

Young Rental Housing Kosovo Limited Profit Housing Association

Feasibility Study

December 2017



WITH FUNDING FROM
**AUSTRIAN
DEVELOPMENT
COOPERATION**

YOUNG RENTAL HOUSING KOSOVO LIMITED PROFIT HOUSING ASSOCIATION (“YRH KOSOVO LPHA”) – FEASIBILITY STUDY

With funding from the Austrian Development Cooperation

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December 2017

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ABBREVIATIONS

ADA	Austrian Development Cooperation
CEB	Council of Europe Development Bank
CEE	Central Eastern Europe
CEO	Chief Executive Officer
CPI	Consumer Price Index
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
GDP	Gross Domestic Product
HOA	Home Owners Associations
IFI	International Financing Institution
IIBW	Institute for Real Estate, Construction and Housing Ltd. (project executing organisation)
LPH	Limited Profit Housing
LPHA	Limited Profit Housing Association
PPP	Public Private Partnership
SEE	South Eastern Europe
SHPRK	Social Housing and Property Rights in Kosovo (project executing organisation)
VAT	Vallue Added Tax
YRHK	YRH Kosovo LPHA / Young Rental Housing Kosovo Limited Profit Housing Association

MAIN FINDINGS

→ A sustainable development initiative

Young Rental Housing Kosovo (YRHK) is a development initiative to meet the UN Sustainable Development Goal 11 “Make cities and human settlements inclusive, safe, resilient and sustainable”.

→ Solid Business Case

The business case of YRHK drafted in this Feasibility Study follows the successful Austrian model of Limited Profit Housing Associations (LPHA). Corner stones are cost coverage principle, limited field of activities, tie-up of assets and comprehensive audit and control. YRHK is positioned in the very centre of civil society in Kosovo. It is intended to be owned by a number of representatives of civil society with equal shares of moderate volume and equal ownership rights. Those owners are expected to invest not primarily for maximum profit, but for building up social capital. In the case of successful business performance, YRHK will build up a stock of dormant reserves (rental housing stock) of considerable volume. Still it will be prohibited to the shareholders to cash out. They will own this growing social capital, with very limited possibilities to turn it into free cash value. Such a business philosophy may seem illusory or naïve. But it is reality in Austria and in several other European countries, with quite convincing performance indicators. Due to the cost coverage principle, YRHK will be short of own equity for quite a long period. But after full amortisation of the first rental buildings the equity position will improve quickly, to relieve new investment opportunities for affordable housing.

→ Cooperation with Government

As a business case between market and state, the LPHA model requires a committed backing from the State. It is very much appreciated that the Government of Kosovo will consider such a business case in the new Law on Social Housing, which is expected to come into force in early 2018. This Feasibility Study also includes detailed LPHA regulations to be legally implemented with Administrative Instructions. Government officials seem willing to implement those legal regulations. This will be supported by the fact that co-author of this FS Agron Beka is consultant to the Government in terms of housing reform. Additionally, it will be – at a later stage – necessary to make the Government launch housing programmes, including State guarantees and loans from International Financing Institutions (IFI). This plan is also communicated to Government officials, with altogether positive response.

→ Cooperation with City of Peja

The new business case has been communicated to a number of municipalities. Several of them are interested in cooperation, with the clearest commitment from the Municipality of Peja, a medium size city around 80km west of Prishtina. It is willing to provide for building land free of charge and additional equity capital. With the target to cooperate with several municipalities, it is intended to form local subsidiary LPHAs, owned with 55% by YRHK and with 45% by the individual municipality or region. Framework conditions seem promising to realize a pilot project in Peja with around 60 units and a financing volume of approx. € 1,5 mill. The financing plan stipulates contributions of the municipality of altogether 45% (building land, equity contribution to the local LPHA, grant), own equity of YRHK of around 15% and a mortgage loan of below 40%.

→ Risk mitigation strategy

Novelty of the business case includes risks typical to real estate developments (project risk, market risk) as well as atypical risks (mainly political risks). Those risks are mitigated with a low vacancy risk due to below market pricing and demand-oriented developments, effective eviction procedures, low business risks due to audit and control, low financing risk due to fixed interest rates and public support and finally with effective exit strategies. It seems possible to close down business at any stage of implementation with a perspective to resume most of the invested capital.

→ Comprehensive draft legal regulations

One particular asset of this FS is the draft LPH regulations in the form of one paragraph dedicated for the coming Law on Social Housing and comprehensive contents for Administrative Instructions (By-Laws). Those regulations derive from long lasting experience with LPHA regulations in Austria and other European countries and fully consider requirements of EU integration (e.g. concerning competition law).

→ Cascading implementation

The final goal of the endeavour described in this FS is the establishment of an affordable rental housing sector in Kosovo following European best practice. To achieve this the business partners intend to start with forming an LPHA (YRHK), followed by execution of a pilot project. After assessment of outcomes of this pilot project, LPHA regulations ought to be implemented on a legal basis. In parallel, other stakeholders should be motivated to enter this business case. As a next step, the Government will be supported to apply for a loan from an IFI, combined with a State guarantee. With a volume of some € 30 mill. it will be possible to co-finance around 2,000 housing units. With five such programmes it will be possible to realize some 10,000 housing units. This will be sufficient to settle a new LPHA sector in Kosovo and to solve the most urgent housing needs of population.

→ Feasibility of a Business Partnership

The basic conditions for implementation of YRHK are positively assessed. Nevertheless, some preconditions are seen critical to go for the next step of establishing a Business Partnership and application of a new project together with the Austrian Development Cooperation. On the side of Austrian partners, active cooperation with at least one social landlord is appreciated. Even more important seems the co-operation of the Auditing Association of the Austrian LPHA sector. On the side of the Kosovar partners the general commitment both of the Government (legal regulations, housing programmes) and a municipality (building land, financial contributions) have to contretise.

INTRODUCTION

In many Western European countries, special housing sectors, which combine advantages from market orientation and State backing, play an important role in housing provision of the growing urban population. This particularly benefits to young households and those with limited access to own property. In Austria, the Limited Profit Housing sector has over the past decades produced one million apartments, which represents one quarter of the total housing stock. Those housing associations (LPHA) provide mainly rental apartments to low and moderate income households. Due to the quantity of housing production the sector has contributed to a stable housing cost ratio fairly below EU average. At the same time, the sector has developed to financial stability, which allows it to be a strong and stabilizing partner to the construction industry.

It is impossible to copy-paste such a policy scheme to another country. Too complex are all dependencies in different aspects of the legal framework, in framework conditions of the financing and construction industry, in the political system and in civil society. But it seems possible to identify the main success factors of the LPH sector and to re-invent it under the specific conditions of a State such as Kosovo.

It is therefore intended

- a) to form a joint venture with Kosovar partners, among them “SHPRK - Social Housing and Property Rights in Kosovo”, and IIBW, to establish “YRHK – Young Rental Housing Kosovo Limited Profit Housing Association”, following the successful Austrian model.
- b) YRHK is to realize one pilot housing project with approx. 60 units to develop and test the business case.
- c) In parallel it is intended to advice the Government of Kosovo in the establishment of LPHA regulations.
- d) Motivating other stakeholders to form LPHAs.
- e) Encouraging the Government of Kosovo to support and launch a Housing Programme, addressing a soft loan from an International Financing Institution, supported by a State guarantee.
- f) Developing and establishing the structures of audit and control. It is intended to follow the model of the Austrian LPHA auditing association and address its support.
- g) Evaluation of the outcomes; the system requires permanent intrinsic improvement; further Housing Programmes should follow.
- h) Effective affordable rental housing sector.

IIBW has long lasting experience with social housing schemes in numerous countries with projects in Austria, Albania (with support of ADA), Australia, Hungary, Montenegro, Romania, Russia and Ukraine. It is invested in a social housing association in Bulgaria. IIBW is in close cooperation with the LPHA sector in Austria and other European countries. It has vast experience in housing legislation, housing finance and institutional aspects of social housing. These are useful preconditions to succeed with the attempted venture.

Former experience indicates that the establishment of a new affordable rental housing sector in a country requires much more than Technical Assistance. Therefore, it was decided to run a political and a technical project as a two-tier strategy. A new housing policy scheme requires an explicit commitment both from the State level and from involved municipalities.

On the other hand, SHPRK is a leading organization in Kosovo focused on social housing and affordable housing. They have been selected by different international organizations and Ministry of Environment and Spatial Planning to do feasibility studies, being core of the working groups for amending the Law for social housing, lot of trainings for the municipal authorities dealing with social housing etc. They also voluntarily conducted the project *"You may provide shelter too"*. SHPRK is playing a key role for amending the new Law for social housing where the aim is to make room for the Austrian model of affordable housing. Since 2016 they are member of Housing Europe based in Brussels (www.housingeurope.eu).

For the political project, cooperation with the Austrian-Kosovar Friendship Society (kosovo-friends.at) and its President Lukas Mandl could be achieved. The Friendship Association has decided to have "housing" as one of its focal areas. A request for support by the Minister for Environment and Spatial Planning of Kosovo has been issued to the Friendship Society (copy in the Appendix). The Government of Kosovo has expressed its willingness to adopt the legal environment accordingly. This will include legal provisions to allow for the establishment of LPHAs in the coming Law on Social Housing and complementary regulations in Administrative Instructions of the line ministry. With a decision for new legal regulations the Government of Kosovo makes clear that this is an initiative with a long-term perspective. On the local level, a number of municipalities have expressed their interest in cooperation, most concretely the Municipality of Peja. The private sector has committed interest in cooperation as shareholders of YRHK. In addition to this political involvement IIBW has learnt from previous experience that a financial commitment is indispensable. It will therefore become minority shareholder of the new housing association.

The technical assistance aspect includes an assessment of demography, housing demand and housing markets in several target municipalities, a legal assessment, a stakeholder analysis (chapter 1), a detailed description of the new business model, including financing aspects (chapter 2), a full business plan for YRHK (chapter 3), a detailed specification of the proposed pilot project (chapter 4), an assessment of the necessary future role of the State in the establishment of such a new housing sector (chapter 6), a functional description of necessary legal regulations (chapter 7)) and a risk mitigation strategy (chapter 8).

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Vienna / Prishtina, December 2017



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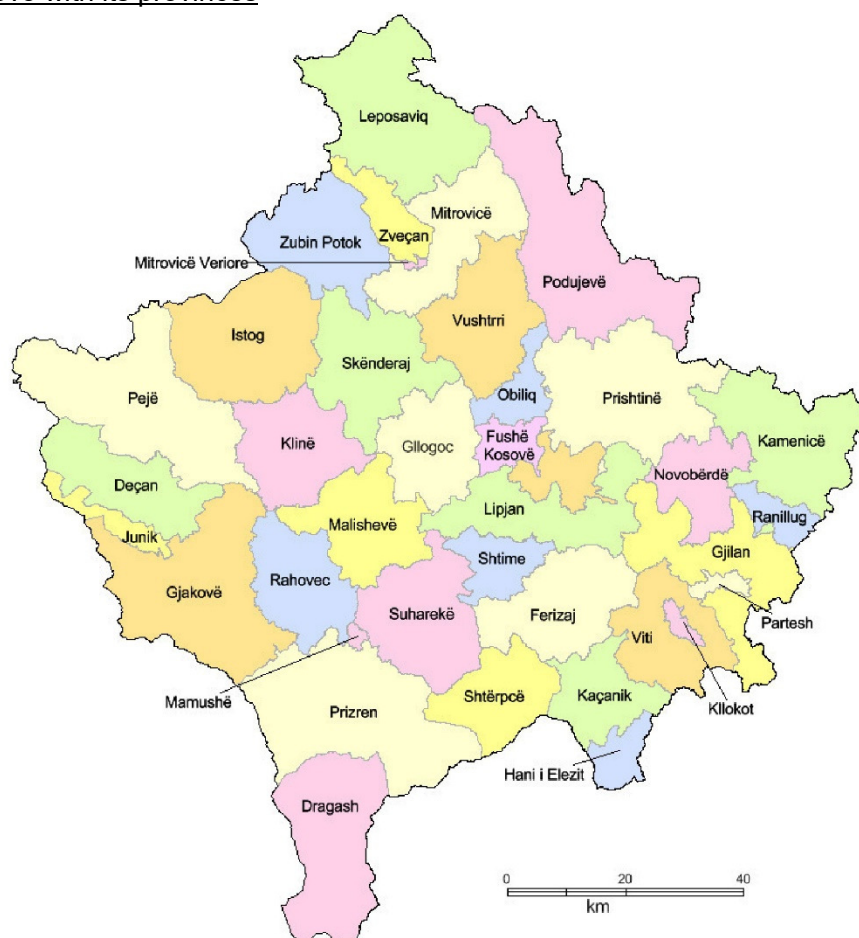
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1 BACKGROUND

1.1 HOUSING IN KOSOVO

2/3 of countries represented in the United Nations acknowledge Kosovo as independent State, including most neighbouring countries and Austria, but not Serbia. Kosovo is acknowledged as EU applicant country. Kosovo has a functioning system of parliamentary democracy. It is searching for new models of affordable housing provision for its population and is committed to address the Austrian model.

Graph 1: Kosovo with its provinces



Source: IIBW.

1.1.1 POPULATION, ECONOMY, HOUSING STOCK, HOUSING CONSTRUCTION

Kosovo has a population of 1.77 mill. or 324,000 households (2016) respectively. Households are very big with 5.5 persons in average, which is more than two times the EU average of 2.4. Population is younger than that of most other European countries. Almost 210,000 people live in Prishtina, roughly 0.5 mill. in the Prishtina district. GDP per capita is at around € 7.800 (2016), which is quite similar to Albania or Bosnia & Herzegovina, but below other SEE countries. GDP growth is steady but low, with 3 to 4% p.a. Budget deficit is relatively low with 14.2% in 2016. Inflation is similar to EU average of currently slightly above zero. For 2017 an inflation rate of 1.6% is expected. Average monthly gross salaries are at around € 450. Household consumption was € 7.500 in 2016, but less than € 1.500 per capita. The unemployment rate is still very high with 27%, but currently decreasing (Statistical Yearbook 2017, WIIW).

The big size of households indicates a shortage of housing. The stock is estimated at 340,000 units, but data are scattered. A huge share is constructed without legal permit. There is on the one hand substantial new construction, in many cases financed by expatriates. The construction sector contributes heavily to GDP. On the other hand we see a significant shortage in affordable housing supply. Only a very small share of housing of approx. 2% is financed with mortgages. Average housing expenditure amounts to 30% of household consumption, which is above EU average. Around 6% of population (108,000 individuals or 26,300 households respectively) have received social assistance in 2016, after 9% in 2011 (Statistical Handbook 2017).

1.1.2 DEMOGRAPHY AND HOUSING IN TARGET MUNICIPALITIES

The detailed assessment of the current housing situation in the target municipalities Pristina, Glogoc, Peja, Mitrovica, Prizren and Drenas can be found in the Appendix, chapter 10.4 (p. 56). The following Table 2 of key indicators of those municipalities show the following picture:

- Most of the target municipalities have a stable population.
- The number of households which receive social assistance has recently decreased more significantly in provincial cities (-20 to -25% since 2012) than in the capital city (-4%). This indicates a global trend of poor households moving to bigger cities.

Table 2: Demography and housing in target municipalities (2016)

	PRISTINA	GLLOGOC	PEJA	MITROVICA	PRIZREN	DRENAS
Population (city)	207.700	60.600	98.800	68.500	189.100	58.500
change since 2012	1%	1%	1%	-6%	4%	
Social assistance households (province)	7.500		2.400	6.000	2.800	
change since 2012	-5%		-25%	-24%	-21%	
Social assistance persons (province)	31.900		9.900	22.800	11.600	
Housing units, total			22.000	25.800	37.300	10.200
Housing units multi-apartment			4.400	3.900	3.800	1.600
Share of multi-apartment housing			20%	15%	10%	16%
Usual building typology multi-apartment			P+4	P+7		P+4
Municipal housing units ¹⁾			2.000	138	163	
No. social housing ²⁾				3.213	ca. 2,000	50
Housing demand ³⁾				1.500		
Of which civil servants				209		
Applications for social housing			400	474	3,000 (2000-2013)	169
Families in Temporary Collective Centers				20	22	50
No. rental housing				49		
Average rent/month				€ 22		
Vacancy rate			29%	43%		29%
Share of buildings with thermal insulation			23%	58%	30%	48%
Market price condominiums				450 €/m ²		450 €/m ²

Re. ¹⁾ Incl. PPP and centers for social housing;
²⁾ Built by the municipality, government and donors;
³⁾ With social assistance needs, warfare categories 1, returnees, repatriated, elderly, young people, employees from state budget, minorities.

Source: Municipalities, SHPRK

- All municipalities have substantial vacancy rates of 30% and more. This is a structural problem of all Kosovo of housing in the property of expatriates or local people with expat financing, both in the old stock and new construction. Despite this volume of vacant apartments, supply for local people with no access to capital is big.
- The target municipalities have quite different numbers of municipal housing or social housing built by the municipality, the government and donors.
- The share of flats in multi-apartment buildings ranges from only 10% in Prizren to more than half in Pristina. Hence, most of the target cities have a rather rural typology of settlement. Still, the usual typology for multi-apartment buildings with five and more storeys matches with the requirements of cost-efficient construction.
- All target municipalities document households in need, but reliability of data is limited. The documented numbers justify new supply of affordable housing in most municipalities of few hundred apartments. This suggests to start with single LPHA projects of moderate size and thereafter to assess further demand.
- In some cases, LPHA rental housing is meant to target civil servants. The limited number of this demand indicates to open such new supply also to other beneficiaries.

1.2 RELEVANT LEGAL REGULATIONS

1.2.1 HOUSING REGULATIONS

In this chapter only those regulations are described which are relevant for the business case of YRHK. Most regulations can be found online in three languages including English under www.mmph-rks.org/en-us/Home.

a) Framework regulations

- Law No.03 / L-164 on the Financing of Special Housing Programmes.
 - Administrative Instruction No. 18/2010 on Contracts for Unprofitable Housing Rental;
 - Administrative Instruction No. 19/2010 on the Content of the Housing Bonus;
 - Administrative Instruction No. 21/2010 on Determining the Order of Priority for Family Categories that Benefit from Special Housing Programmes.
 - Administrative Instruction No. 22/2010 on Procedures for Benefiting from Special Housing Programmes;
 - Administrative Instruction No. 23/2010 on the procedures for the announcement of special Housing Programmes.
 - Administrative Instruction No. 24/2010 on Minimum residential housing rates for specific Housing Programmes.
- Law No. 03 / L-040 on Local Self-Government;
- Law No. 04 / L-061 on the sale of apartments for which exists a right on housing;
- Law on Administrative Procedures 2005/02-L28;
 - Guide for Drafting Three-Year Housing Programmes;
 - Municipal Development Plan and Urban Development Plan (2006 -2025);
 - Regulation on the Issuance of Housing, Published on 02.11.2010;
 - Regulation on the Allocation of Socially Owned Residences owned by the Municipality of Peja, in Renting for Social Cases no. 022-4429, dated 10.06.2010;
 - Economic Development Strategy (2013 - 2017) 31.07.2013;
 - Statute of the Municipality.

b) Draft Law on Social housing

The draft law is expected to come in force in the beginning of 2018. It will replace the Law No.03 / L-164 on the Financing of Special Housing Programmes. Amongst others, it contains regulations regarding private enterprises to provide services of public interest in the field of affordable housing. One main innovation is widening of the scope of social housing from only low income households to also middle income households (“affordable housing”).

An English version is available on www.kuvendikosoves.org/?cid=2,191.

The Line Ministry has expressed interest to adopt the Law in order to allow for a LPH sector. According draft regulations have been developed in the context of this Feasibility Study, see chapter 7.1 (p. 37).

c) Condominium regulations

- Law No. 04/L-134 on the Condominium.
- YRHK will predominately realize rental housing. But to generate early incomes for the reason of cross-financing of affordable rental flats the sale of apartments or business space is an option. Mixed ownership with rental and owner-occupied apartments is ruled under Law No. 04/L-045 on Public-Private-Partnership.
- Regulations on the formation of home owners associations (HOA) are part of Law No. 03/L-134.
- Regulations on HOAs in mixed tenure buildings are part of the beforementioned laws.

d) Regulations on housing maintenance and management

Housing management and maintenance is basically ruled in Law No. 04/L-134 on the Condominium. Kosovo does not have yet any legal regulations of maintenance fees, but it should be regulated in the contract between the HOA and certificated persons for dealing with this kind of activity.

Existing regulations are perceived as insufficiently operative. A reform is on the way.

e) Rent regulations, regulations on consumer protection

The following Laws concern rental housing or consumer protection:

- Law No. 03/L-164; Law No. 18/2010; Law No. 19/2010; Law No. 21/2010; Law No. 22/2010; Law No. 23/2010; Law No. 24/2010.

f) Regulations on eviction

Evictions in the case of payment arrears are regarded essential for the operativeness of affordable rental housing. An ineffective eviction scheme was mainly responsible for the failure of the PPP social housing project of the Austrian social landlord “GPA” in Sarajevo.

Regulations on evictions in the Criminal Code of Kosovo (Code No. 04/L-082) are regarded operative and effective. The co-author of this Feasibility Study Agron Beka was director of legal office and head of eviction department in the Kosovo Property Agency and has vast practice in this field (see on www.kpaonline.org).

1.2.2 COMPANY LAW, CODE OF CONDUCT

a) Regulations on the formation of YRHK

Considering the results of chapter 3.1 “Structure of business partnership” (p. 23), Law No.02/L-123 on Business Organizations apply. It regulates the establishment of a new company, arranging partnership deals, etc. Minimum equity is regulated in Law No. 02/L-123 On Business Organizations. In the case that shares of equity differ from quorum regulations (nonvoting stock), Law No. 02/L-123 On Business Organizations apply.

b) Anti-corruption regulations

Rules to prevent from corruption and to enforce business compliance are defined in:

- The Law on the Anti-Corruption Agency
- The Law on Declaration, Origin and Control of Wealth of High Public Officials, and on Declaration, Origin and Control of Gifts for all Official Persons –
- The Law on Prevention of Conflict of Interest in Exercising a Public Function

1.3 STAKEHOLDER ANALYSIS

The following Table 3 shows the authorities concerned with housing in Kosovo and its relevance for YRHK.

Table 3: Stakeholder analysis housing in Kosovo

ORGANISATION	AUTHORITY / RELEVANCE FOR YRHK	HEAD OF ORGANISATION / RELEVANT CONTACT
Ministry of Environment and Spatial Planning	Line Ministry for housing	Albena Reshitaj, Minister
Ministry of Economy and Finance	Relevant for any Housing Programme, State guarantees etc.	Bedri Hamzaj, Minister
Ministry of Justice	Relevant for any reform in housing legislation	Abelart Tahiri, Minister
Ministry of Trade and Industry	Proposed Regulatory Authority for the new LPHA sector	
Municipalities		
Prishtina	Directory for Health and Social Welfare; Directorate for Urbanism	Shpend Ahmeti, Mayor
Mitrovica	Directory for Health and Social Welfare; Directorate for Urbanism	Agim Bahtiri, Mayor
Peja	Directory for Health and Social Welfare; Directorate for Urbanism	Gazmend Muhaxheri, Mayor Jeton, Head of Finance
Prizren	Directory for Health and Social Welfare; Directorate for Urbanism	Ramadan Muja, Mayor
Drenas	Directory for Health and Social Welfare; Directorate for Urbanism	Ramiz Lladrovci, Mayor
National Housing Agency	non-existent	
Interest group of the real estate industry	Many interested stakeholders, no interest group	
Interest group of the construction industry	Many interested stakeholders (e.g. SHPK Princesha, Lin Project), no interest group	
Interest group of the financing industry	Several interested stakeholders (Raiffeisen Bank, Procredit Bank), no interest group	

Source: SHPRK/IIBW.

International donors relevant for YRHK:

- Swiss Agency for Development and Cooperation (SDC)
- Norwegian Agency for Development Cooperation (Norad)

International Financing Institutions:

- Council of Europe Development Bank (CEB)
- European Bank for Reconstruction and Development (EBRD)
- European Investment Bank (EIB)

NGOs relevant for YRHK activities:

Social Housing and Property Rights in Kosovo (SHPRK), co-author of this Feasibility Study, is a non-profit organization established in 2009 dealing with property rights and social housing in Kosovo. The main aim of the organization is to actively work with the citizens of Kosovo regarding to property related issues and social housing, as well as to raise their awareness in these areas. SHPRK Mission: SHPRK is established to identify individuals or families who are in need of social housing and to provide legal assistance to them to acquire social accommodation. Furthermore, SHPRK is established to provide legal assistance in property rights related matters to all those individuals and groups of people who are eligible for free legal aid. SHPRK Vision: The SHPRK vision is to achieve international standards in regards to social housing and property rights in Kosovo. Contact person of SHPRK: Agron Beka ED, email: agron.beka@shprk.org

1.4 SOCIAL HOUSING VS AFFORDABLE HOUSING

Similar to other SEE countries “social housing” is perceived as housing for the poorest, who cannot pay rents at all. The approach of providing new apartments to tenants for free lacks economic and social sustainability. By contrast, the project “YRH Kosovo LPHA” targets at “affordable housing” with rents that will cover all costs. As payment discipline is of paramount importance for economic sustainability, housing for lowest income groups will only be possible with additional benefits from municipalities. The positioning of YRHK in terms of household income groups is shown in Graph 5 (p. 17). The new Law on Social Housing (see chap. 1.2.1b), p. 12) distinguishes between “social housing” and “affordable housing”, with the first targeting at low income households, and the latter at middle income households.

Generally, people in Western Balkans countries prefer ownership to rental apartments. Affordable rental housing therefore targets at young households with limited access to ownership and to urban areas, where rental tenancy is more common than in semi-urban or rural areas.

1.5 HOUSING NEEDS IN TARGET MUNICIPALITIES

As described in chapter 1.1.2 (p. 10) and in detail in the appendix, chapter 10.4 (p. 56), the target municipalities Peja, Pristina, Glogoc, Mitrovica, Prizren and Drenas face serious challenges in providing decent accommodation to its citizens. Housing needs seem clearly assessed. Summing up the findings of the assessment, the municipalities intend to take the following measures to address this challenge:

- Developing and effective implementation of Housing Programmes;
- Provision of building land in public property for affordable and social housing;
- Utilisation of funds from municipal and government budgets, Public-Private Partnership;
- Support for the realisation of affordable rental housing or a bonus system for market housing supply;
- Establishment of schemes of housing management and maintenance.

Table 4: SWOT analysis of municipal activities in affordable rental housing

STRENGTHS	WEAKNESSES
• Existence of the legal framework (Law on the Financing of Special Housing Programmes and six Administrative Instructions). • Willingness of municipalities to provide for building land free of charge and budget funds. • Willingness of stakeholders and donors to support housing initiatives. • Functioning urban planning tools.	• Political continuity is in some cases deficient. • Budget shortage. • Quality standards in housing construction. • Low ability to pay of substantial parts of population.
OPPORTUNITIES	RISKS
• Big demand for affordable rental housing. • Big demand for housing management services. • Low construction costs. • Use of existing capacities: facilities, land, human resources. • Availability of existing buildings to adopt for affordable rental housing. • Willingness to enter Public–Private Partnerships. • Financial support from the central level.	• Financial capacities of municipalities for continuing obligations (e.g. allowance schemes). • Political discontinuity. • Economic downturn with decreasing affordability.

Source: SHPRK/IIBW.

A new LPH sector to provide for affordable rental housing has been stated highly welcome by policy makers of the assessed municipalities.

1.6 LIMITED PROFIT HOUSING IN AUSTRIA AND EUROPE

Many Western countries have affordable rental housing sectors of significant size, but hardly any transition country has. Often those sectors are organized with specific business models between State and market, and legally defined. Austria and its Limited Profit Housing Associations (LPHA) are regarded as European good practice (IIBW, 2016b) and shall serve as a model for Kosovo. Main elements of the Austrian model are:

- Cost coverage principle: A minimum and a maximum allowable rent are defined based on the Limited-Profit Housing Act (WGG, Wohnungsgemeinnützigkeitsgesetz, StF: BGBl. Nr. 139/1979). The minimum is determined by the costs; remaining under the costs is not allowed. The definition of costs includes repayment and interests for (mortgage) loans as well as interests for own funds. A special mark-up for periodic renovation and maintenance works is considered. Cost rents are calculated at the estate level, there is no rent pooling at the LPHA level.
- Limitation of profit: housing associations ought to make profits. But these profits have to be reinvested in the purchase of land, refurbishment or new construction. A tightly limited part of profits may be divided to the owners or shareholders.
- Tie-up of assets principle: There is no way for owners of LPHAs to cash out dormant assets represented in the quickly growing number of rental apartments. In the case of merger and acquisition of LPHAs the seller will get no more than the originally invested capital (appropriate interest is usually disbursed on yearly basis on the way of limited profit division).
- Limited field of action: The housing associations have to focus on housing construction, refurbishment and housing management. In fact, it is a strong incentive for high construction quality and social balance if housing associations function as long-term housing managers.

- Obligation to build: Any interruption in building activity requires the expressed permission of the respective regional government.

The LPHA sector in Austria has realized more than 1 mill. housing units so far, mainly since the 1970s. It represents 24% of the total housing stock.

For further reading see IIBW (2016): Third United Nations Conference on housing and Sustainable Urban Development (HABITAT III) – Case Study – The Austrian System of Social housing (<http://iibw.at/documents/2016%20IIBW%20Habitat%20III%20Case%20Study.pdf>).

Other European countries have similar sectors of affordable rental housing, combining elements of market and state backing, e.g. the Netherlands, Denmark, France, Sweden, UK (see www.housingeurope.eu).

2 BUSINESS MODEL

YRHK intends to realize affordable rental housing in Kosovo on the basis of a new business model. This model refers to lessons learnt from the Austrian system of Limited Profit Housing Associations (LPHA, see chap. 1.6, p. 15). But political and economic sustainability may only be achieved, if such a new model is “re-invented” in the political, legal, economic and institutional environment of Kosovo.

YRHK includes elements of the new business concepts such as B Corporations (Benefit Corporations, following US Law), CICs (Community Interest Company, following UK Law), or CDCs (Community Development Corporation).

2.1 TARGETS

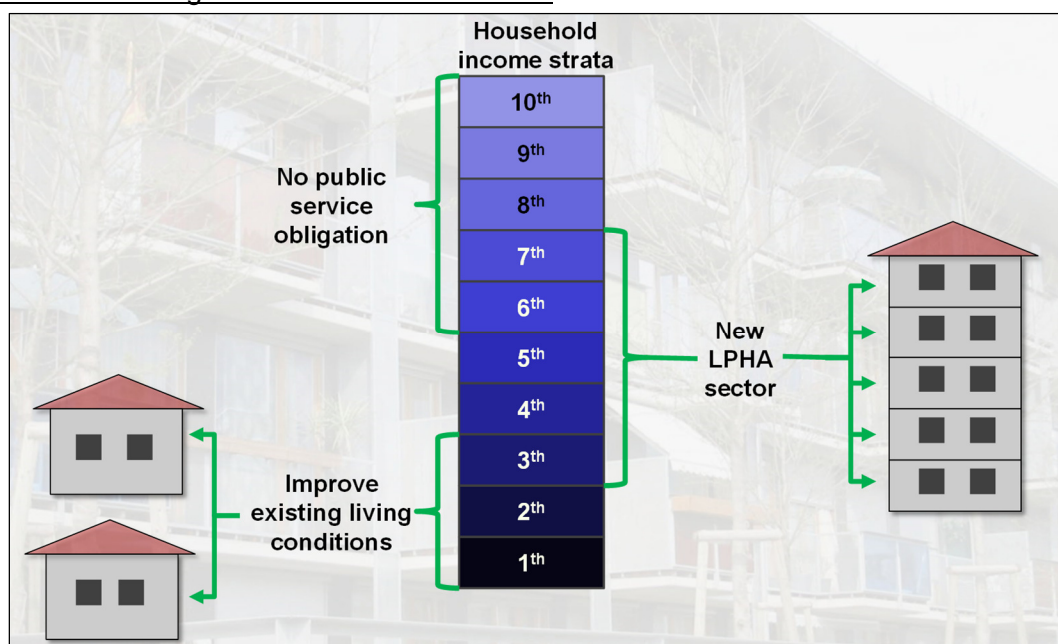
a) Affordability, social targeting

“Young Rental housing” is affordable for lower and middle income households (approx. 3rd to 6th income decile, see Graph 5) and specifically serves the needs of young families. Rents are significantly below market level. This is achieved with a set of measures with least possible costs for the public. Poor households also benefit, as other parts of the housing market are relieved. In modest quantities and if housing allowances are available, also poor households may be integrated. But they should not dominate the social mix and in any case have to pay rents. Rental tenure makes sure that the existing stock will revolve and in the future be available for new beneficiaries. The model requires payment discipline of all tenants. For this reason, effective eviction procedures are indispensable.

Affordability of the YRHK housing products will be achieved with a bundle of measures and its combination:

- Building land free of charge or at low costs,
- Financial support of municipalities,
- State housing programmes,

Graph 5: Positioning of a LPHA sector in Kosovo



Source: IIBW.

- Innovative financing,
- Increasing professionalism and growing financial maturity of YRHK,
- Cost control, limitation of profit,
- Strict audit and control,
- Low arrears, strict measures to warrant payment discipline,
- Economy of scale,
- A set of risk mitigation measures, and
- Acquisition of donor funds.

b) Compliance with EU regulations

The model complies with EU jurisdiction of “Services of General Economic Interest” (competition law, exempt of state aid ban).

c) Economic sustainability

“Young Rental housing” is a new market segment introduced to stay. All structures are designed to remain on a permanent basis. This includes a bundle of measures to mitigate any kind of risks. The Austrian LPHA sector exists for almost 100 years and has produced 1 mill. apartments since then. It accommodates ¼ of Austrian households.

d) Ecological sustainability

Even though economic sustainability has priority against ecology, this topic is also on top of the agenda. The example of Austria shows that the economically most mature housing associations usually are also those with the most advanced ecological standards (further detailing in chap. 2.6, p. 21).

e) Cascading implementation

The implementation of a LPH sector in Kosovo shall start

- a) with “Young Rental housing Kosovo LPHA” as a pilot housing company (see business plan in chap. 3, p. 23);
- b) which shall execute one first pilot project with some 60 apartments (see chap. 4, p. 27).
- c) In parallel, the necessary legal regulations shall be developed and implemented (chapter 7, p. 37).
- d) On this basis, other stakeholders shall be motivated to establish LPHAs as competitors of YRHK.
- e) After assessment of the pilot LPHA and the pilot housing project the Government is motivated to launch one first State Housing Programme with a financing volume of e.g. € 30 mill., financed by one of the International Financing Institutions (EIB, CEB, EBRD) and secured with a State guarantee. This financing volume will suffice for 1,500-2,000 affordable rental flats.
- f) After assessment of the first Housing Programme, several others should follow. In this way it seems possible to establish an affordable rental housing sector with altogether >10,000 units in all bigger cities of Kosovo within a period of little more than 10 years. This would represent 3-5% of the total housing stock in Kosovo.

This cascading implementation seems to be an efficient strategy to scale up the model.

2.2 MAIN ELEMENTS OF YRH KOSOVO LPHA

The following main elements of YRHK follow the model of Limited Profit Housing Associations in Austria (chap. 1.6, p. 15). In a following step, they shall be developed to legal regulations for the entire sector of affordable rental housing in Kosovo (chap. 7, p. 37).

a) Cost coverage principle

Housing products (rental apartments, housing management, refurbishment projects) shall be provided at prices, which are neither higher nor lower than own costs. Own costs include contractually/legally defined components of profits, e.g. for development services, management services, investment of own equity etc. (see chap. 7.2.5d) "Allowed and prohibited margins", p. 42).

b) Limitation of profit

Profits are disbursed to shareholders only in a very limited amount. Austria may serve as a benchmark with 3.5% of invested initial capital (which is in most cases lower than own equity of the LPHA and much lower than the total value of real estate assets) per year at maximum. All other profits increase own equity of the LPHA.

c) Tie-up of assets principle

Any attempts to cash out those assets are legally and/or contractually prohibited. By selling shares of an LPHA the price is limited with the original investment. An LPHA follows principles similar to a foundation.

d) Limited field of action

LPHA are intended to realize new housing construction, to manage own and other housing stocks and to organize refurbishment of housing estates. Other activities should be limited by law.

e) Obligation to build

There is a temptation for mature LPHA to stop with new construction and focus to management of the existing stock (low risk business, increasing equity ratio etc.). But such a behaviour would be against public interest. As LPHA assets have been built up with public support, it is appropriate to oblige them to continue with new construction.

f) Cooperation with municipalities

LPHA are intended to become partners of municipalities in accommodation of young families and also in other projects of the built environment.

2.3 BUSINESS AREAS / SOURCES OF INCOME

The business of YRHK is rental housing, development of rental housing and housing management. Sources of income change over time. In the first couple of years it is primarily development fees for new construction, whereas the biggest part of rent incomes is spent to amortize loans. Also housing management will be of less significance in the beginning. Over time the sources of income will change. Development fees may lose their predominant role. With a number of apartments under management of above 2,000 (own and other property) this activity becomes self-sufficient and will contribute to the overall performance of "YRH Kosovo LPHA". After full amortization of the first build-

ings ongoing rent incomes will be the most important source and contribute to finance further housing construction (see chap. 5, p. 29).

a) Housing development – new construction

Source of income is a legally or contractually defined project development fee. It should combine income opportunities with incentives for efficient business conduct. It should be defined, in which extent the LPHA may benefit from renegotiation of tenders or cash discounts for construction services. At the beginning of operations, this development fee should be sufficiently high with approx. 15% of construction costs. With higher maturity of housing associations, this fee may be legally reduced. In the first couple of years this will be the major source of incomes for the LPHA. Dependence on this source forces the LPHA to constant construction activities. Early termination of state Programmes may threaten the survival of the LPHA.

b) Rent and sale

The main business area is rental housing. Ground floors of residential buildings may contain retail space for rent or sale. In individual cases it may be reasonable to sell some more attractive apartments, e.g. in the attic.

Source of income:

- a) Residential rent incomes: During the financing period, the entire net rent will be spent for repayment of the mortgage loan (cost rent). After full amortisation continuing rent incomes are an important source to build up own equity.
- b) Rent incomes from commercial space.
- c) Incomes from sales.

After full amortization, rental housing may generate substantial incomes to the LPHA. Combined with a limitation of profit disbursement to shareholders this will lead to a quick growth of the LPHA's equity ratio, but only then. The use of these incomes should be legally defined from the very beginning. It has to be defined, how to divide it between a) reinvestment obligations, b) refurbishment funds, c) lowering rents and d) LPHA equity. It has to be considered that this income opportunity only appears after some 25 years of existence.

c) Housing management

This business area covers own premises and services for other real estate owners, e.g. municipalities. Source of income is a legally or contractually defined housing management fee. Housing management is a "penny-business", with quite small incomes per case. But with a sufficient housing stock, management may develop to a substantial income-generator for an LPHA, characterized by low volatility and predictability. As a rule of thumb, it takes at least 2,000 housing units to make a housing management unit profitable. This number may be achieved also with services for other landlords.

d) Refurbishment

This business area covers own premises and services for other real estate owners, e.g. municipalities. Source of income is a legally or contractually defined fee.

e) Services for municipalities

Municipalities often have poor capacities in development and management of buildings, such as schools, kindergartens, buildings for fire brigades, office buildings etc. The example of Austria shows that LPHA may play an important and beneficial role as service provider for municipalities for such cases.

2.4 FINANCING, STATE EXPENDITURE

It has to be distinguished between financing of the organisation (business financing, for details see chapter 5.2, p. 31) and financing of construction (project financing, for details see chapter 5.1, p. 29).

The LPHA model targets at lowest possible State subsidies:

- State: guarantees for Housing Programmes, financed by IFIs;
- Municipalities: building land free of charge or at discounted price; grants from municipal budgets; allowances or rent guarantees for very low income households.

The example of Austria shows, that an LPHA scheme allows for providing high quantity and quality of affordable housing with moderate state expenditures. Close cooperation with the financing industry, the international donor community and the commercial real estate and construction industry is essential.

2.5 RISK MITIGATION

Risks are reduced as far as possible by measures described in detail in chapter 8 (p. 50).

2.6 ENVIRONMENTAL AND SOCIAL STANDARDS

As seen in Austria, social housing is one of the most powerful drivers of social sustainability. The Austrian model also shows that such associations may develop to frontrunners in environmental responsibility and innovation. Ecological sustainability will be achieved as follows:

- As the same LPHA shall develop and manage the housing estates, it is warranted, that construction materials and execution are of high quality and longevity.
- Low energy costs will improve payment ability of tenants. This is a strong incentive for the LPHA to realize good energy standards. In Austria, LPHA are frontrunner in introduction of very high energy standards of up to passive house standard.
- LPHA are more dependent to State and local authorities than commercial market players. For this reason, the Austrian LPHA sector has developed to a text field for new ecological standards. As long as economy has even higher priority, this function seems appropriate.

The proposed LPHA and following steps to implement an LPH sector in Kosovo is fully in line with the environmental and social standards, as defined in the “OECD Guidelines for Multinational Enterprises” (particularly p. 19 f.).

Housing construction may have negative environmental effects by urban sprawl or use of hazardous materials. Being conscious of this possible negative impact, all activities within the project will target at responsible urban development goals and the responsible use of healthy materials.

2.7 ANTI-CORRUPTION

Following the Business Anti-Corruption Portal, Kosovo shows a lack of transparency and accountability in public administration, which results in widespread corruption and negatively affects foreign investment. Building up a LPHA sector intends to contribute to reduce corruption in Kosovo.

Real estate is particularly vulnerable to corruption and malpractice. Compliance and anti-corruption measures are therefore of paramount importance. It is recognized that a sustainable business conduct of our company will only be achieved with strict compliance procedures. It will include amongst others:

- YRHK operations will certainly follow all legal provisions listed in chap. 1.2.2b) (p. 13).
- A clear focus on the matter in internal regulations, including a code of conducts and appropriate protection for employees and partners who report corrupt practices. Internal and external stakeholders will be actively informed that our company never accepts bribes or other offers for obtaining unjustified advantages.
- The establishment of a system of audit and control is a crucial part of the concept (see chapter 3.9, p. 26). It is aspired to gain support from the Austrian LPHA Auditing Association to implement compliance standards in our company and to establish a similar institution in Kosovo.

3 FORMATION OF YRH KOSOVO LPHA

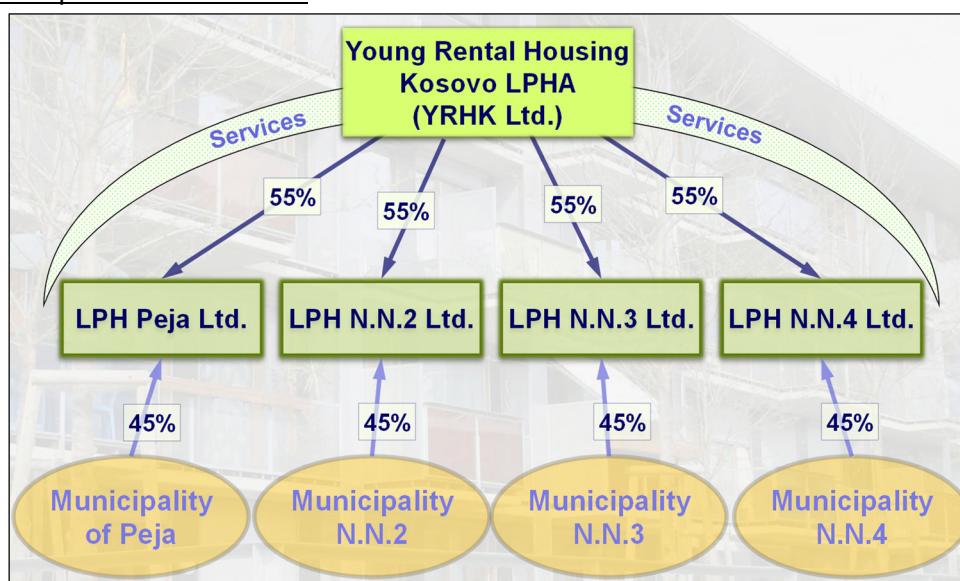
This Feasibility Study assesses the terms of formation of a Limited Profit Housing Association with support of the “Business Partnership” Programme of Austrian Development Cooperation.

3.1 STRUCTURE OF BUSINESS PARTNERSHIP, LEGAL FORM

Different forms of cooperation between Austrian and Kosovar private sector stakeholders and Kosovar municipalities have been assessed. Most critical aspects seem to be limitations on volume and ratio of equity investment and incoherence of stockholding of different stakeholders:

- Both IIBW and SHPRK are able and willing to contribute with own equity of up to € 30,000, which should represent roughly each 10% of YRHK shares.
- Possible partners from the Austrian LPHA sector are also limited in investing own equity abroad.
- Municipalities prefer participation in joint companies of below 50%. As such, those companies belong to the private sector and are much easier to handle than companies with majority public ownership.
- Experience tells that municipalities are reluctant to cooperate with companies which are under control of other municipalities. Hence, accepting one municipality as shareholder of YRHK would possibly mean to have no access to other municipalities. For this reason, it is proposed to form daughter companies with 45/55% shares of the individual municipality and YRHK respectively.
- YRHK should be positioned in the very core of civil society of Kosovo. If the business case works, such ownership titles will in some decades mean “wealth” in terms of housing stock, even though with very limited possibilities to cash out. For this reason, it is intended to structure ownership of YRHK as kind of “club deal” with a small number of trustful representatives of civil society with basically equal shares and rights, but with a “primus inter pares” position of SHPRK and IIBW, being in charge for CEO and head of supervisory board respectively.
- The daughter companies are designed as more or less empty shells with no own operative activities. All activities of housing development, management and maintenance are fully serviced by YRHK.
- The institutional setting warrants for increasing professionalism and growing financial maturity of the housing association and hence contributes to lower and predictable costs.

Graph 6: Group structure of YRHK



Source: YRKH.

3.2 SHAREHOLDERS

3.2.1 SHAREHOLDERS YRHK

Considering an efficient composition of shareholders of a company such as YRHK it is necessary to keep in mind the specific character of this business case. It differs in a number of aspects from usual business cases, particularly with the cost coverage principle, limitation of profit and tie-up of assets. As a result, shareholders of YRHK may become rich in dormant assets (= the growing housing stock), but with very limited possibilities to cash-out those assets. With those assets, they may play an important role in civil society, but with quite limited economic flexibility.

Again, the Austrian model may help to exemplify: There owners of LPHA are cooperatives, charity organisations, the church, political parties, trade unions, municipalities, the financing industry, other industries and private persons. In many cases, the motivation to invest in LPHA is particular benefits to the own clientel. In many cases the originally invested capital (which is still the basis for disbursement of profits and the purchase price in the case of sale of shares) was quite low. The divergence with the real value of the housing stock of many of those LPHA is a challenge, and at the same time characteristic for the sector as a limited profit industry.

Hence, we need shareholders with a long term economic perspective, who can do without large pecuniary profits, who at the same time have stakes in the development of civil society. As shown in the previous chapter, municipalities are priority partners in affiliated companies, but not in YRHK.

A solution is a “Club Model”, with a number of shareholders with strong stakes in civil society, which at the same time do not look at the short-term profit of such an investment. All involved stakeholders shall have equal shares. The following persons and institutions have committed interest (LOIs in the Appendix, p. 56):

- IIBW, Dr. Wolfgang Amann, Vienna;
- SHPRK, Agron Beka, Pristina;
- N.N.

YRHK shall be established as Limited Liability Company with an initial capital of at least € 200,000.

3.2.2 SHAREHOLDERS LPH PEJA LTD. AND OTHER DAUGHTER COMPANIES

For participation of municipalities in LPH activities it is important to have them as private sector entities. This requires a public share of below 50%. For this reason the described daughter companies of YRHK have contributions of 55% of the umbrella organisation and 45% of the partner municipality.

The municipality of Peja has committed in such a cooperation, see LOI in the Appendix (p.56).

LPH Peja shall be established as Limited Liability Company with an initial capital that corresponds with financing requirements of the housing projects. This will in the beginning be below € 200,000

All other daughter companies will be established accordingly.

3.3 RULING ON TRANSFER OF SHARES

Shareholders of YRHK and all daughter companies are allowed to sell their shares, but with the following limitations:

- The selling price is limited with the originally invested capital.
- All other shareholders have an option to buy. If no consensus on division of sold shares is achieved, they are allocated at equal parts to interested parties.
- In case of bankruptcy of an institutional shareholder
- In case of death of a shareholder

3.4 BALANCING ASPECTS / DEVELOPMENT OF ASSETS AND LIABILITIES

Analysis of income streams (see chapter 5, p. 29) show that the LPHA business case is quite a tough job for at least two decades. Those years will be characterized by a thin equity base and a permanent chase for new projects to generate project development fees. Levy of rents will hardly suffice to cover loan instalments. The newly established housing management unit will hardly generate incomes. This affects financial stability of the company and possibly requires an adoption of legal definition of regulatory capital. This situation will change by achieving some maturity. Trust of public authorities and civil society in the usefulness and sustainability of the LPHA model is therefore essential. It is the real capital of such an institution. Over time “YRH Kosovo LPHA” will build up significant dormant assets.

3.5 YRHK SUPERVISORY BOARD

The following members of the Supervisory Board are proposed:

- a) Wolfgang Amann (IIBW) – head
- b) Rame Hamzaj (Ministry of Environment and Spatial Planning)
- c) Naim Ismajli (President of the Association of Cities and Towns)
- d) N.N. (international twinning partner, or “Housing Europe”)
- e) Lulzim Beqiri. (equity partner)
- f) Raiffeisen Bank (financing industry)

Members of the supervisory board shall receive remuneration only of travel costs.

3.6 DRAFT STATUTE

Functional description:

- a) YRHK will apply to be acknowledged as LPHA following the Law on Social Housing and the according Administrative Instructions.
- b) If those regulations are not yet in place at the time of formation of YRHK, all regulations proposed in chapter 7 of this Feasibility Study (p. 37) will be implemented on contractual basis.

3.7 MANAGEMENT

It is intended to assign 1 CEO. Co-author Agron Beka is nominated to become founder CEO. There will be no more than two deputy CEOs.

Salaries and bonuses: Incomes of staff and management are limited. Similar to Austria the salary of the managing director should be linked to the legally defined salary of a director of department in a Ministry (currently approx. € 800 per month). Premiums should be allowed, but capped (at most the amount of a yearly regular income). Secondary occupation of the managing director should be limited.

3.8 STAFF

It is intended to go with the following staff:

Table 7: YRHK business plan – Staff

	Monthly full time gross salary 1 st year	Full time equivalent				
		1st year	3rd year	5th year	7th year	10th year
CEO economist/lawyer	€ 800	0,5	0,75	1	1	1
Deputy CEO technician	€ 650	0,5	0,75	1	1	1
Accountant	€ 400	0,5	0,5	1	1	1
Technician	€ 400	0,5	0,5	0,5	0,5	0,5
Expert for housing management	€ 300		0,5	0,5	0,5	0,5
Support	€ 200	0,5	0,5	1	1	1
Total full time equivalent		2,5	3,5	5,0	5,0	5,0

Source: IIBW/SHPRK

3.9 EXTERNAL SUPERVISION AND AUDIT

All costs of construction, financing, management, maintenance and business conduct will be under permanent supervision of external audit.

Real estate seems more vulnerable to malpractice and corruption than other industries. All the more it impresses that hardly anything of this has appeared in the Austrian LPHA sector for the past decades. A main reason is an elaborated scheme of audit and control. It is aimed to acquire the Austrian LPHA auditing association as twinning partner to control “YRH Kosovo LPHA”. Once developed to a new market segment, “Young Rental housing” shall establish its own system of audit and control, based on lessons learnt from Austria. “Compliance” is the key word. It significantly reduces any kind of business risks and hence reduces costs.

4 PILOT PROJECT IN PEJA

“Young Rental housing” shall start with a pilot project with some 60 units. This is necessary to test all aspects of the model and adjust it to the legal and economic environment of Kosovo. Interest to host such a pilot project has been expressed by several of the target municipalities (see chap. 1.1.2, p. 10), most concrete the city of Peja with plots of land at the Bus Station or in "Fidanishtja" and the willingness to contribute financially.

In the following, we list the criteria to be described and developed in the course of project development:

a) Target group

- The pilot project in Peja targets at households working in the public sector, such as teachers or civil servants.
- Additionally, other low and moderate income households are targeted.

b) Rent, maintenance costs, rent payment

- The financing model works with a net rent as low as 1.80 €/m² (see chap. 5.1, p. 29).
- Maintenance costs are calculated with 0.15 €/m². This is rather low, compared with Western European countries. But higher maintenance fees will be difficult to enforce.
- The housing management is calculated with 0.08 €/m². This is € 62 per apartment per year and should be enough to build up professional housing management services.
- Together with 9% VAT, this sums up to 2,21 €/m², or for an apartment of an average size of 65 m² some € 144 per month. Considering usual incomes of the target groups, these housing costs are regarded affordable.
- It is intended to organise rent payment by direct debiting from the payroll account of the tenants.

c) Location

- Urban integration: ...
- Social and business infrastructure: ...
- Public transport: ...
- Parking: ...

d) Land plot

- Costs: ...
- Technical infrastructure: ...

e) Building typology

- Cost optimum concerning size, structure, staircases, elevators etc.: ...
- Resistance: ...
- Efficiency aspects of maintenance: ...
- Architecture: ...

f) Apartment typology

- The average apartment size will be 65 m². This is a total floor space of around 3.900 m².

- Mix of apartment sizes:
 - ca. 50% of apartments with 2 bedrooms (65-70m²);
 - ca. 35% with 1 bedroom (< 50m²);
 - ca. 15% with 3 bedrooms (ca. 85m²).
- Optimisation of ground plans: ...
- Interior, kitchen: ...
- Gender aspects: ...
- Efficiency aspects in the case of change of tenants: ...

g) Construction and building materials

- Low tech approach: ...
- Ecology: ...
- Building envelop: ...
- Windows and doors: ...
- Floor foundation, noise insulation: ...
- Optimisation in terms of maintenance, refurbishment and later recycling: ...
- Life-cycle approach: ...

h) Energy, building equipment

- Low tech approach: ...
- Energy efficiency of building envelop and appliances: ...
- Heating, air condition: ...
- Photovoltaics: ...

i) Customer aspects

- Measures to improve coexistence of tenants: ...
- Social targeting: ...

j) Housing management, maintenance, utilities

- Low maintenance costs vs longevity: ...
- Measures to keep the intrinsic value of the building: ...
- Activities/costs to be included in the management fees: ...
- Contracting with utility providers: ...

k) Allocation, Eviction

It must be clear that LPH housing is only partly for the poorest in society. Payment discipline of tenants is essential for economic sustainability. This includes evictions in the case of payment arrears.

l) Management of construction, control

- Tendering: ...
- Speedup of the construction and allocation phase (permits, timely succession of works, allocation of tenants etc.): ...
- Remedy of defects: ...
- Quality control: ...
- Project control: ...

5 CALCULATION OF BUSINESS AND CONSTRUCTION

5.1 COST CALCULATION OF THE PILOT PROJECT

The pilot project has the following operating figures:

General Provisions:

▪ Inflation / CPI	2,0% (projection)
▪ Monthly income of reference household	€ 300
▪ Size of average apartment	65 m ² (38-85m ² , 1-3 Bedrooms)
▪ Net annuity for the reference apartment	1,80 €/m ²
▪ Increase of net rent p.a.	2,0% (= CPI)
▪ Maintenance costs	0,15 €/m ²
▪ Management fee	0,08 €/m ²
▪ Tax on rents	0,18 €/m ² (9%)
▪ Gross rent	2,21 €/m ²
▪ Cost per month of reference apartment	€ 144
▪ Vacancy risk	10%
▪ Share YRHK	55%
▪ Share City	45%

Costs (all numbers per m² gross floor space):

▪ Land value and infrastructure	50 €/m ²
▪ Construction costs (on useable floor space=netto)	280 €/m ²
(all in, including planning, engineering, open space etc., no VAT)	
▪ Development fee	42 €/m ² (15%)
▪ Communal fee	20 €/m ²
▪ Total costs	392 €/m ²
▪ Total cost per apartment	€ 25.480

Financing		% of total
▪ Land cost and infrastructure	50 €/m ²	13%
▪ Sale price Ø	500 €/m ²	
▪ Sale price of business space Ø	700 €/m ²	
▪ Earnings from sale		0%
▪ Equity of YRHK to project	39 €/m ²	10% (55% of own equity)
▪ Equity of local LPHA to project	32 €/m ²	8% (45% of own equity)
▪ Grant City		15-30%
▪ Equity of tenants (deposit)	7 €/m ²	2%
▪ Mortgage loan IFI		40-55%
▪ Interest rate Mortgage loan (IFI)	3-4%	
▪ Maturity of mortgage loan	25 y	constant pay back
▪ Grace period	2 y	
▪ Interest rate on equity	3,0%	

The calculation includes some components to cover project risks: construction costs and financing costs are estimated relatively high, the financing period may be expanded, ground floors may be rented out for business purposes at higher rents.

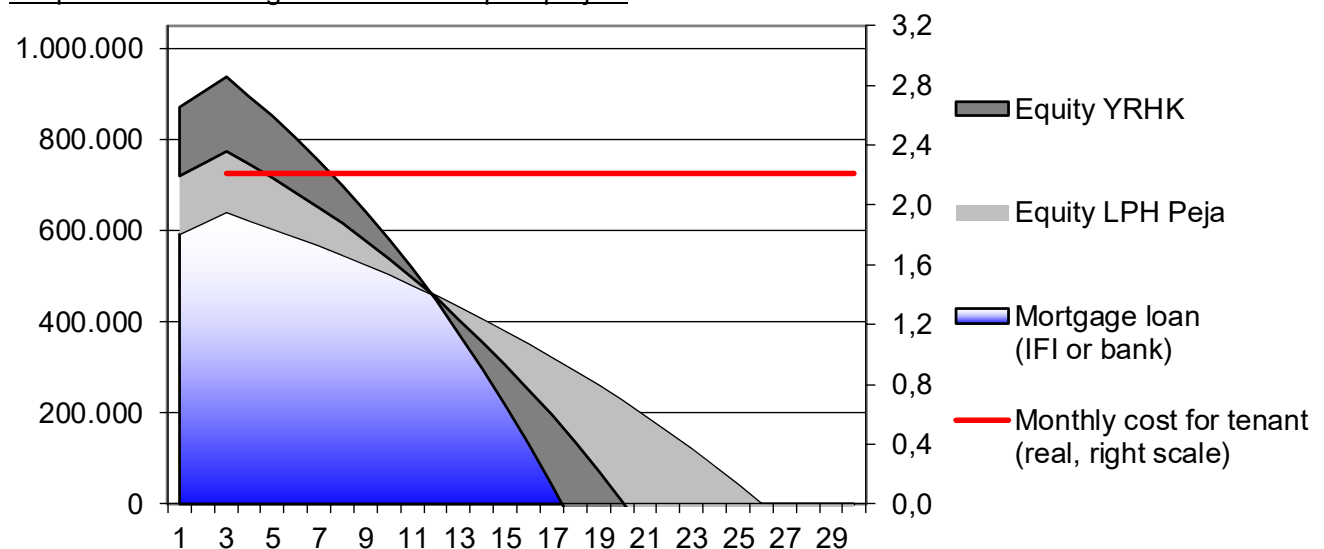
Following the general assumptions, the pilot project has the following key data:

▪ Number of dwellings	60 units
▪ Floor space to rent in m ²	3.900m ²
▪ Business space to rent	to be specified
▪ Floor space to sell m ²	0
▪ Total useful floor space in m ²	3.900m ²
▪ Total construction costs	1.092.000 €
▪ Development costs	164.000 €
▪ Land value	195.000 €
▪ Communal fee	78.000 €
▪ Total costs	1.529.000 €

Financing is modelled as follows:

▪ Own equity YRHK	152.900 €	10%
▪ Own equity LPH N.N.	125.100 €	8%
▪ Cross financing	0 €	0%
▪ Sales revenue	0 €	0%
▪ Equity of tenants (deposit)	25.900 €	2%
▪ Subsidised land & infrastructure	195.000 €	13%
▪ Grant Municipality	436.800 €	29%
▪ Mortgage loan (IFI)	593.300 €	39%
▪ Total financing	1.529.000 €	
▪ Total Municipality	688.095 €	45%

Graph 8: Financing structure of the pilot project



Source: IIBW/SHPRK

Graph 8 shows the financing structure of the pilot project:

- Due to the substantial grant assumed from the municipality it is possible to finance with less than 39% of total costs. This mortgage loan is calculated with 4% interest rate. Hence, the pilot project could probably be financed with commercial banks, if no donor or development bank can be acquired. It is presumed, that repayment starts only in the third year (grace period).
- The municipality contributes with a grant of 29% of total costs, value of building land free of charge is estimated with 13%, additionally, almost half of own equity of the local LPHA is dispensed by the municipality. This sums up to 45% of total costs.
- The remaining costs are covered by YRHK (10% + 4%) and a small advance payment of tenants amounting to three monthly rents (deposit, less than 2% of costs).
- The yearly rent income, considering 10% vacancy risk, is almost € 76,000 in the third year (=first year of renting). Then it is assumed to increase in the extent of the inflation rate (indexed rents). A constant amount goes to repayment of the mortgage loan and the remaining money to repayment of own equity of YRHK and the local LPHA. This component is growing year by year due to increasing rent incomes. Hence, own equity may be amortized already after some 11 years. Afterwards, rent payments contribute to build up own equity of the LPHA/YRHK, which is urgently needed for equity invest to further projects.

5.2 FINANCING OF THE LOCAL LPHA

The local LPHA is designed as empty shell, with all operative services provided by YRHK. To support financing of YRHK, the cost calculation includes a contribution to YRHK services costs of 80% in the very first years, which stepwise is reduced to 20%. With these assumptions, the local LPHA may come to a positive cash flow after around one decade, strongly dependent on further equity investment and equity contributions of shareholders.

5.3 YRHK OPERATING COSTS

YRHK takes over all services for the local daughter companies. Following the assumptions of Table 7 (p. 26), operating costs as shown in Table 9 are forecasted. Those numbers include the following assumptions:

- Most cost components are calculated with a yearly increase of 2% (indexation).
- “IIBW” and “Austrian LPHA partner” services are calculated with each 25 person days per year with a daily fee of only € 720,-.
- Tax duties cannot be forecasted at the moment.

Table 9: YRHK operating costs

	Remarks	1st year	3rd year	5th year	7th year	10th year
Personnel total		-€ 14,700	-€ 21,700	-€ 31,200	-€ 32,400	-€ 34,400
Personnel premiums		-€ 3,800	-€ 4,000	-€ 4,200	-€ 4,300	-€ 4,600
Employer tax	5%	-€ 900	-€ 1,300	-€ 1,800	-€ 1,800	-€ 2,000
Premesis (rent, energy)	120 m ²	-€ 3,900	-€ 4,100	-€ 4,200	-€ 4,400	-€ 4,700
Equipment (IT etc.)		-€ 4,000	-€ 1,000	-€ 1,000	-€ 1,000	-€ 1,000
Auditing		-€ 6,000	-€ 6,200	-€ 6,500	-€ 6,800	-€ 7,200
Supervisory board		-€ 2,000	-€ 2,000	-€ 2,000	-€ 2,000	-€ 2,000
IIBW personnel I		-€ 18,000	-€ 18,800	-€ 19,600	-€ 20,400	-€ 21,600
IIBW personnel II		€ 0	€ 0	€ 0	€ 0	€ 0
Austrian LPHA personnel I		-€ 18,000	-€ 18,800	-€ 19,600	-€ 20,400	-€ 21,600
Austrian LPHA personnel II		€ 0	€ 0	€ 0	€ 0	€ 0
Travel & accomodation costs international partners		-€ 5,000	-€ 5,200	-€ 5,400	-€ 5,600	-€ 5,900
Consultancy and training local staff		-€ 10,000	-€ 10,000	-€ 2,000	-€ 2,000	-€ 2,000
Reserve		€ 0	-€ 5,000	-€ 5,000	-€ 5,000	-€ 5,000
Taxes		€ 0	€ 0	€ 0	€ 0	€ 0
Total costs		-€ 86,300	-€ 98,100	-€ 102,500	-€ 106,100	-€ 112,000

Source: IIBW/SHPRK

5.4 YRHK EARNINGS

Earnings are calculated with the following assumptions:

- Initial capital is calculated with € 200,000 (according to the proposed legal minimum capital) with re-capitalisation to finally € 500,000.
- The business plan forecasts a housing output of 500 units within the first decade of operations. This volume of new construction will be possible only if we succeed to motivate the Government of Kosovo to run several housing programmes (chap. 2.1e), p. 18, chap. 6.2, p. 35). If this is not the case, exit strategies as describe in chap. 8.2 (p. 50) will apply.
- For each housing project the development fee (15% of construction costs) will be paid in three tranches within three years (25/50/25%).
- The housing management fee is calculated with 0,08 €/m² useable floor space. This is € 62 per average apartment per year.
- The ADA grant for Business Partnership is assumed with € 200,000, to be paid in four equal tranches within four years.
- It is assumed that the Austrian LPHA Auditing Association will contribute to business operations with a discounted price for audit and control of only € 3,000 per year.
- As a result, in the first couple of years the development fees for new construction have by far the biggest significance for total incomes. Fees for housing management only stepwise grow to significant volume.
- The balance of operating costs and earnings is from the beginning positive and quickly growing, for a big part because of the assumed management contributions of the local daughter companies.

Table 10: YRHK earnings

	Remarks	1st year	3rd year	5th year	7th year	10th year
Initial capital and recapitalisation of shareholders		€ 200.000	€ 200.000	€ 100.000		
Management contribution N.N. 1		€ 69.000	€ 39.200	€ 41.000	€ 42.400	€ 22.400
Management contribution N.N. 2			€ 39.200	€ 41.000	€ 42.400	€ 22.400
Development fee N.N. 1	60 units	€ 41.000	€ 41.000			
Development fee N.N. 2	100 units		€ 68.300	€ 68.300		
Development fee N.N. 3	100 units			€ 68.300	€ 68.300	
Development fee N.N. 4	80 units		€ 54.600	€ 54.600		
Development fee N.N. 5	80 units			€ 54.600	€ 54.600	
Development fee N.N. 6	80 units				€ 54.600	
No. of dwellings total	500 units		60 units	240 units	420 units	500units
Management contribution Total		€ 69.000	€ 78.400	€ 82.000	€ 84.800	€ 44.800
Development fees total		€ 41.000	€ 163.900	€ 245.800	€ 177.500	
Service fees for management	€ 62		€ 3.900	€ 16.200	€ 29.500	€ 37.300
ADA grant		€ 50.000	€ 50.000			
Support Austrian Auditing Association		€ 3.000	€ 3.200	€ 3.500	€ 3.800	€ 4.200
Total incomes		€ 163.000	€ 299.400	€ 347.500	€ 295.600	€ 86.300
Operation costs		-€ 86.300	-€ 98.100	-€ 102.500	-€ 106.100	-€ 112.000
Balance operation costs&incomes		€ 76.700	€ 201.300	€ 245.000	€ 189.500	-€ 25.700
Balance operation costs&incomes cumulated		€ 76.700	€ 396.000	€ 924.200	€ 1.358.700	€ 1.440.600

Source: IIBW/SHPRK

Table 11 shows the financial situation of YRHK including equity investment and return of equity, and together with assumed two daughter companies ("Group").

Table 11: YRHK total costs and earnings, financial result of the YRHK group

	1st year	3rd year	5th year	7th year	10th year
Total incomes (without own equity)	€ 163.000	€ 299.400	€ 347.500	€ 295.600	€ 86.300
Operation costs	-€ 86.300	-€ 98.100	-€ 102.500	-€ 106.100	-€ 112.000
Balance operation costs&incomes	€ 76.700	€ 201.300	€ 245.000	€ 189.500	-€ 25.700
Balance operation costs&incomes cumulated	€ 76.700	€ 396.000	€ 924.200	€ 1.358.700	€ 1.440.600
Equity investment	-€ 221.700	-€ 665.000	-€ 665.000	-€ 295.500	
Return on equity		€ 17.943	€ 68.595	€ 124.369	€ 162.931
Total YRHK (incl. Initial capital)	€ 55.000	-€ 245.757	-€ 251.405	€ 18.369	€ 137.231
Total YRHK kumulative	€ 55.000	-€ 72.757	-€ 22.186	€ 313.148	€ 843.924
Total Group (incl. Initial capital)	-€ 14.000	-€ 309.477	-€ 277.282	€ 35.326	€ 225.737
Total Group kumulative	-€ 14.000	-€ 273.277	-€ 313.020	€ 14.751	€ 780.789

Source: IIBW/SHPRK

The YRHK financing plan presented in Table 7 to Table 11 proves financial feasibility of the business case. As a usual pattern in housing investment, the financial result is negative in the first couple of years, but then turns positive ("bathtub curve"). After ten years, the equity ratio of the YRHK group is already at some 6%. Further development strongly depends on new construction. A growing stock of own apartments increases the denominator and hence depresses the equity ratio.

6 STATE SUPPORT

The Government of Kosovo has expressed its willingness to support the implementation of a LPHA sector in Kosovo (see Request for support by the Minister, appendix chap. 10.2, p. 54). This will be proved by the implementation of according legal regulations, following the propositions in this Feasibility Study (chap. 7, p. 37), and by the issuance of one first housing programme targeting at the newly established LPHA industry. If any of those two conditions fails, it will be necessary to apply exit strategies, as defined in chapter 8.2 (p. 50).

6.1 AFFORDABLE HOUSING AS POLITICAL PROJECT

Given the very ambitious approach in adopting the legal framework, it is evident that this is not only a project of technical assistance, but very much a political project. For this reason, close cooperation with the Austrian-Kosovar Friendship Society (kosovo-friends.at) is essential. This contact on Government level included coordination of a request for support by the Minister for Environment and Spatial Planning of Kosovo in March 2017 (Appendix chap. 10.2, p. 54).

The development of an affordable rental housing sector in Kosovo was decided as one of two focus areas of the Austrian-Kosovar Friendship Society. This political endeavour included permanent contacts on a diplomatic level and repeated journeys of representatives of the Friendship Society to Kosovo with high level meetings targeting at housing issues.

The establishment of an LPHA rental housing sector is a political challenge particularly in the follow respect:

- a) Enforcement of an according legal framework (see chap. 7);
- b) Implementation of Rental Housing Programmes, addressing funding from International Financing Institutions, secured with a State guarantee (chap. 6.2).

It is intended to start the Business Partnership as soon as it is clear that an according legal framework will be established.

6.2 RENTAL HOUSING PROGRAMMES

The national government is requested to support financing of a new LPHA sector. An opportunity with particularly low public costs are loans from International Financing Institutions (IFI), such as the Council of Europe Development Bank (CEB), European Investment Bank (EIB) or European Bank for Reconstruction and Development (EBRD).

Such Rental Housing Programmes may be implemented as follows:

- a) Precondition for IFIs to finance this kind of Programmes is explicit project lead by the Government and a State guarantee. Some IFIs appreciate cooperation with commercial banks.
- b) Framework conditions for a first Programme should be set in a way that a financing volume of approx. € 30 mill. can be absorbed. IFIs are reluctant to handle smaller projects. Taking average costs of an affordable rental apartment of € 20-25,000 and a LTV of 60-70%, a first Programme would comprise 1,700-2,500 housing units.

- c) Such a volume can only be managed, if a number of LPHA is already operative. YRHK alone will not be enough. Spreading the LPHA business model is prerequisite. This may be achieved by motivating municipalities, charity organisations, trade unions, the financing and insurance industry and the private sector to follow the example. It may be useful to motivate more pilot projects.
- d) Precondition for attracting other stakeholders to work with the LPHA business model is enforcement of LPHA regulations (chap. 7), including procedural regulations, regulations on audit and control, implementation of operative sanctions etc.
- e) If the LPHA business model does not find a sufficient number of followers, such a Rental Housing Programme may also address municipalities for the production of public housing. If so, a part of the proposed LPHA regulations should apply also to those borrowers.
- f) A State Rental Housing Programme requires legal regulations on funding (compare chap. 7.2.10, p. 46), definition of beneficiaries (compare chap. 7.2.9, p. 45), reliability of borrowers, financing conditions, procedure etc. All these provisions will be subject to an application study, to be worked out by commission of the Government of Kosovo in close cooperation with the IFI.
- g) Results from a first Rental Housing Programme should be evaluated. If feasible, further Programmes should follow. It seems feasible to establish an LPHA rental housing sector with a stock of >10,000 units within a period of 15 years.

6.3 SELF-ORGANISATION OF THE SECTOR

The model of Austria shows the significance of high capacities of self-organisation of the LPHA sector. It is important to establish a competitive environment of LPHA operations, to permanently adopting legal and financing regulations, to develop a reliable scheme of audit and control, to improve cooperation with municipalities and other stakeholders, to settle a positive image of the sector and to defend other interests of the sector. The Government should encourage the LPHA sector to settle structures of self-organisation.

6.4 ESTABLISHMENT OF AN AUDITING INFRASTRUCTURE

Audit and control is of crucial importance for economic sustainability of an LPHA sector. Deficient compliance of single LPHAs is the biggest threat for the continued existence of such a sector. According regulations for the establishment of an LPHA auditing association are provided in chap. 7.2.7 (p. 43).

LPHA auditing should have a broader scope than usual auditing, including not only year-end financial auditing, but accordance of the entire LPHA performance with the Law. As an example, this also concerns management fees, incompatibilities, economy of land acquisition and housing development etc.

It is aimed to acquire the Austrian LPHA Auditing Association to support YRHK in this respect. In a further project step it is intended to contribute to building up an according auditing infrastructure in Kosovo.

7 LPH LEGISLATION (FUNCTIONAL DESCRIPTION)

The Government of Kosovo has expressed its willingness to adopt legal regulations relevant for the operativeness of a new LPHA sector in the country. This chapter contains a functional description of regulations regarded necessary. Its detailing is part of the following project of a “business partnership”. In that phase of project implementation further legal know-how will be implemented, both from the side of national legal experts and international experts in LPH policy.

The functional description of LPHA regulations follows according experience in Austria and extensive experience of IIBW in housing legislation in a number of transition countries. Particular reference is taken to the project “Implementation of European Standards in Romanian Housing Legislation”, prepared by IIBW in 2008 for the Romanian Government (IIBW, 2008), including a draft “PPP Housing Law”. Major contributions to this source for LPHA legislation were provided by Dr. Andreas Sommer, Head of Department for LPHA Legislation in the Austrian Ministry of Economy, and Theo Österreicher, Director of the Austrian LPHA Federation.

The provided legal regulations claim for the following:

- Compliance with existing housing legislation in Kosovo;
- Reference to European best practice in affordable rental housing legislation;
- Rigour functional description of LPH legislation and efficiency in formulation.

7.1 LEGAL PROVISION IN THE LAW ON SOCIAL HOUSING

It is intended to include main LPHA regulations in one paragraph of the Law on Social Housing (see above, chap. 1.2.1b), p. 12).

The following text is recommended:

Pursuant to this Law, the municipalities and private sector are allowed to establish Limited Profit Housing Associations. The Minister of the MESP for this purpose will issue the Administrative Instruction for establishment of LPHA and operation within the deadline of 18 months.

7.2 ADMINISTRATIVE INSTRUCTIONS

Detailed regulations on LPHA operations are intended to be implemented with Administrative Instructions by the Ministry of Environment and Spatial Planning as line ministry. The following subject matter should be included (functional description).

7.2.1 GENERAL PROVISIONS / SUBJECT OF REGULATION

a) Preamble

- Pursuant to Article ## of the Law No. ## on Social Housing (Official Gazette, No. ##) and article 8, subparagraph 1.4. of Regulation No.02 /2011 on the areas of administrative responsibility of the Office of the Prime Minister and Ministers, as well as Article 38, paragraph 6 of the Regulation of Labour Government No.09 / 2011 (Official Gazette No.15,12.09.2011).

b) Purpose

- This Administrative Instruction regulates the organisation and the working of housing companies approved as Limited Profit Housing Associations (LPHA).
- Housing companies approved as LPHA under the terms of this Administrative Instructions must be concerned directly with tasks in the field of housing and settlement which serve the interests of the general public. Furthermore, they must employ their capital for the purposes mentioned above and they are required to have their business activities monitored and examined at regular intervals.

c) Scope

This Administrative Instruction defines the conditions and procedures for establishing and operating the LPHA

d) Definitions

- Limited Profit Housing Associations (LPHA): Housing companies are regarded as LPHA only if they are approved under the terms of this Administrative Instructions.
- ##

e) Responsibility

- LPHA are private sector entities, even in cases where the public bodies (e.g. municipalities) have majority shares.

f) Compliance with EU-legislation

- Remark: LPHAs shall execute public service obligations, as defined in EU regulations on SGEI - "Services of General Economic Interest". This legitimizes them to benefit from public subsidies.

g) Object of LPHAs / limited business activities

- The main public service obligations to be performed by LPHA under this Administrative Instructions are:
 - Provision of affordable housing to qualified households;
 - Development of new housing construction including acquisition of building land;
 - Refurbishment of housing estates (own premises and that of other owners);
 - Management of housing estates (own premises and that of other owners);
 - Other services in commission of municipalities in the field of real estate construction, maintenance and management.
- All other activities are only allowed with explicit permission of the regulatory authority (7.2.3a).

7.2.2 PREREQUISITES FOR APPROVAL AS LPHA

a) Legal form

- A LPHA is a legal person in the legal form of a limited liability company, a cooperative or a foundation.
- The head office of a LPHA under this Administrative Instructions must be situated in Kosovo.
- Operations of a LPHA are based on statutes (articles of association), which are subject of approval by the regulatory authority (7.2.3a).
- The LPHA must have a supervisory board.

b) Minimum capital

- The economic capability of a LPHA must be sufficient to enable it to fulfil its tasks according to the law and this Administrative Instructions and to the company's statutes or articles of association. The minimum capital is € 200,000. In the case of economically connected groups of LPHA this minimum capital concerns the entire group. The regulatory authority (7.2.3a) can grant exceptions from this rule after consulting the auditing association (7.2.7a). Such exception mainly concerns LPHA in the legal form of housing cooperatives.

c) Incompatibilities

- The LPHA shall in no way be controlled, neither directly or indirectly, by a political party or an affiliated association thereof or by persons or legal bodies actively engaged or associated with the construction of housing or the production of or trade with building materials or by persons or legal bodies in any other way engaged with businesses related to housing construction. Non-controlling interest is possible.
- The company's statutes or articles of association will ensure that
 - persons or companies engaged in the building trade are not preponderant among the owners or members of the company
 - persons or companies engaged in the building trade are not able to exert decisive influence over the conduct of the company's business.
- Members of the LPHA management, the supervisory board, public administration and LPHA staff and family members of those are allowed to rent or buy LPHA apartments, as long as they match the allocation criteria (7.2.9b). Purchase prices of LPHA condominium apartments and shops to those buyers must not be below the private market level (arm's length principle). This has to be proved by a valuation of a certified expert. Such sales require a decision of the supervisory board of the LPHA.

d) Legal ineffectiveness

- Changes in those clauses of the LPHA statutes which were a prerequisite for approval by the regulatory authority are legally ineffective without the responsible authority's express permission.

7.2.3 PROCEDURE

a) Regulatory authority

- Approval, denial or rescinding of approval of a LPHA under this Administrative Instructions is decreed by the Ministry of Trade and Industry (regulatory authority).
- Approval of a LPHA by the regulatory authority is valid for the whole country.

b) Parties in procedure

- Parties in procedure are
 - The LPHA (applicant or already operative);
 - The auditing association (7.2.7a);
 - The regulatory authority;
 - The ministry of finance (only regarding audit and control).

c) Regulatory decisions

- Approval, denial or rescinding of approval is effected by decree of the regulatory authority.
- The regulatory authority acts on its own initiative or upon request of a party.
- Decrees must be issued in writing and must be served on the parties. In case of a denial or rescinding of approval the reasons for this decree must be stated.

d) Approval procedure

- If no dates have been fixed by the decree, approval normally will be valid for an indefinite term, effective with the day the decree is issued.

e) Rescinding of approval

- Approval must be rescinded
 - if the organisation or the statutes (articles of association) of the LPHA do no longer comply with the Administrative Instructions,
 - if the business activities of the company are contrary to this Administrative Instructions,
 - if the LPHA evades current supervision,
 - if the LPHA misses the obligation to build for more than 3 years.
- The regulatory authority must notify the public of the rescinding of approval at the expense of the company.
- If an approval has been legally rescinded, the regulatory authority may, in accordance with the auditing association, impose fines on the company as a compensation for benefits acquired by the approval. The fines must be paid by the company to a recipient to be determined by the regulatory authority. Payment of the fines may be enforced by law.

f) Appeal

- The LPHA has the right to appeal to a court of administration against the decree by the regulatory authority within 30 days after it has been served on them.

g) Trade name and registration

- A LPHA which has not been approved to this law or whose approval has been rescinded may not refer to itself as a LPHA under the public welfare regime either in public or in legal transactions.
- The responsible authorities will notify the registry offices of any decrees issued on the basis of this law which have come into legal force. The registry offices in their turn will notify the responsible authorities of any entries into the register concerning a change in the LPHA management or in the statutes (articles of association) or the liquidation of a LPHA or the cancelling of its name from the register.
- The LPHA must immediately notify the regulatory authority and the auditing association of any changes in the LPHA management (executive committee) or in the supervisory board.

7.2.4 SECURITY OF ASSETS, REINVESTMENT OF PROFITS, DISTRIBUTION OF PROFITS

a) Security of assets

- If the LPHA is liquidated or if shareholders cease to be owners, they may not receive anything except their share in so far as it was actually paid (for regulations on the sale of shares see 7.2.8d).

- In the case of liquidation or rescinding of approval as LPHA (7.2.3e) the remaining assets must be used for purposes of housing under the public welfare regime. By provisions set by the regulatory authority, those assets may be distributed to municipalities, other LPHAs and/or charity organisations. This transfer will be processed with transparent detailed documentation.

b) Reinvestment of profits

- LPHA ought to make profits for the purpose to increase own equity. A strong equity ratio stabilizes the company and allows for lower financing costs. Together with investment in housing purposes it helps to reduce housing costs of beneficiary households.
- Investment opportunities of LPHAs are restricted to:
 - Construction financing;
 - Purchase of building land;
 - Financing of major repair works;
 - Other investment which is directly linked to business purposes of the LPHA and affordable housing.
- As a principle, LPHA are not allowed to invest in any speculative products.

c) Distribution of profits

- LPHA owners may benefit with at maximum 3.5 to 6% (at maximum 2 percentage points higher than the inflation rate of the previous year) of invested capital per anno. They may not receive any other pecuniary or equivalent advantage except an adequate compensation for services of pecuniary value.

7.2.5 BUSINESS CONDUCT

a) Reliability of management

- There must be no indication justifying the assumption that business activities in conformity with the purpose laid down in the statutes (articles of association) and in conformity with business ethics are not being, or will not be, undertaken. Only persons whose integrity as businessmen is beyond doubt by any indication, may be members either of the LPHA management or of the supervisory board.

b) Economic efficiency of business, incomes of management, supervisory board and staff

- The costs of management and administration must not exceed an adequate amount according to the statutes (articles of association) as well as in actual fact. In particular, the company must not grant to its managers or to third parties, benefits or remunerations which are disproportionately high in relation to the economic capability of the company.
- An LPHA shall have no more than 2 CEOs.
- The regular salary of a LPHA manager shall not exceed that of a deputy minister in the regulatory authority.
- In the case of successful performance the managers may be granted with premiums. Those premiums must not exceed 50% of the yearly salary of the beneficiaries and have to be justified by outstanding measurable performance. Any premium has to be approved by the supervisory board.
- Salaries of staff members shall not exceed that of benchmark industries, such as the commercial real estate sector.

c) Cost coverage principle

- Calculation of LPHA rents follow the cost coverage principle. They have to be neither above nor below own costs of the LPHA. Own costs include costs of
 - building land,
 - planning,
 - construction,
 - construction supervision,
 - financing,
 - maintenance,
 - management,
 - costs at discretion of the regulatory authority,
 - taxes and
 - LPHA fees as defined in 7.2.5d).

d) Allowed and prohibited margins

- a) Within the specification of cost coverage the LPHA is allowed to charge the following margins:
- Housing development fee in the volume of 15% of total construction costs (both for new construction and major repair projects);
 - Planning and construction supervision fees in the case of use of own resources in the volume of competitive prices of external service providers (arm's length principle);
 - Lump sum housing management fee of 0.08 €/m² useable floor space per month (increase in the amount of the inflation rate of the previous year);
 - Interest on invested own equity in the amount of 3.5 to 6% p.a. (at maximum 2 percentage points higher than the inflation rate of the previous year);
 - Revaluation surplus for building land (only in the case that it was purchased under market conditions from private vendors);
 - Margins from sale of own buildings and land;
 - Rent incomes after full amortisation of loans (net rents as defined in 7.2.9d), minus contributions to major repair works).
- The following income sources are prohibited:
- Margins from discounts on prices resulting from procurement procedures;
 - Broker fees for allocation of apartments;
 - Margins from sale of condominium apartments and shops, which serves for cross-subsidizing of affordable rental apartments in the same building (7.2.8b);
 - ##

e) Further specifications on housing products and procurement procedures

- LPHA apartments target at low and moderate income households and are therefore of small and moderate size, with at maximum 90m², and with standard equipment. The construction of such dwellings must be guided by the principle of strict economy as to construction costs and with due regard to running costs as well as maintenance and energy costs; nevertheless, the result achieved must conform to the current state of the art and the generally accepted standard of present-time accommodations.
- The limitations of size also apply to condominium apartments for sale.

- The LPHA has an obligation to build. If it fails to produce new apartments for more than 3 years this may cause a rescinding of approval as LPHA with all consequences described in 7.2.3e) and 7.2.4a).

7.2.6 HOUSING MANAGEMENT AND MAINTENANCE

a) LPHA Obligations

- The LPHA is obliged to manage own residential buildings. If the LPHA appoint another housing manager, it is still responsible for the performance of management.
- If more than 50% of floor space is sold as condominium ownership, the majority of those owners (LPHA as owner of the remaining rental apartments is non-voting) can decide to change the housing manager. In this case the LPHA responsibility for the performance of management expires.

b) Operating costs

Housing maintenance costs are regulated in the Condominium Law.

- Operating costs are:
 - Common utility costs
 - Public fees, taxes, insurance
 - Special expenses for common facilities
 - Expenses for maintenance
 - Expenses for useful improvements (refurbishment fund)
 - Housing management fee, and
- any other cost which is not listed above but it is reasonable and legal for operation purposes.
- Housing management fees are regulated in 7.2.5d).

7.2.7 AUDIT AND CONTROL

a) Affiliation to an auditing association

- The LPHA must be affiliated to an auditing association which is in conformity with the EU regulations 2006/43/EG, 84/253/EG and 78/660/EG (to be updated) and has been licenced by the Auditing Authority.
- The LPHA affiliated to the auditing association shall not at the same time be members of another auditing association licenced under this law.
- The statute of the auditing association must guarantee the fulfilment of the auditing association's obligations according to this law, especially the orderly conduct of audits.
- In the case of unavailability of a certified auditing association the regulatory authority (7.2.3a) may stipulate equal alternatives.

b) Audit and supervision

- Every approved LPHA must submit to periodical audits by the auditing association to which it is affiliated. The auditing association may, with the consent or on the demand of the regulatory authority, conduct extraordinary audits at the expense of the LPHA.
- An audit must be conducted every year before the approval of the annual accounts. If no audit has taken place, the annual accounts cannot be approved. If they are approved without an audit they are void.
- LPHA must present all audit reports to the regulatory authority within three months after termination of the audit if the regulatory authority demands it.

- The regulatory authority has the right at any time to procure all documents and to gather all information it deems necessary and to look into all business transactions and into the conducting of the business. If necessary, it has the right to have an extraordinary audit, on its own initiative and at the expense of the LPHA.
- The LPHA is held to comply with any objections made by the auditing association by taking adequate measures. If this does not ensue within an adequate time, the auditing association may require the LPHA to comply with these objections within a specified time limit. If the LPHA has not complied with the objections after expiry of the time limit, the auditing association shall notify the regulatory authority.

7.2.8 LEGAL SUCCESSION, SALE OF APARTMENTS, BUILDINGS, LAND AND SHARES

a) Legal succession of rent contracts

- Tenancies, whether open-ended or fixed-term, are not affected by a change in ownership of the building.
- If LPHA buildings are sold, an entry into the land register must ensure that for at least ten years, in case of a resale by the first or any subsequent purchaser, an increase in price which is not justified by expenses made on the side by the last owner is not admissible.
- If the tenant of a dwelling dies, the tenant's spouse or domestic partner or the tenant's children or other members of his/her family who have been members of his/her household can take over the tenancy.
- The taking-over of the tenancy does not affect the agreement in any way.

b) Sale of apartments

- The LPHA is free to sell apartments to sitting tenants at prices of at least replacement value. This has to be proved by a valuation of a certified expert.
- The LPHA is also allowed to sell apartments at own costs to municipalities.
- The LPHA is allowed to sell apartments and business spaces with profit under the precondition, that the building as an economic unit follows the cost coverage principle (7.2.5c). Hence, for-profit sale of apartments e.g. in the attic and business space in ground floors may cross-subsidize other apartments. Regarding price setting see 7.2.9d).
- In the case of sale of the first apartment or shop in a building, the entire building has to be transferred to a condominium with all legal consequences. In this case the legal status of the tenant remains untouched while the position of the landlord is transmitted from the former owner of the building to the owner of the apartment.
- In the case of sale of a small share of apartments or shops the minority owners are provided with adequate minority rights (to be defined, see 7.2.6a).

c) Sale of buildings or land

- The LPHA is allowed to sell own buildings and building land with profit (see 7.2.5d). Sale prices must not be below market prices (arm's length principle).
- Upright rent contracts will not be affected from such a transfer of title.
- In the case of sale of own buildings even future new rental agreements have to follow the original calculation (cost rent).
- All legal obligations from this Administrative Instructions continue to apply to the building for an unlimited term and even in the case of multiple transfer of title.

d) Sale of shares

- The LPHA is allowed to trade shares, but only with explicit consent from the regulatory authority.
- The sale price is limited with the initial capital plus a compensation of the inflation rate for the period the shares were held.
- For the re-sale of shares the provisions of 7.2.8c) apply.

7.2.9 RENT REGULATIONS IN THE LPH-SECTOR

a) Allocation of apartments by municipalities

- If the municipality supports an LPHA with building land free of charge and additional budget funds, this municipality has a right to nominate beneficiaries for allocation of LPH apartments.
- Those apartments, which are not allocated and contracted to beneficiaries within a period of 3 months after notification of availability (first time use, re-allocation), may be rented out by decision of the LPHA.
- The allocation of apartments must be guided by considerations of objectivity and transparency. The municipalities are requested to apply transparent procedures of allocation, considering criteria of need of accommodation, household size, household income and ethnic integration.
- There is no legal claim for allocation of a LPHA apartment.
- The LPHA is not obliged to organise substitution.
- Allocation of apartments with no support from municipalities ##.

b) Allocation criteria

- LPHA housing supply targets at low and moderate income groups. According criteria, differentiated regarding household size and other social aspects, are set by those institutions providing subsidies (7.2.10).
- Nevertheless, a minimum and a maximum household income is defined with reference to the definition of social housing and of affordable housing in the Law on Social Housing (Number of the Law will be included after it is adopted by the Parliament).
- The Administrative Instruction on LPHA applies.

c) Written form, unlimited term of tenancy

- A LPHA provides for rent contracts in written form with unlimited term. Usual standards of contract law apply.
- The LPHA can only terminate the tenancy for the reasons specified in 7.2.9f).
- The tenant can terminate the tenancy without giving a reason with a notice period of 30 days.
- In the case of termination of tenancy by the LPHA the eviction procedures may start by request of the LPHA.

d) Price mechanism

- While always considering the principles of economy and efficiency, the LPHA will be guided by the goal of providing affordable housing when formulating tenancy agreements and when selling and administering dwellings. The statutes (articles of association) must provide a sufficient safeguard for the interests of tenants as well as for those of purchasers and condominium owners.
- Rents of LPH apartments follow the cost rent principle (7.2.5c).

- After full amortization the LPHA is allowed to charge a rent which is at least 20% below the last rent, which was paid during the refinancing period
- Rent increases are allowed, but must be clear and unequivocal so as to avoid disagreements and litigation. They must not contradict to the cost rent principle.

e) Rights and obligations of the tenant

- The tenant has to tolerate measures aimed at modernisation and maintenance inside and outside the individual apartment.
- In analogy, the landlord has to allow measures aimed at modernisation, energy and resource saving measures by the tenant. The tenant's rights in this respect are limited only by the fact that the landlord's future possibility to use the dwelling must not be impaired.
- Ordinary wear and tear of the apartment – such as the darkening of whitewashed walls – is contained within the rent.
- Deterioration exceeding ordinary wear and tear must be adequately compensated for by the tenant at the current value of the damaged property.
- Subletting of a dwelling is always subject to the consent of the landlord.
- Even if the landlord gives his consent, the tenant is liable for the subtenant's negligence.
- The LPHA is allowed to levy a deposit of at most 3 gross monthly rents from the tenant. In the case of payment arrears, the LPHA is allowed to use this deposit to cover arrears.

f) Reasons for termination of tenancy

- Arrears of rent payment of more than 2 months;
- Wilful damage to the apartment or common parts of the building;
- Serious damage to the social structure of the building, including noise;
- Inappropriate use of the apartment, such as subletting it without consent of the landlord or unlawful business activities.
- Termination of tenancy leads to eviction after a period of 1 month.
- Eviction is the last resort to protect the LPHA business case. As evictions cause economic losses to the tenant, the LPHA and the society, both the municipalities and the LPHA are requested to establish mechanisms to avoid evictions, particularly by supporting tenants in social re-integration and utilisation of available allowances.

7.2.10 REGULATIONS ON PUBLIC SUBSIDIES TARGETING AT LPHA

The provisions of this chapter may be in the authority of the Ministry of Finance. This could be arranged with a LOI from the Ministry of Finance to regulate this within the Ministry of Environment and Spatial Planning.

a) Privileged access to housing subsidies for new construction and refurbishment

- LPHA have a privileged access to housing subsidies, especially for the construction and refurbishment of affordable rental apartments. This privileged access is to be regarded as a compensation for their public service obligations, limitation of profits and all other limitations set in this Administrative Instructions.

b) Funding of public subsidies

- Funding of public housing subsidies targets at long term continuity of State Housing Programmes.
- Financial sources of State Housing Programmes are:
 - Budgetary contributions;
 - Revolving public funds;
 - EU funds, e.g. the European Fund for Strategic Investments, EFSI;
 - Donor funds;
 - Loans from International Financing Institutions with State guarantee;
 - Other sources.
- Additionally, municipalities may contribute with building land at below market prices and own budgets.

c) Subsidy tools

- The LPHA scheme targets at lowest possible public subsidies. This is on the Government level State Housing Programmes, including State guarantees and loans from International Financing Institutions. Further subsidies may be applied.
- This is on the municipal level
 - Provision of building land at below market prices or land lease;
 - Provision of housing allowances for lowest income households;
 - Provision of grants for the allocation of apartments to qualified beneficiaries.
 - Stockholding to LPHAs.
- There is no legal claim for a subsidy.

d) Subsidy conditions

- Both the Government and the Municipalities may define conditions for granting of subsidies in the following areas:
 - Maximum rents;
 - Energy performance of the building;
 - Integrative and social aspects, e.g. orientation on families or single parent households; positive discrimination of minorities etc.;
 - Urban planning aspects.

e) Housing allowances

- As arrears in rent payment lead to immediate eviction, municipalities may provide for housing allowances for lowest income households in LPHA rental housing. Those allowances will follow common rules:
 - Housing allowances are granted only for adequate floor space, this is for 1 person 35m² at most; for every further person additional 10m² at most.
 - If the actual apartment size is bigger than adequate the allowance will be reduced aliquotly.
 - The reasonable housing cost ratio varies with the income and the household size, as defined with Table 12.
 - Household income is defined as all incomes of all household members from employments, self-employment and all social transfers, twelfth part of annual total amount.

- Housing costs are defined as monthly gross rent including all operating costs, but without household energy.
- The entitled allowance is calculated as the difference of real housing costs and reasonable housing costs (income multiplied with the ratio in the matrix).
- The allowance is granted for 6 months in advance. After this it has to be re-applied.
- Increasing incomes within the entitled period have no consequences on the volume of the allowance.
- In the case of decreasing incomes the household has a right of earlier re-application.

Table 12: Reasonable housing cost ratio as basis for housing allowances

		Multiplier of minimum income				
		1	2	3	4	5
Persons per household	1	20%	30%	40%		
	2	10%	20%	30%	40%	
	3	10%	20%	30%	40%	
	4	10%	10%	20%	30%	40%
	5	10%	10%	20%	30%	40%
	6	10%	10%	20%	30%	40%
	7	10%	10%	10%	20%	30%
	8	10%	10%	10%	20%	30%

Source: SHPRK/IIBW.

f) Sanctions

- LPHA cannot get a subsidy, if deficiencies in their financial behaviour are stated, until these deficiencies are corrected (7.2.7b).
- In the case of unrightful claiming of allowances all household members are excluded from the housing allowance scheme for 5 years.

7.2.11 FISCAL REGULATIONS

The provisions of this chapter may be in the authority of the Ministry of Finance. This could be arranged with a LOI from the Ministry of Finance to regulate this within the Ministry of the Environment and Spatial Planning.

a) Remission of fees and charges

- Housing companies approved as LPHA are exempt from company income tax and property tax.

b) Specific requirements on regulatory capital

- For LPHA a reduced ratio of minimum equity capital should apply [requires further detailing].

7.2.12 OBLIGATIONS OF MUNICIPALITIES

- Municipalities are requested to provide all necessary permits (permit of construction, permit of use, list of beneficiaries) in the quickest possible way. In the case of wilful delay the regulatory authority may decide for penalties to compensate the LPHA for financial losses. Municipalities are requested to support LPHA operations by suspension of communal taxes.

7.2.13 TRANSITIONAL PROVISIONS

a) Application of other regulations

The following related regulations apply to LPHAs:

- Law on Limited Liability Companies;
- Law on Cooperatives;
- Condominium Law;
- Law on public procurement procedures;
- Contract Law ...
- Law on Consumer Protection ...
- Law on Obligational Relationships...

b) Transitional regulations

If any.

8 RISK MITIGATION / EXIT STRATEGIES

8.1 RISK MITIGATION

Risks in the implementation of a LPHA sector in Kosovo are reduced as far as possible by the following measures:

- a) Low vacancy risk due to below market pricing and demand-oriented developments;
- b) Effective eviction procedures;
- c) Low business risk due to audit and control;
- d) Low financing risk due to fixed interest rates and public support;
- e) Effective exit strategies.

8.2 EXIT STRATEGIES

8.2.1 EXIT STRATEGY DURING PILOT PHASE

If the pilot project fails for what reason ever, the building (or its shell) may be sold to the municipality, an institutional investor or individual buyers of apartments. The building will turn into social housing or normal owner-occupied tenure. As such it is likely that the shareholders of YRHK will be able to exit with only minor losses.

8.2.2 EXIT STRATEGY AFTER FEW PROJECTS

If the process of implementation of “Young Rental housing” Programmes fails, it will be impossible for YRHK to build up a sufficient rental housing stock to survive as a social landlord. In this case, the best exit strategy would be to sell the buildings to municipalities to continue rental tenure. This should be possible with no losses to the shareholders.

8.2.3 EXIT STRATEGY IN THE CASE OF INSUFFICIENT STATE SUPPORT

If a “Young Rental housing” Programme fails, it means that not all available funds will be spent. It should be easy to stop such Programme before closing.

8.2.4 RISK MITIGATION IN THE CASE OF MALPRACTICE OF A LPHA

In the case of malpractice of one LPHA the Regulatory Authority should have the legal basis to sanction its owners to avoid damage to State budget and customers. According regulations are drafted in chap. 7.2.3 (p. 39).

9 CONCLUSIONS ADDRESSING DEVELOPMENT COOPERATION

9.1 DEVELOPMENTAL RELEVANCE

Affordable housing for low and middle income households is seen as one of the pillars to achieve sustainable cities, following target 11 of the SDG and the New Urban Agenda, decided on the Habitat III Conference in 2016 in Quito (Dr. Amann/IIBW was Austrian delegate). The establishment of an LPH sector in Kosovo will contribute considerably to those development goals. Furthermore, proving the feasibility of LPH in Kosovo could contribute substantially to similar challenges in emerging countries worldwide.

Affordable multi-apartment rental housing may contribute substantially to a sustainable development of cities, avoiding urban sprawl and informal settlements. This has a very strong environmental impact. Furthermore, strong institutions in housing development may become frontrunners in implementation of new environmental standards, as seen in Austria.

LPH is focussed on social targets and may substantially contribute to societal stabilisation in Kosovo.

The project has a substantial impact on local economy. This concerns on the one hand employment in the LPHA itself and in construction industry and attached industries. It concerns on the other hand housing provision to low and middle income households, which helps the beneficiaries to manage their life in economic terms and to help all sectors of economy to keep salaries stable.

9.2 EXPECTED OUTCOMES

9.2.1 LOCAL ECONOMY

Local enterprises/institutions that derive a direct benefit from the project:

- Partner municipalities will achieve affordable housing alternatives for low and middle income groups;
- Main beneficiary will be “YRH Kosovo LPHA”;
- Local construction companies;
- In total at least 5 enterprises/institutions.

9.2.2 COMMERCIAL REAL ESTATE SECTOR

International experience shows that affordable rental housing sectors hardly disturb other sectors of housing markets. Due to different tenure (rental vs owner-occupied) the new sector will address other customers than the existing real estate industry in Kosovo. By contrast, serving the specific needs of households with low incomes and savings in their twenties, makes them able to approach own property in their thirties. An affordable housing sector is an important stimulation for economic development and hence improves the general income situation of population and its ability to buy own property. Finally, the commercial real estate industry is invited to take stakes in “Young Rental housing” LPHAs to cover the economy sector of housing demand. On an international level, the real estate industry has understood the rationale of an inclusive approach. Affordable housing has recently been chosen as a focal area of FIABCI, the International Real Estate Federation (www.fiabci.org).

9.2.3 BENEFITS FOR LOCAL PEOPLE

Persons who derive a direct benefit from the project

- Low and middle income groups in the partner municipalities;
- For the pilot phase some 60 families including 250-400 persons will benefit; if the establishment of a new housing sector works, we are talking of many thousand beneficiaries (but this goes beyond the duration of the business partnership Programme).

Additional local jobs (full-time equivalent) created by the inputs of the project in the partner country

- During pilot phase around 10 person years (2-6 employees) in “YRH Kosovo LPHA” and 20 person years in the construction industry; by expanding to a LPHA sector several 100, both in the LPHA and the construction industry.
- Women’s empowerment is actively promoted. We strive for gender equality. A particular contribution is the housing product we intend to produce. Decent and affordable housing is an important precondition for fair opportunities for all families and in particular for single parent families

9.2.4 BENEFITS TO THE STATE GOVERNMENT

The Government will benefit from solving housing challenges.

9.2.5 BENEFITS TO MUNICIPALITIES

The main service obligation to be performed by YRHA is provision of affordable housing to qualified households. But it is crucial to insist on the legal status of a private company. Claims of municipalities or State institutions must not violate the business case.

10 APPENDIX

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10.2 REQUEST FOR SUPPORT BY THE MINISTER



REPUBLIKA E KOSOVES-REPUBLIKA KOSOVA-REPUBLIC OF KOSOVA QEVERIA E KOSOVES - VLADA KOSOVA - GOVERNMENT OF KOSOVA MINISTRIA E MJEDISIT DHE PLANIFIKIMIT HAPESINOR MINISTARSTVO SREDINE I PROSTORNOG PLANIRANJA MINISTRY OF ENVIRONMENT AND SPATIAL PLANNING			
Nr. Org. Org. Jedinica Org. Unit	17-01	Nr. Prot. Broj Prot. Prot. No.	1190/17
Nr. i faqeve Broj stranica No. pages	02	Data Datum Date	06.03.17
Prishtine / #			

Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria -Vlada - Government

Ministria e Mjedisit dhe Planifikimit Hapësinor
Ministarstvo Sredine i Prostornog Planiranja
Ministry of Environment and Spatial Planning

Kabineti i Ministrit/Kabinet Ministra/Kabinet of the Minister

Shoqatës së Miqësisë Austriako-Kosovare
Mag. Lukas Mandl, President

Prishtinë, 2 mars 2017

Lënda: Kërkesë për mbështetje në krijimin e një sektori të përballueshme strehimit me qira në Kosovë

I nderuar Zotëri Mandl,

Kosova është duke u përballur me sfida të mëdha për të strukturuar zhvillimin urban dhe sigurimin e banimit për një shtresë të popullsisë së saj. Për këtë arsye, Qeveria e Kosovës është duke e finalizuar draft Ligjin me të cilin rregullohet çështja e banimit social për kategori të ndryshme të shoqërisë.

Jemi të interesuar që në këtë draft Ligj të përfshijmë edhe dispozita të reja për krijimin e një sektori të ri për banim të përballueshëm. Pasi kemi konsultuar disa modele të përballueshme sociale dhe të banimit në të gjithë Evropën ne e konsiderojmë sistemin Austriak të Banimit me Profitit të Kufizuar si një model të përballueshëm të banimit me qira në Kosovë.

Prandaj, ne do të vlerësojmë shumë nëse në këtë drejtim Shoqata e Miqësisë Austriako-Kosovare do të na mbështeste në organizimin e asistencës teknike. Nga njohuritë tona që kemi, Agjencia Austriake për Zhvillim siguron mjete të përshtatshme për të filluar procesin.

Mbesim me shpresë që do ta mbështetni Kosovën në këtë sfidë të rëndësishme!

Me respekt,
Ministri Ferat Shala
Ministria e Mjedisit dhe Planifikimi Hapësinor

Adresa: ish pallati i mediave " Rilindja" kati 17, 10 000 Prishtinë - Kosovë
Telefon: + 381 38 200 32 004;
<http://www.mmph-ks.org>



Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria -Vlada - Government

Ministria e Mjedisit dhe Planifikimit Hapësinor
Ministarstvo Sredine i Prostornog Planiranja
Ministry of Environment and Spatial Planning

Kabineti i Ministrit/Kabinet Ministra/Kabinet of the Minister

To the
Austria-Kosovo Friendship Society
Mag. Lukas Mandl, President

Prishtina, 2 March 2017

Re: Request for support in establishing an affordable rental housing sector in Kosovo

Dear Mr. Mandl,

Kosovo is facing major challenges in providing affordable housing to its population and to structure urban development. For this reason the Government of Kosovo is finalizing the draft Law where the issue of the social housing for different social categories shall be regulated.

We are interested to include the new provisions for the creation of a new sector for affordable housing that this in the draft Law. Once we have consulted several models of social and affordable housing models throughout Europe, we consider the Austrian system of Limited Profit Housing as a model for affordable rental housing in Kosovo.

We would therefore highly appreciate if the Austrian-Kosovo Friendship Society would support us in organising technical assistance. From our knowledge, the Austrian Development Agency provides suitable tools to start a process.

We hope that Kosovo will rely on this important challenge!

with respect,
Minister Ferat Shala
Ministry of Environment and Spatial Planning

Adresa: ish pallati i mediave " Rilindja" kati 17, 10 000 Prishtinë - Kosovë
Telefon: + 381 38 200 32 004;
<http://www.mmph-ks.org>

10.3 LOIs

To be filed subsequently.

10.4 ASSESSMENT OF HOUSING NEEDS IN TARGET MUNICIPALITIES

10.4.1 PEJA MUNICIPALITY

a) Demography and housing

No. of population			96,500
Rural zones			47,500
Urban zones			49,000
No. of villages / No. of neighbourhoods			76 / 12
Housing Individual	No. of the objects before 1999		No information 17.552
	No. of the objects after 1999		
	Usual building typology		P, P+1, P+2
Housing collective	Before 1999	No. of objects	No information
		Housing units	No information
	After 1999	No. objects	4,392
		Housing units	No information
	Usual building typology		P+4
Property Status		Private (Housing unit)	No information
		Public (Housing unit)	2,000
Share individual housing / collective housing			80% / 20%
Connection in the technical infrastructure			98%, except sewerage 50%
No. of uninhabited facilities			29%
No. of objects of historical or cultural value used for housing			No statistics
Application of thermal insulation in residential facilities			23%
Illegal constructions	Upgrades		They tend to legalize
	Other constructions		In the procedure for permission 115 cases
	Socially-owned buildings		Construction is not allowed
No. of requests for solving housing issue			400
Locations (land area) for special Housing Programmes			Llausha, buildings in "Fidanishtja", buildings at the Bus Station
No. of objects / housing unit, built by the municipality, government and donors			3
No. of objects / housing unit rent / average rent			10 cases, approx.150 €
No. of objects / housing unit available for low market rent			9 apartments, 10 €
No. of objects / housing unit owned by the municipality that can be adapted			No information
Temporary Collective Centers (QPK)	Number of TCC (QPK)		4
	Location / designation		• Former student dormitory-building of the Faculty of Business / • Temporary Shelter Center near Lumbardhi, located opposite to the leather shoe factory /

		• Property of the Automobile Factory "Ramiz Sadiku" • Former Cultural House Shelters, close to primary school "Xhemajl Kada" • Social objects (shanty), constructed before the war, that were adapted after the war
	No. of families	30
	No. of residents	129
Regulatory plans - how many are done and how many are to be done		85% are completed, 15% are in process

b) Regional planning

1	Total area of the municipality included in the MDP	60.300 ha
2	And UDP	2.000 ha
3	Coverage of regulatory plan	1.700 ha, 85%
4	No. of informal settlements in the municipality	are treated by the regulatory plans

c) Social housing

- The number of residential buildings is 24,000.
- The municipality owns 82 apartments within the collective facilities.
- 1 Public Private Partnership project has been realized so far.
- The Municipality of Peja has 3 Social housing Centers and 4 Temporary Collective Centers.
- An average family has 5-6 members.
- Three generations usually live in a home so far, but trends in development show that day by day there is a need for new residential units for couples separated by traditional families and new couples.
- The physical condition of collective housing and buildings is moderate
- The housing issue so far in the municipality has addressed the Directory for Health and Social Welfare and sometimes the Office for Communities and Returns

d) Housing Demand

1.	With social assistance needs	400
2.	Warfare categories 1	83
3.	Returnees	-
4.	Repatriated	4
5.	Elderly	No information
6.	Young people	No information
7.	Employees from state budget	No information
8.	Minorities	13
9.	Housing market	Unorganized
10.	Sale price market housing	650-800 €/m ²
11.	Rental data	9 residential unit – 10 €
12.	Rental in certain conditions	10 residential unit
13.	Without rent	82 residential unit

e) Conclusions

- Developing and effective implementation of housing plans according to the special Programmes requires coordination of activities of all stakeholders within the municipality, in accordance with the established powers.
- It is necessary to form the housing sector as a responsible body to actively develop the process of implementation of activities under this plan.
- Construction of new housing units according to standards through funds from the municipal budget, government and Public-Private Partnership, which will provide housing for certain groups.
- Support in resolving the housing issue with housing for affordable rent or housing bonus for apartments of low rent market.
- Stimulation of supply and demand.
- Maintenance and management of the housing stock.
- Support from the central level for the construction of social housing facilities.

f) SWOT Analysis

ADVANTAGES	WEAKNESSES - DEFICIENCIES
• Existence of the legal framework (Law on the Financing of Special Housing Programmes and six Administrative Instructions). • Existence of guidelines for the design of PVB. • Improvement - housing case selection, housing conditions for certain categories. • The short and flexible choice for housing. • Opportunity for engagement of many subjects for participation - MA, OSCE / ODIHR, Donors, Rent.	• The difficulties of combining many components in a project. • Budget shortage. • The large number of requests. • Housing sector deficiency. • Improper division.
OPPORTUNITIES	RISKS
• The use of existing capacities: - facilities; - land; - human resources; • Non-profitable rent for maintenance and continuation of the process; • Applying Public – Private Partnership. • Financial support from the central level. • Survey on the possibility of providing land owned by the municipality. • Survey of facilities owned by the municipality, which can be functionalized for non-profitable rental housing.	• Payments. • Rent. • Municipal means. • Continuing the unemployment trend. • The trend to increase the number of requests.

10.4.2 MITROVICA MUNICIPALITY

a) Demography and housing

No. of population			71,900
Rural zones			41,200
Urban zones			30,700
No. of villages / no of neighbourhoods			46
Housing individual	No. of the objects before 1999		18,700
	No. of the objects after 1999		3,200
	Usual building typology		P+1
Housing collective	Before 1999	No. of objects	18
		Housing units	333
	After 1999	No. objects	116
		Housing units	3,556
	Usual building typology		P+7
Property Status (collective housing) before 1999		Private housing	No information
		Public housing	No information
Share individual housing / collective housing			67% / 33%
Connection to technical infrastructures			95%
No. of uninhabited facilities			43%
No. of objects of historical or cultural value used for housing			1
Application of thermal insulation in residential facilities			58%
Illegal constructions	Upgrades		22
	Other constructions		11,800
	Socially-owned buildings		283
No. of requests for solving housing issue			474
Locations (land area) for special Housing Programmes			4 locations
No. of objects / housing units, built by the municipality, government and donors			3,213
No. of objects / housing unit rent / average rent			49 cases, approx. 22 €
No. of objects / housing units available at low market rents			49 apartments
No. of objects / housing unit owned by the municipality that can be adapted			1
Temporary Collective Centers (QPK)	Number of TCC (QPK)		3
	Location / designation		
	No. of families		20
	No. of residents		76

b) Social housing

1	No. of housing units	25,798
2	No. of the municipal-owned housing (within the collective facilities)	138 apartments within the collective facilities
3	With Public Private Partnerships	1
4	Center for Social Housing	2
5	QPK (Temporary Collective Center TCC)	3

c) Housing Demand

1.	With social assistance needs	150
2.	Warfare categories 1	183
3.	Returnees	484
4.	Repatriated	484
5.	Elderly	No information
6.	Young people	No information
7.	Employees from state budget	209
8.	Minorities	23
9.	Housing market	Unorganized
10.	Sale of housing in the market	450 €/m ²
11.	Rental data	13 residential unit
12.	Rental in certain conditions	36 families
13.	Without rent	

10.4.3 PRIZREN MUNICIPALITY

a) Demography and housing

No. of population			178,000
Rural zones			74
Urban zones			18
No. of villages / No. of neighbourhoods			No information
Housing individual	No. of the objects before 1999		/
	No. of the objects after 1999		33,500
	Usual building typology		P+2
Housing collective	Before 1999	No. of objects	
		Housing units	
	After 1999	No. Objects	100
		Housing units	3,800
	Usual building typology		
Property Status [Collective housing) before 1999		Private housing	
		Public housing	
Share individual housing / collective housing			80% / 20%
Connection in the technical infrastructure			95%
No. of uninhabited facilities			
No. of objects of historical- cultural value used for housing			40-50
Application of thermal insulation in residential facilities			30%
Illegal constructions	Upgrades		10%
	Other constructions		30%
	Socially-owned buildings		15%
No. of requests for solving housing issue			from 2000 - 2013 there are 3,000
Locations (land area) for special Housing Programmes			

No. of objects / housing units, built by the municipality, government and donors		Approx. 2,000
No. of objects / housing units rent / average rent		
No. of objects / housing units available at low market rents		
No. of objects / housing units owned by the municipality that can be adapted		
Temporary Collective Centers (QPK)	Number of TCC (QPK)	1
	Location / designation	Ex. factory "Framakos"
	No. of families	22
	No. of residents	105
Regulatory plans - how many are done and how many are to be done		20 are completed, 4 are in process

b) Regional planning

1	Total area of the municipality included in the MDP	640 km
2	And UDP	3,000 ha
3	Coverage of regulatory plan	70%
4	No. of informal settlements in the municipality	5

c) Social housing

1	No. of housing units	
2	No. of the municipal-owned housing (within the collective facilities)	92
3	With Public Private Partnerships	41
4	Center for Social Housing	30
5	QPK (Temporary Collective Center TCC)	1- ex factory "Farmakos"

d) SWOT Analysis

ADVANTAGES	WEAKNESSES - DEFICIENCIES
1. Sustainable housing, suitable for all families with needs. 2. Existence of public property for the construction of social housing. 3. DKPMS Budget (Budget Line). 4. Regulatory Plans, PZHK, PUK. 5. Inclusion of the entire spatial area of the municipality under urban regulations. 6. Construction even of rural landowners in municipal property. 7. A professional staff working in the municipal Directorate of Urbanism.	1. Budget shortage for this purpose. 2. Failure to identify families in need of sustainable housing. 3. Coordination with sectoral difficulties in identifying the real needs of citizens. 4. Urgent need for establishment of the municipal housing sector. 5. Disruption of the National Council of Housing.
OPPORTUNITIES	RISKS
1. Increase the budget position (lines) for social welfare of the community. 2. Raising Human Resources in the DKPMS. 3. Subsidizing sustainable housing projects.	1. Lack of sufficient funds according to dynamics. 2. Increase of relevant housing requirements. 3. Unemployment rate.

4. Establishing a special sector that would deal with housing issues for families in need. 5. Verification and removal of residential households that have built in the individual home sector. 6. Affirmation and institutional support of public-private partnership. 7. Relevant donations from relevant ministries which have the competence of the sustainable housing. 8. Finding foreign investors by including them into public-private partnership schemes. 9. Renting houses by citizens who do not use their homes for housing throughout the year, and 10. Donors.	
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10.4.4 DRENAS MUNICIPALITY

a) Demography and housing

No. of population			58,500
Rural zones			52,400
Urban zones			6,100
No. of villages / no of neighbourhoods			42
Housing individual	No. of the objects before 1999		4,300
	No. of the objects after 1999		4,300
	Usual building typology		P+1+ NK
Housing collective	Before 1999	No. of objects	6
		Housing units	202
	After 1999	No. objects	57
		Housing units	1,425
	Usual building typology		P+4
Property Status (collective housing) before 1999		Private housing	8719
		Public housing	63
Share individual housing / collective housing			74% /26%
Connection in the technical infrastructure			90%
No. of uninhabited facilities			2975
No. of objects of historical- cultural value used for housing			/
Application of thermal insulation in residential facilities [%]			48%
Illegal constructions			6
			14,081
			1,760
No. of requests for solving housing issue			169
Locations (land area) for special Housing Programmes			1 lokacione
No. of objects / housing units, built by the municipality, government and donors			2/50
No. of objects / housing units rent / average rent			/

No. of objects / housing units available at low market rents		/
No. of objects / housing units owned by the municipality that can be adapted		/
Temporary Collective Centers (QPK)		2
	Location / designation	Qikatovë e Re
	No. of families	50
	No. of residents	229

b) Social housing

1	No. of housing units	8,631
2	No. of the municipal-owned housing (within the collective facilities)	24
3	With Public Private Partnerships	2
4	Center for Social Housing	/
5	QPK (Temporary Collective Center TCC)	2

c) Housing Demand

	With social assistance needs	1,319
2.	Warfare categories 1	1,675
3.	Returnees	/
4.	Repatriated	66
5.	Elderly	N/A
6.	Young people	N/A
7.	Employees from state budget	1,256
8.	Minorities	23
9.	Housing market	Not organised
10.	Sale of housing in the market	450 €/m ²
11.	Rental data	/
12.	Rental in certain conditions	/
13.	Without rent	50 housing units

10.4.5 PRISTINA MUNICIPALITY

	Surface	Population http://banimidhehapesira.com/?l=64&id=33 - <u>ftn1</u> ¹	Density
Municipality	523 km ²	198,897 banorë	380.3 banorë/km ²
CITY	77.687 km ²	161,751 banorë	2082.1 banorë/km ²

Prishtina municipality has 43 settlements, of which about 81% of the population (161,751 inhabitants) reside in the urban area and 19% (37,146) in rural areas. Their ethnic majority are Albanians (over 95%), while in the other minority are Turks (1%), Serbs, Bosnians, Roma, Egyptians and Ashkali. [2] The area built in the city of Pristina is 23,656 km² 85% (20.116 km²) is the residential area. The individ-

ual dwelling dominates by 18 km² (89.5% of the total built) compared to the multi-purpose one with about 2.116 km² (10.5%)

Source of data: 1 and 2 KAS - Census of Kosovo Population 2011, pp. 10 and 34. 3 Urban Development Plan of Prishtina 2012-2020, p.70

b /. Residential Capacity Analysis in the Municipality of Prishtina

The area of the municipality is about 523 km², of which 60 km² belongs to the urban area of the municipality. Out of the entire territory of the municipality, 20,358 ha are agricultural land, of which 14,000 ha are cultivated land, while the rest is grazed. About 30,000 ha have been designated as forests. According to the latest census in Kosovo, the total number of residential units in the Municipality of Prishtina is 59,503 units. The density of the urban structure can be calculated based on georeferenced satellite photographs and census data. Both were produced in 2010, so they can be considered as coherent. The implementation of the plans so far has been carried out very slowly or at all, but it can be concluded that the current capacities are around 301,000 inhabitants.

c/. Habitat characteristics, housing collective, 500 ba/ha

Table 13: Housing situation in Prishtina

NEIGHBORHOOD	HOUSING COLLECTIVE	HOUSING INDIVIDUAL
Lakrishte	700	-
Ulpiana	19.000	300
Dardania	25.000	-
Kalabria	2.000	18.000
Pejtoni	2.000	1.500
Muhaxherët	3.000	7.500
Arbëria	4.000	3.000
Sofali	-	20.000
Medrese	-	10.000
Dodana	2.200	2.500
Mati 1	4.000	20.000
Others	10.000	140.000
TOTAL	78.200	222.800
ALL : Housing collective and Individual	301.0	

Table 14: Housing situation in Prishtina

PRISHTINA MUNICIPALITY			
No. of the population			198'897
Rural zones			55'000
Urban zones			143'897
No. of villages / no of neighborhoods			43
Housing individual	No. of the objects before 1999		Not available data
	No. of the objects after 1999		
	Average floors		/
Housing collective	Before 1999	No. of Objects	Not available data
		Housing Units	
	After 1999	No. objects	
		Housing Units	
	Average floors		/

Property Status [Collective housing) before 1999	Private [Housing unit]	Not available data
	Societal Housing unit]	
Report of individual housing /Collective housing [%]		/
Connection in the Infrastructure of Housing Facilities [%]		Not available data
No. of uninhabited facilities		/
No. of objects of historical- cultural value used for housing		List of inheritance
Application of thermal insulation in Residential facilities [%]		yr.2017 - 48 objects
		yr.2016 – 48 objects
		yr.2015 – 23 objects
Illegal constructions	Upgrades	46'523 Illegal buildings in total
	Other constructions	
	Socially-owned buildings	
The number of requests for solving the housing issue		281
Locations (land area) for special housing programs		Municipality of Prishtina
No. of objects / Housing unit, built by the Municipality, Government and Donors		Four residential buildings with 198 Residential units
No. of objects / Housing unit Rent from / and the average rent value		Not available data
No. of objects / Housing unit available for low market rent		Not available data
No. of objects / Housing unit owned by the Municipality that can be adapted		Municipality does not possess
Temporary Collective Centers (QPK)	Number of TCC (QPK)	These informations does not exist
	Location / designation	
	No. of families	
	No. of residents	

Source: Municipality of Prishtina, based on the MDP and the Municipal website, provided by Liridona Gashi, Planning Associate, Directorate of Urbanism in cooperation with DSHMS.

Table 15: Apartments by Type, Households and Persons by Type (Census 2011)

Municipality and Type of Housing	Total Housing, Family Economy and Persons by Type of Residence								
	Total			Urban			Rural		
	Apart-ments	Family Economy	Persons	Apart-ments	Family Economy	Persons	Apart-ments	Family Economy	Persons
	2	3	4	5	6	7	8	9	10
Kosova	293.443	297.090	1.739.825	126.207	128.130	661.586	167.236	168.960	1.078.239
Ordinary dwellings	293.078	296.722	1.736.701	126.056	127.979	660.350	167.022	168.743	1.076.351
Another type of dwelling	365	368	1.701	151	151	679	214	217	1.022

Prishtinë	40.051	40.527	198.897	33.683	34.107	161.751	6.368	6.420	37.146
Ordinary dwellings	39.976	40.452	198.366	33.651	34.075	161.423	6.325	6.377	36.943
Another type of dwelling	75	75	323	32	32	120	43	43	203

Source: KAS "Statistical Yearbook of the Republic of Kosovo 2016", Table 16.2: Housing by type, households and persons by type of residence in municipalities based on census 2011, page 174.

Residential Capacity Analysis in the Municipality of Prishtina

The area of the municipality is about 523 km², of which 60 km² belongs to the urban area of the municipality. Out of the entire territory of the municipality, 20,358 ha are agricultural land, of which 14,000 ha are cultivated land, while the rest is grazed. About 30,000 ha have been designated as forests. According to the latest census in Kosovo, the total number of residential units in the Municipality of Prishtina is 59,503 units. The density of the urban structure can be calculated based on georeferenced satellite photographs and census data. Both were produced in 2010, so they can be considered as coherent. The implementation of the plans so far has been carried out very slowly or at all, but it can be concluded that the current capacities are around 301,000 inhabitants.

Table 16: Population of Prishtina Municipality

Municipality	Population Census 2011 (31 March 2011)	Estimated population (December 31, 2011)	Estimated population (31 December 2012)	Estimated population (31 December 2013)	Estimated population (31 December 2014)	Estimated population (31 December 2015)
Prishtina	198.897	201.804	205.133	207.477	207,062	204.721

Source: KAS "Statistical Yearbook of Kosovo Reporter 2016, Table no. 2.7: Population of Kosovo by Municipalities for 2011-2014

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