Albanians as “parallel” administration units to international organizations.

Municipalities:

- Kosovo is divided into 5 regions with 30 municipalities.

5.8.3 Housing Law

CHARACTERISTICS AND RECENT DYNAMICS IN TENANCY LAW:

- Privatization of immovable property did not take place jet due to complications to determine rightful owners connected with high costs and insecurity.
- The right of use, not the ownership, is transferred during the sale contracts.

CHARACTERISTICS AND RECENT DYNAMICS IN CONDOMINIUM LAW:

- Condominium law is defined by the UNMIK Regulation 2000/60 on Residential Property Claims, the Rules of Procedure and Evidence of the Housing and Property Directorate and the Housing and Property Claims Commission, UNMIK Regulations 2003/30 on Planning and 2000/53 on Construction.
- Apartments in multifamily houses (7% of all housing, 37.000 families) are not registered in the Cadastre. The developer is registered as an owner of the whole building and concludes only private contracts with buyers of flats.
- A flat which is not registered individually cannot be mortgaged, this restricts potentials of the mortgage market.
- In cases when a flat is recognized as a possession by discrimination the possessor is obliged to pay compensation.

CADASTRE AND REGISTRATION

Cadastre is characterized by:

- UNMIK Regulation 2002/22 on the Establishment of the Immovable Property Rights Register and the Law 2003/25 on the Cadastre.
- Immovable Property Rights Register was determined by Law No. 2002/05 but was not started jet because of unclear ownership issues.
- Unclear ownership issues result from restitutions (which is particular difficult in Kosovo), many of Cadastre books were taken to Serbia or destroyed, many Serbs sold their property during 1993-1999 adding a third party to the conflict.
- Absence of an Immovable Property Rights Register creates a situation when most of properties in Kosovo cannot be mortgaged.
- The so-called “ownership lists” in the Cadastre does not reflect ownership as such but the right of use.
- Cadastre still contains possession lists which act only as a proof of standing but not the nature of rights that a possessor holds.
- The concept of possessor is being considered equivalent to the idea of owner.

Registry System is characterized by:

- Low accuracy of the registry content as a result of the lack of adequate control.
- Lack of compensation for registration errors as result of no civil liability of the Registry System.
- No registration rules for informal housing.

LEGISLATION ON THE BANKING SECTOR

- Defined by the UNMIK Regulation 2002/21 on Mortgages and is the best banking legislation in the Western Balkans.
- Appeared in 1999 and 2000 under influence of international organizations.
- Ownership of immovable property must be proved before the property can be mortgaged.
- In case of unclear aspects and gaps in legislation each court sets different requirements.
- Foreclosure procedure is problematic and not uniformly dealt throughout the territory of Kosovo.

LEGAL OBSTACLES RELATED TO HOUSING

- No law regulating individualization of flats and common rights in an apartment building and as a result individual properties cannot be mortgaged, the common areas are poorly maintained.
- Lengthy registration process as a result of inadequately organized and managed land registry, absence of standardization forms for property transfers and mortgages, inadequately qualified staff, requirement of excessive physical data on property in order to be registered and delay in validation process.

5.8.4 Housing stock

HOUSING TENURE

There is no assessment report for housing buildings.

AGE OF HOUSING STOCK / MAINTENANCE

- Housing stock (93% individual housing and 7% collective housing) is in bad condition due to the age of buildings, recent conflicts, lack of construction quality standards and control, high illegal and self construction.
- Majority of multi-family houses are constructed between 1965 and 1995.
- Until 1990 multi-family houses were managed by municipal housing enterprises, the owners of housing buildings-apartments were state enterprises or social-state institutions.
- Bad maintenance of multi-family houses (34.000-36.000 units) now is caused by the lack of laws and regulations and by the unclear status between the Housing enterprises and tenants or owners.
- Almost 30% of housing stock was badly damaged during the 1999 conflict.
- 44.000 buildings (from approximately 360.000 housing buildings all together[1]) are still completely destroyed, in some municipalities up to 50% of damaged houses still have to be reconstructed.
- Low quality of construction as since the war the most of houses were emergency constructions, many buildings constructed after the war do not meet safety and durability standards.

INFRASTRUCTURE

- There is no infrastructure in settlements with individual housing buildings.
- There is old and without proper maintenance infrastructure in settlements with collective housing buildings.

INFORMAL HOUSING

- Absence of urban plans prevents municipalities from issuing construction permits; this results in large amounts of illegal construction.

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[1] Presentation Provisional Institutions of Self-Government: Housing and Housing Policies in Kosovo

5.8.5 Population / Housing provision

HOUSEHOLDS

- Average household size: 5.6

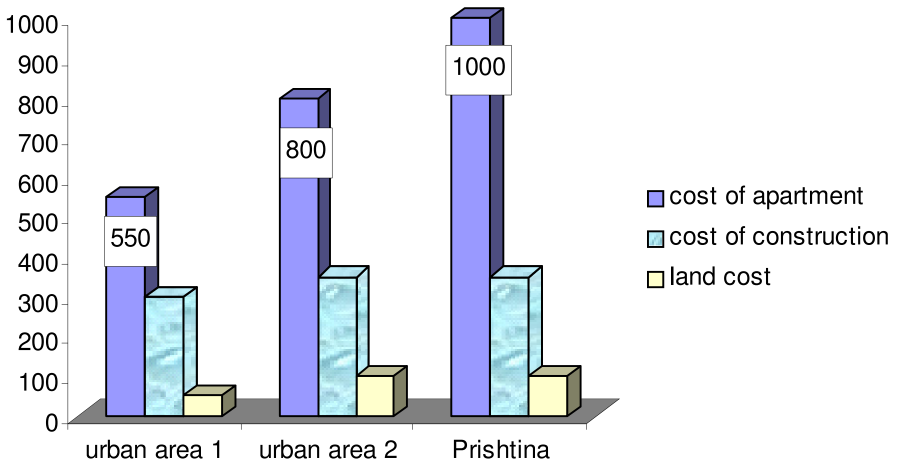
HOUSING PROVISION

- Quality of housing provision in urban/rural areas:
  - In rural areas there is mostly individual housing
  - In urban and sub-urban areas there is individual and collective housing
  - Most of collective housing was constructed before 1999 by public enterprises for housing
- Proportion of population with insufficient housing provision: housing demand is very high.
- Housing stock per 1000 inhabitants: 150 housing premises of all kinds (2.4 million inhabitants, 360.000 housing premises of all kinds) [1].
- Average living space per dwelling: 75 - 90 m^2
- Average living space per capita: in 2003 less than 20 m^2

INCOME AND HOUSING COST

- Average household income lowest quartile / median: 658 Euro per month, average income 186 Euro per month.
- Average household income is high in comparison to other Balkan countries (due to high number of members per household, informal economy and unequal income distribution) but the share of GDP per capita is still one of lowest in the Western Balkan (658 Euro).
- The biggest part of population cannot show official proof of income due to huge size of informal economy (54%) and high unemployment rate (47.2% of total population, 79.4% of 15-19 year old, 69% among 20-24 year old).
- Average housing cost to income ration: 11.8 (price to income ratio).
- Price to wage ratio (1.2 employed per household) 20.4.
- Housing prices vary greatly depending on the area.

Graph 46: Price for an apartment (m^2) in Euros



Source: Housing Finance in Kosovo (2005)

[1] Provisional Institutions of Self-Government: Housing Finance

5.8.6 Markets

PRIVATE RENTAL MARKET

- Rent level (A-standard, average location) capital, large cities, suburban areas:

  Collective Urban Settlements[1]
  - Pristine $1m^2$ / 5€
  - Peja $1m^2$ / 4€
  - Mitrovica $1m^2$ / 2,60€
  - Ferizaj $1m^2$ / 2,60€
  - Prizren $1m^2$ / 2,35€

PUBLIC/SOCIAL RENTAL MARKET

- Rent level capital, large cities, suburban areas:
  - The rent level is 25 cent per 1 m^2
  - Exists in housing constructed during the period 2003-2005

CONDOMINIUM MARKET

- Market share:
  - The market is not regulated because of the absence of legal infrastructure
- Price level (A-standard, average location) capital, large cities, suburban areas:
  - Dramatic rise in housing prices during the last years due to high land and construction costs, companies´ high margins and to geographical mismatch between supply and demand. From the demand side due to internal migration flows, foreign remittances sent by migrants abroad and regard of real estate as a safest investment alternative.

LAND FOR CONSTRUCTION

- Price level:
  - Pristine $1m^2$ / 20- 900€
  - Peja $1m^2$ / 18- 700€
  - Mitrovica $1m^2$ / 18- 600€
  - Ferizaj $1m^2$ / 18- 600€
  - Prizren $1m^2$ / 18- 700€

5.8.7 Housing construction

NEW CONSTRUCTION

- Completed flats in terms of housing tenure (1995-2004):
- Public/social housing construction:
  - In the period 2003-2005 7 housing buildings with 165 apartments were constructed in 7 municipalities
- Recent dynamics:
  - Residential construction is geared towards high-income people and is financed primarily in cash.
  - Big part of population stays away from the banking system because of high unemployment and significant size of informal economy (54%).

[1] According to the Kosovo Statistical Body these values were given without consideration of other public services. So these coefficients should be increased with the attachment of other coefficients of public services.

- Loans are unaffordable for the biggest part of population because of high interest rates and very short maturity.

REFURBISHMENT

- Refurbishment of multi storey housing estates:
  - Before 1999 the maintenance of collective housing was executed by public housing enterprises.
  - Presenty the status of these enterprises is not defined.
  - That is why the refurbishment of multi storey housing does not function.

5.8.8 Housing developers

- Existing social housing developers:
  - There is no specific social housing developers
- Existing commercial housing developers:
  - The biggest companies are: “Dardania Company”-Pristine, “Dukagjini Company-Peja, “Standard Company”-Pristine,“Global Company”-Prizren est.
  - The most construction companies prefer to finance themselves through their own sources, advance down payments from buyers during construction process and international donor funds.
  - The banks are not attractive as a source for financing for construction companies at present as the loans are too expensive.
  - The municipalities are not issuing construction permits at present and thus developers are not undertaking residential construction projects.
  - The issue of permits is planned from the second half of 2005 and this can increase a need for additional funds.

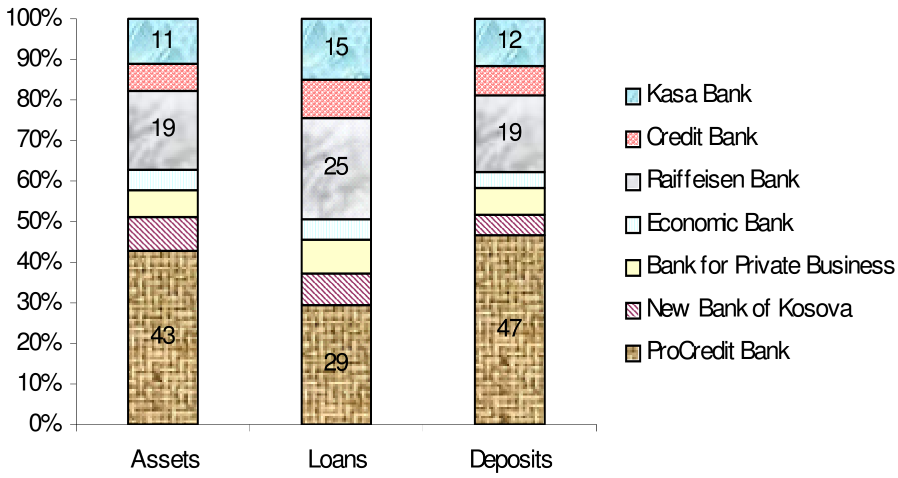
5.8.9 Finance

MOST IMPORTANT BANKS IN HOUSING FINANCE / INSTITUTIONAL FINANCE

- banking sector was created artificially by international organizations.
- banking system covers 29 regions from 30 but mortgage loans are granted exclusively in big cities.
- regulation of financial markets is excellent due to presence of many international organizations.
- ProCredit and Raiffeisen are two largest banks (from 7 existing banks) in terms of loans.
- 3 largest banks (two of them, Raiffeisen and ProCredit, are fully foreign-owned) control 72% of market in terms of assets and 69% in terms of loans[1].
- only foreign institutions are active in terms of long-term mortgage lending (only 30% of total loans have maturity over 2 years and are granted by Raiffeisen and ProCredit).
- the following international donors are active: KfW and EBRD, provide credits mostly for SME, in case of housing (17% of total lending activity) exclusively for home improvement.

[1] Housing Finance in the Western Balkans (2005), Madrid

Graph 47: Banking Sector Market Share[1] (in 2004)



Source: BPK

All seven banks are members of the Kosovo Bankers´ Association.

BANKING SUPERVISION

- two factors limit potential demand for home equity: difficulty to provide regularity of income (high informal income and low bancarization) and difficulty to provide clear and reliable ownership title (high number of unregistered properties and distrust of the registration system).
- banks benefit from spreads higher than 5% as result of a high credit risk premium, lack of competition and transparency.
- broad range of lending and deposit rates offered by different banks.
- banks are cautious to give credits because of:
  1. no payment history, inadequate credit information mechanisms and the lack of official body of appraisers
  2. foreclosure procedures often take years and it is difficult to sell foreclosed property as no one Kosovar is willing to buy a property of his neighbour
  3. additional collateral and guarantors are required on mortgage loans because of the poor legal structure
  4. lack of long-term funding and as result significant market risk in terms of liquidity, refinancing and interest rate

CONTRACT SAVING SCHEME (BAUSPAREN)

Does not exist.

MORTGAGE SCHEMES / MORTGAGE MARKETS

Mortgage market:

- Market is very young (established after the 1999 conflict) and its development was heavily influenced by international community (positive influence in terms of imported know-how, experience and international credit donor lines).
- Mortgage market is one of the smallest markets in Western Balkans in absolute terms but third in the region by the share of mortgages in GDP.

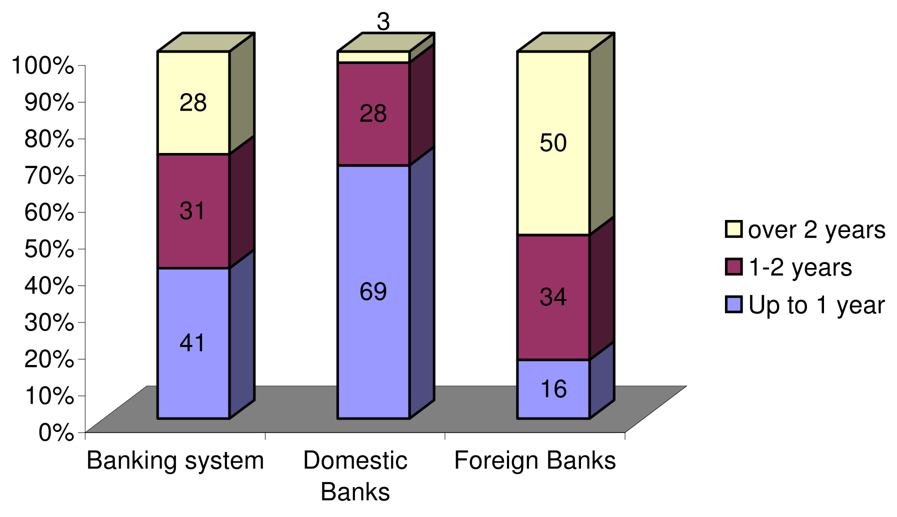
[1] All banks are privately owned

- The development of mortgage market is handicapped by unclear ownership rights and difficult foreclosure procedures.
- Significant amount of money remains outside the banking system due to distrust in financial institutions.
- Total assets in financial system including banks amount to 581 million Euro (44% of GDP), loans amount to 232.8 million Euro (17% of GDP).
- Mortgage market is 17.5 million Euro (6.4% of total loans, 2.6% of total assets and 1.3% of GDP)[1].

Mortgages:
- Volume of mortgages is between 15 to 20 million Euro.
- Mortgages are used as collateral for commercial loans or for home improvement (with lower LTV 20%, roughly 11.000 households) but rarely taken for home acquisition or for construction by developers.
- Average mortgage amount is 5.000-8.000 Euro, the number of mortgages (4.000-6.000) is one of the highest in the region.
- The tenure of most mortgage loans rarely exceeds 6 years (10% interest rates, 50% LTV).
- Mortgages are taken on single-family houses not on flats.

Loans:
- Big demand potential for loans with low LTV for home renovation.
- Short-term corporate loans are still the main business.
- Loans are unaffordable to the most of population because of high interest rates and very short maturities.
- Volume of loans to non-financial institutions increased during the last four years from 3% to 40% of total assets.

Graph 48: Loans by Maturity (weight over total amount, in %) 2004



Source: Housing Finance in Kosovo (2005)

[1] Housing Finance in Western Balkans (2005), International Finance Corporation, Washington D.C.

Table 49: Typical Products

	ProCredit	Kasabank	Raiffeisen Bank
Interest Rates	On average: 10.9% without collateral 9.9% with collateral Fixed rates with a positive curve, the rate increases over time	Ranges from 11%-12%	Ranges from 12%-14% These fixed rates are not affected by the existence of collaterals
Administration fees	2%	n.a.	n.a.
Pre-payment	Can only be made after 70% of the total amount is paid	n.a.	n.a.
Maturity (max)	5 years	5 years	6 years
Customer target	No only focused on upper-end of society		No loans granted for builders or constructors
Insurance	Not required	Not required	Not required
LTV (max)	50%	50%	n.a.
PTI (max)	60% of disposable income	33%	33% without co-borrow 50% with co-borrow
Minimum net income	130 euros	Stable income	Stable income
Amount	Min 10.000 euros	Max 25.000 euros	Max 30.000 euros

Source: Housing Finance in Kosovo (2005)

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5.10 TABLE OF GRAPHS AND FIGURES