



Armenia: Renovating and Securing Multi-Apartment Housing Stock

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EXECUTIVE SUMMARY

Based on a thorough analysis of present housing policy in Armenia and extensive experience in a number of Western European and CEE countries, the author outlines a comprehensive strategy for housing policy reform.

Starting point is an assessment of the existing housing situation in Armenia. Quantitative housing provision and provision with basic utilities in Armenia seems sufficient, compared to other transition countries. The cadastre system and building regulations are working effectively.

On the other hand the entire system of ownership of multi-apartment buildings and of management and maintenance of common owned property works highly inefficient. The introduction of a condominium scheme as self-government of building owners in 1996 and the transformation of condominiums into management organizations with the Condominium Law 2002 created quite a confusing situation. Similar to many transition countries, the Armenian Condominium Law has followed the model of voluntary establishment of condominiums. By contrast, condominium legislation in most Western countries regulates the relationship of owners of multi-apartment buildings on an obligatory basis. The Law on Apartment Building Management (2002) has introduced the terms “building governing body” and “meeting of owners”, but there is neither a definition of these terms, nor a clear distinction of rights and obligations in relation to the “condominium”. The common use of commonly owned infrastructure does not work without contractual or legal arrangements between all owners. In the process of privatization this was abandoned. This fatal error and basic misunderstanding of the nature of a condominium is responsible for some of the most burdensome problems in Armenia’s housing sector today. Clarification and a redefinition of the roles of owners on the one hand and of the management organizations on the other hand are urgently needed.

Housing repair does not work well. Deterioration worsens from year to year. Not less than 75% of all roofs and roof drain systems are in urgent need for repair. A growing number of residential buildings are in urgent danger of physical destruction. This situation aggravate the serious seismic risk in Armenia. Investments in housing repairs are insufficient. In 2008, less than AMD 1,000m (\$ 2.7m) was invested in the whole stock of multi-apartment buildings. The extremely low maintenance fees of below AMD 10 per m² per month (2.4 ₺) allow for not even the most urgent repair works. Similar serious is the collection rate of hardly over 60%. Debts on maintenance fees are very difficult to levy.

Housing construction was one of the driving forces of the economic boom in Armenia until 2008. But the number of completed dwellings remained low with only 1,900 units in 2008. This is only 0.6 completions per 1,000 inhabitants, compared to 5.3 in EU average. An upturn of housing construction is urgently needed. But a strategy to revive housing construction must focus on domestic demand.

The non-approved *State Program on Management, Exploitation and Maintenance of Multi-Apartment Housing Stock* from 2008 is regarded as a profound program with solid analysis and conclusions and a traceable set of measures. But the program is no strategic approach. Long term functioning of the sector is not traceable. The non-effectiveness of condominiums is not recognized, its reasons not properly identified and counteracted. The necessity of State assistance is estimated with AMD 1,650m to 2,200 per year (\$ 5-6m). This amount is regarded insufficient, taking the volume of necessary refurbishment works. Altogether, the *State Program* represents a technical approach and not a

political or institutional one. It is about abating current problems and does not seize the opportunity for economic leverage.

This report provides a comprehensive set of recommendations, taking reference on international best practice, but basically referring to very concrete today's problems of the Armenian housing sector. The drafted strategy combines short term measures, targeting at communication of quick results, and long term strategic policy reform measures. Policy measures such as a "1,000 roofs program" or the recently started "affordable housing to young people program" qualify for quick results. These initiatives shall be seized to communicate and promote necessary fundamental further changes.

The proposed strategic reform focuses on 7 pillars:

1 – Change of management and maintenance:

Bold action is recommended to transform housing management into a business case:

- Substantial increase of maintenance fees from today in average below AMD 10 per m² per month (2,4 ₼) to 200 AMD (55 ₼). Western households pay 5% to 10% of their incomes for housing maintenance. AMD 200 is at the upper end of this range, applied to incomes in Armenia.
- Obligatory components of maintenance shall include, additionally to previous components, waste disposal (with a link to the project of engineering consultant Fichtner), costs for seismic risk evaluation, and at least 30 AMD/m² per month to establish a reserve fund for future capital repairs.
- An increase of the collection rate is imperative. This may be realized with incentives, social support and sanctions ("carrot and stick"). Systematic legal action for non-payment of fees is of particular importance. The single owner must know that non-payment has serious consequences, in the worst case even the loss of his/her apartment.
- Those who really cannot pay, get access to housing allowances. Anyone who wants to get allowances has to accept that the public dept is registered in cadastre without expiration date. Accumulated debts have to be paid back by the previous owner in the case of sale, inheritance or endowment of the dwelling. In the case of income increase the allowance shall phase out. But to avoid negative incentives, income increase shall not release a duty to payback.
- Hence, it is recommended not to subsidize single maintenance measures, but to empower the owners to achieve housing maintenance with own forces. This change of policy should promote the basic setting that the owners are responsible for their buildings and not the State.

2 – Institutional change of condominiums:

The existing condominium scheme is ineffective. The roles of owners on the one hand and management units on the other hand shall be clarified with the following measures:

- Establishment of obligatory owners' associations (1 building – 1 owners' association). This is not an association in the sense of association legislation, but a contractual relation between all owners of one building, which immediately establishes an independent legal personality. If there is concern about the compulsory character of such an action, the previous owners may be offered alternative models, i.e. a right to opt for a re-transformation of their asset into a rental apartment.
- Owners' associations are to be obliged to organize professional management and maintenance. In principle, this can be done by the owners by themselves, but only with strict professional requirements (licensing of the housing manager).
- Strengthening of the financial conduct of the management units, by increasing the maintenance fees and the introduction of a right of usufruct for defined common parts of the property or courtyards.

- The existing management units, which are wrongly called “condominiums”, shall continue to exist, but as what they are in fact: service providers instead of representations of the owners. This implies the possibility for the owners’ association to change its service provider. Management units may opt for becoming PPP Housing organizations (see below).

3 – Establishment of a legal and financial framework for anti-seismic and thermal refurbishment:

Comprehensive refurbishment initiatives require functioning maintenance schemes and a clarification of the role of owners and management units. Refurbishment projects are complex in implementation and costly. Comprehensive rehabilitation works have to be calculated with 20% to 50% of the costs of new construction. Decisions on refurbishment require consent of a majority of owners. Experience in many countries proves that this aspect is even more tricky than financing. It is most difficult to define the regulations for quorums. If 100% consent of all owners is required, than not one single project will be realized. But quorums of less than 100% result in payment obligations for owners who did not want the investment, voted against and maybe cannot afford. For those, housing allowances, as described above, may be applied. Similar difficult is the treatment of the owners who do not take part in the decision making process. Indispensable drivers for refurbishment activities are mandatory regulations (obligatory repair works), maintenance regulations including a well endowed reserve fund, feasible models for owners’ associations to take mortgage loans (without State guarantee), comprehensive subsidy models, educated experts within the housing management units, the availability of skilled workers and good building materials. In the long perspective, investments in refurbishment have huge future prospects for the construction industry.

4 – New construction and mobilization of vacant dwellings:

Policy reform regarding the existing housing stock can only succeed, if it also includes policy reform to increase housing supply:

- A benchmark for necessary new construction may be the construction rates in CEE countries, which are at 3 to 5 units per 1,000 inhabitants. For Armenia this would mean a yearly housing production of 10,000 to 15,000 dwellings. This new supply must be targeted at domestic demand (affordability).
- A main reason for increasing new construction is the indispensable replacement of category 4 buildings. The following procedure seems feasible to address this challenge: condominium owners are offered the real value of their dwellings, which may represent 10-30% of the value of a new dwelling. This compensation is to be invested as down-payment for a new dwelling. The new dwelling will be affordable only with an advanced financing model, e.g. as an affordable rental dwelling realized by a PPP Housing organization (see below).
- A strategy on increased housing supply shall also include measures to mobilize vacant dwellings. Protection of property does not allow to force owners of vacant dwellings to sell or rent them out. But a scheme of incentives (and disincentives) may be applied with positive prospects, including the introduction of sound rent regulations and better enforcement of maintenance debts even for vacant dwellings with the threat of foreclosure in the case of permanent non-payment.

5 – Introduction of a PPP Housing sector:

Public private partnership (PPP) in housing describes an approach that private companies fulfill public service obligations. It combines the strengths of the markets (privately-run companies) with the backing of a public authority (privileged access to subsidies, public control). PPP housing organizations are particularly eligible for rental housing construction, the takeover of social housing stocks and the refurbishment of existing residential buildings. Such models are recommended by

many international organizations, such as UN, World Bank and CEB. The introduction of such a scheme requires substantial efforts, but promises to solve some of the most burdensome problems of the present housing situation in Armenia.

6 – Re-establishment of a rental sector:

Rental housing not only offers low entry prices, it also promotes mobility of workforce. A sound rental sector is important to accommodate those who do not want or are unable to become homeowners. The following measures are recommended:

- Similar to all transition countries, Armenia has a large informal rental housing sector. Legalization offers important perspectives. This may be achieved by introducing sound rent regulations, incentives for owners, such as decent rent settings, rent contracts limited in time, reasonable possibilities to terminate rent contracts, as well as disincentives for them, such as a right for the tenant to get a formal rent contract for unlimited time, if the lease is not formalized within a defined period.
- Re-establishing rental housing is closely related to the introduction of a PPP Housing sector for new construction, see above.

7 – Establishment of a comprehensive Housing Finance Strategy:

Along with legal regulations, financing is the main lever for housing reform. A comprehensive Housing Finance Strategy may focus on the following measures:

- Facing different preconditions, such as the backlog of public housing investment in Armenia for at least 20 years, the bad condition of the existing housing stock, the backlog in new construction etc., it is regarded necessary to define State expenditure on housing with at least 1.0% of GDP. Taking the estimated data from 2009 this would be a yearly amount of AMD 30,000m (\$ 80m) to promote housing maintenance, refurbishment and new construction. Such a percentage is similar or below most EU countries.
- Responsibility for housing maintenance and refurbishment is at the owners. The State may stimulate some action with subsidy programs. But generally, the existing housing stock shall be self-sufficient in the sense, that funds acquired from the owners suffice for upkeep of the buildings in a state-of-the-art status.
- This policy focus will be assisted with the introduction of an income-tested housing allowance scheme for those who cannot afford maintenance or refurbishment.
- Supply side subsidies (“subsidies on bricks and mortar”) may focus on new construction (replacement of category 4 buildings) and targeted refurbishment programs, e.g. on roof repairs.

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INTRODUCTION

The author has been assigned by the Government of Armenia via the World Bank to review the non-approved *State Program on Management, Exploitation and Maintenance of Multi-Apartment Housing Stock in RA* from 2008 and to provide recommendations for improving it in general, with specific regard to improve the preconditions for housing management and maintenance. A parallel assignment went to Dr. Filomena Papa from the Italian Presidency of the Council of Ministers, Civil Protection Department, focusing on seismic risk assessment.

With this aim two technical missions have been organized to Armenia from 18 to 28th November, 2009, during which a number of meetings have been scheduled, namely with the World Bank office team, the Ministry of Urban Development, the Ministry of Economy, the Ministry of Justice, the Ministry of Territorial Administration, the Municipality of Yerevan, the Yerevan Municipality Communal and Housing Department, different NGOs, lawyers and housing condominiums (see list of interviews, C.1, p. 61).

In line with the Terms of Reference (ToR) for the consultancy assignment, analysis and recommendations in this report comprise the following topics:

- Evaluation of the existing situation in housing provision in Armenia (chapter A, p. 9),
- Assessment of the draft *State Program* of 2008 (chapter A.10, p. 30),
- Recommendations for improving the *State Program* in order to utilize the multi-apartment stock safely fill the whole second part of this report (chapter B, p. 33),
- The existing management mechanisms of the multi-apartment blocks are assessed in chapter A.9 (p. 27), recommendations for policy reform are described in B.2 (p. 34),
- Proposal for a new business model for housing management and new construction (Public-Private-Partnership, chapter B.4, p. 43),
- Recommendations on funding (chapter B.8, p. 55),
- Proposals for legal reform,
- A political approach for implementation (chapter B.1, p. 33).

The report contains a number of links to the seismic risk assessment report of Dr. Papa. All recommendations targeting at improvements of housing maintenance, refurbishment, and replacement of category 4 buildings are closely connected to this other report.

Based on a thorough analysis of present housing policy in Armenia and extensive experience in a number of Western European and CEE countries, the author outlines a comprehensive strategy for housing policy reform.

Armenia and in particular the capital city Yerevan are developing in some aspects with spectacular pace. This is not the case with housing provision. Condominiums are in danger to degrade to condominiums. The drafted housing reform could help that housing provision catches up with other reform projects in Armenia.

A. HOUSING STOCK AND HOUSING MANAGEMENT

A.1 DEMOGRAPHIC AND ECONOMIC BACKGROUND

By contrast to previous forecasts, Armenian population is growing slightly, with 3.24m inhabitants in 2009. Besides of Yerevan with 1.11m inhabitants there are no other large cities. The next biggest cities are Gyumri with 170,000, Vanadzor with 120,000 and Vagharshapat with 50,000 inhabitants. Urbanisation has grown in Soviet time to almost 70%, but decreased in the 1990s to presently 64%. The average household consists of slightly below 4 persons. Life expectancy is comparably high with 74 years. Fertility rate is above Western average, but still below reproduction limits (1,7). The poverty level (below \$ 4.30 per day) could be cut in half between 2004 and 2007 to below 40% of the population, the extreme poverty level (below \$ 2.15 per day) even could be reduced by three forth to 4.4% of population. But still urban poverty is one of the most serious concerns in the region. Average monthly nominal wages have doubled since 2006 to around AMD 100,000 in 2009 (\$ 280), minimum wages are AMD 30,000 (\$ 85), pensions around half of this number. Gross national income per capita has tripled since 2000 and reached \$ 6,300 in 2008, but fell back to below \$ 5,000 in 2009.¹

A.2 HOUSING STOCK

A.2.1 STRUCTURE

Armenia has a housing stock of 822,000 units, of which two thirds are in urban areas. 430,000 dwellings (52%) are in the multi-apartment stock (but with only 1/3 of floorspace). This is 267 dwellings per 1,000 inhabitants, which is 40% below EU average.²

The housing stock is relatively young with almost 60% with less than 40 years (Table 1). But the biggest part was built under the auspices of the rationalisation-obsessed Soviet housing construction industry. Limited life span of construction of in some cases only 25 years was accepted.

Table 1: Housing stock by age, 2008

	No. of buildings	< 1950	1951-1970	1971-1980	1981-1990	1991-2000	> 2001
Armenia total	21,500	2,734	6,288	5,233	4,813	2,035	364
	100%	13%	29%	24%	22%	9%	2%
Yerevan	4,700	361	1,720	1,318	1,219	61	28
	100%	8%	37%	28%	26%	1%	1%

Source: RA Housing Stock and Communal Services 2008

Armenia went through massive housing privatization between 1991 and 1999. Dwellings were transformed to private property actually without any charge. Uniform prices allowed privileged households to acquire considerable wealth at insignificant costs. As a result, Armenia is today a "super home-ownership state" with an owner occupancy rate of about 96% and even 98% in Yerevan. There has almost no rental or social rental housing remained (see A.2.3, p. 11).³

¹ Armstat. World Bank. Tsenkova (2009). IFC.
„De jure“-population. Incomes for the 1st to 3rd quarter 2009. GNI in Purchase Power Parity.

² RAHousing Stock and Communal Services 2008 (by 1/1/2009). Eurostat.

³ Armstat census 2001. Vanoyan (2004). Stephens (2005). Tsenkova et al. (1996)

According to Armstat the average dwelling has more than 83m² of useable floor space in urban areas, and even more then 100m² in total average. This number contradicts to other sources, which indicate much smaller floor space. The reason for divergence may lay in the definitions of floor space. Average useable floor space per capita is 26.3m² and 21.5m² in urban areas (compared to 36m² in EU average).¹

The vast majority of dwellings have bathing utilities, running water and toilets inside and have basic waste disposal.²

A.2.2 TYPOLOGY

Table 2 shows the typology of residential buildings in Armenia with half of them built with one or two storeys and half with three and more storeys. Not less than 13% of buildings have 9 or more storeys. Buildings up to 5 storeys are existent in a similar share in most provinces. Buildings with 6 and more storeys are predominantly in Yerevan and in much smaller extent in Kotayq and Lori. The big majority of buildings of up to 5 storeys have been constructed in stone, high-rise buildings mainly with panels. 13% of the buildings have elevators. This is actually only the buildings with 6 or more storeys. Altogether more than 5,000 elevators are installed.³

Table 2: Multi-apartemnt buildings, typology, material of outer walls, 2008

	No. of buildings	Stone	Panel	Monolit	Other
Armenia total	21,700	74%	20%	6%	1%
Yerevavn	4,800	50%	50%	1%	0%
Total buildings with					
1 storey	5,800	92%	4%	0%	3%
2 storeys	5,200	89%	7%	3%	1%
3 storeys	1,700	85%	8%	8%	0%
4 storeys	2,500	64%	8%	28%	0%
5 storeys	3,600	79%	17%	5%	0%
6-8 storeys	300	27%	72%	1%	0%
≥9 storeys	2,600	0%	99%	1%	0%

Source: RA Housing Stock and Communal Services 2008

¹ Armstadt, Statistical yearbook 2008. RAHousing Stock and Communal Services 2008. Housing Statistics in the EU (2006).

² Armstat census 2001.

³ RA Housing Stock and Communal Services 2008.

Image 3: Housing typology in Yerevan off-center



Source: Authors

A.2.3 SOCIAL HOUSING, RENTAL HOUSING

Social housing has a very small significance today. A very small share of social rental housing has survived privatization. The owner occupancy rate is 96%. Rents in the social rental sector are far below costs of even basic maintenance.

Soon after 2000 the system of “housing purchase certificates” was introduced, developed by the Urban Institute and funded by USAID. There is no national housing allowance scheme in Armenia. Responsibility for housing assistance has been devolved to the municipalities, but they do not have sufficient funds for effective action.¹ Today some international NGOs are active in developing social housing pilot projects, e.g. the US funded Habitat for Humanity (www.habitat.am) or the Dutch funded Social Housing Foundation (www.shf-armenia.org).

A rental housing stock of only 4% has remained. Additionally, an informal rental sector exists. There are no data about the quantity of informally rented privately owned dwellings. But estimations about the informal rental housing sector in Romania of 10% to 15% of the total housing stock² may be applied to Armenia as well.

A.2.4 TECHNICAL CONDITION OF THE HOUSING STOCK

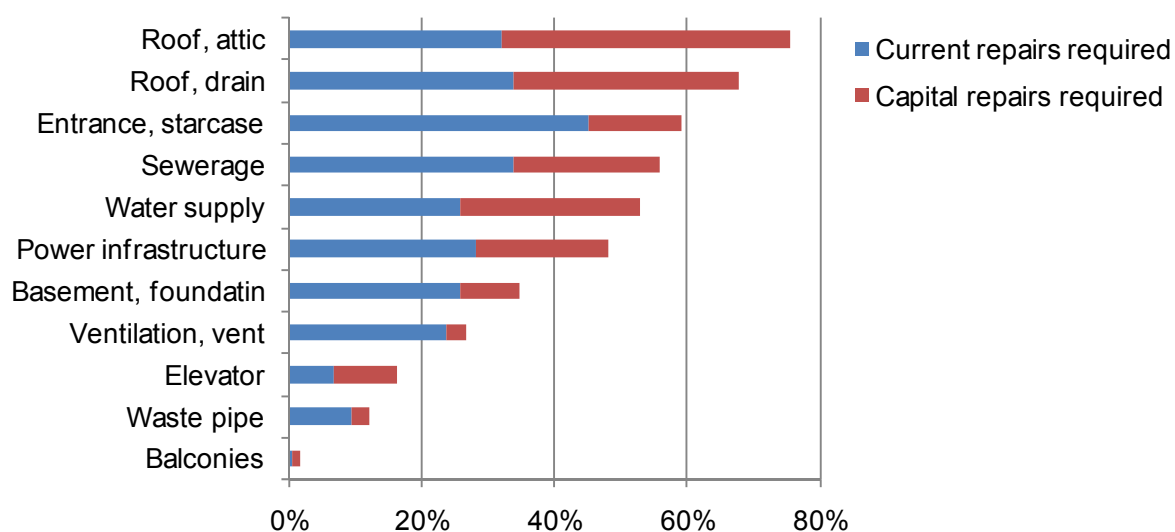
Despite of its relatively young age, a very big part of the housing stock in Armenia is in bad condition. Evaluation of the quality state of multi-apartment buildings in 2007 showed that around 30% of the building stock is classified as “bad”, but only 6% as “excellent” or “good”. The share of buildings in poor condition is bigger in towns of the Gegharkunik, Lori, Ararat and Shirak marzes (regions).³

¹ Anlian & Struyk (2003). Danielian (2004). Stephens (2005). UNECE (2004: 38).

² IIBW (2007).

³ State Program (2008).

Graph 4: Required repairs, % of buildings



Source: State Program on Management, Exploitation and Maintenance of Multi-Apartment Housing Stock

As a matter of fact, technical deficiencies of the housing stock almost entirely concern common shared property. This is the reason for the policy efforts to attain progress in this field. The main challenges are improvement of legal certainty and funding.

Image 5: Deteriorating condominiums in Yerevan and Echmiadzin



Source: Authors

a) SEISMIC RISK ASSESSMENT

After the Spitak earthquake of 1988, a great effort has been spent in the field of seismic risk analysis in Armenia. The whole field of seismic risk assessment is covered by Filomena Papa in a study commissioned by the World Bank in parallel.

b) BUILDING SHELL

The building shell including the outside façade is common shared property and in a bad condition almost for the whole multi-apartment housing stock (Image 6). Due to even more urgent need for repair on roofs and roof drain systems, refurbishment of the building shell had no priority so far.

Image 6: Condominium in Yerevan – poor condition of panel block construction



Source: Authors

c) ROOFS

Not less than 75% of all roofs and roof drain systems are in urgent need for repair (Graph 4, p. 12).¹ Leaking roofs not only damage top floor dwellings and structural parts of the buildings. In many cases water is drained under the foundation, leaking drain systems may wash out the foundation (Image 7).

¹ Overall examination of multi-apartment buildings (2007).

Image 7: Condominium in Yerevan – prior complaint: roofs



Source: Authors

d) ENTRANCE AREAS, SEMI PUBLIC AREAS, COURTYARDS

Around 60% of all multi-apartment buildings require repair of entrances and staircases (Graph 4, p. 12). In these parts of the buildings the deficient understanding of a semi-public space is particularly evident. Many buildings have broken or no entrance doors, which directly leads to degradation and destruction. As Kamo Areyan, Deputy Mayor of Yerevan, mentions, people understand what is private and what is public, but they have no understanding for the in-between.¹

The use of common shared property is regulated with the Law on Apartment Building Management from 2002 and a Government resolution from 2007 (see A.8.2, p. 23).² But for both, enforcement is lagging behind, particularly because of short funding (see A.9, p. 27).

A particular blemish is the treatment of entrance areas and outside façades by gas, electricity and water providers. In the course of transformation, big parts of the previously existing district heating grid

¹ Interview Areyan.

² Resolution of the RA Government No. 1161-N, 4 October 2007.

collapsed (see below para. f)). It was substituted with a fast growing gas distribution system with the advantage of simple usage-bound accounting (metering). Covered by the Maintenance Law, the almost monopolistic gas providers did not at all care for common property issues in residential buildings and allocated the meters wherever convenient for reading and gas lines mostly outside the façades. This practice has strongly derogated the entrance areas of most residential buildings (see Image 8).

Image 8: Condominium in Yerevan – entrance areas, court yards, common space, simple repair works



Source: Authors

The ownership relations and utilization of courtyards are unclear until today. In the course of privatization only the land immediately below the buildings (with 1.5m of spacing around) was transferred to the residents (see A.9.1, p. 27). The open space between the buildings remained in the property of the municipalities. Nevertheless many courtyards are stuffed with metal boxes as garages. They are not only erected informally on public land, but as well mostly do not meet building regulations (Image 8). But they often contribute to maintenance funding of the condominium. The non-registry of common property and courtyards is by many experts regarded as major legal deficit (see A.8.4e), p. 26).

e) ECOLOGICAL AND THERMAL PERFORMANCE

The thermal standard of the multi-apartment housings stock in Armenia is poor. Virtually no building has thermal insulation. This is unintelligible taking the high household expenditure on heating and energy. Ecological aspects have no significance so far.

f) HEATING

In Soviet time, urban areas were widely supplied by district heating grids. After transition this infrastructure deteriorated. Between 1990 and 1999 the area served by district heating systems decreased by 70%.¹ At the same time gas supply has increase impressively, the length of the gas networks has doubled after 2003. The number of gasified apartments tripled between 2003 and 2007 to some 2/3 of the total housing stock. The problematic installation of gas meters in buildings is shown above (Image 8). Almost half of all households heats with electricity (air condition).²

Usual household expenditure on energy is around \$ 30 per month in summer and up to \$ 150 in winter. The high expenditures on energy are the main reason that households are not able or willing to increase payments for maintenance and refurbishment. This is a vicious circle.

A.2.5 UNOCCUPIED DWELLINGS

There is a big number of unoccupied dwellings, resulting from privatization and later emigration of the tenants. Unoccupied dwellings cluster in regions of low economic dynamic. In Yerevan and other economic centers high market prices have reduced vacancy.

A.3 REFURBISHMENT

A.3.1 CURRENT ACTIVITIES

In 2008 some AMD 957m (\$ 2.7m) were invested in capital repairs of multi-apartment buildings (Table 9). Altogether 860 buildings experienced refurbishment works. This is as many as 4% of the total building stock. This impressive number looks different, if the average investment volume of only AMD 1.1m (\$ 3,000) per building is taken into consideration. Obviously these repairs involve only few of the most urgent works.

Table 9: Capital repairs of multi-apartment buildings 2008

	No. of buildngs	Expenses mill AMD	Roof	Water / wastewater	Heating internal	elevators	entrances	Other
Armenia total	860	957	314	38	18	41	297	249
		100%	33%	4%	2%	4%	31%	26%
Yerevavn	631	710	110	20	17	28	288	248
		100%	15%	3%	2%	4%	41%	35%

Source: RA Housing Stock and Communal Services 2008

The extremely low maintenance fees allow for only very urgent repair works. Partly repair works are done in insufficient quality, e.g. roofs repaired with sheet metal hoarding (and generally without thermal insulation), which evokes early further repair (Image 10).

¹ UNECE (2004: 29).

² Armstat census 2001.

Image 10: Condominium in Yerevan – roofs repaired with sheet metal hoarding



Source: Authors

A.3.2 ARISING PUBLIC COMMITMENT

Societal consensus is arising that refurbishment of the housing stock requires commitment and funds from the State. It is not at all a revival of State economy, if the chair of a condominium argues: “The housing stock is the biggest asset for a country. Hence, the public should contribute in its preservation”.¹

The UNECE country report on Armenia of 2004 stated that there are no subsidies for maintenance and refurbishment in place.² This has changed meanwhile. In 2008 the Government started an investment program with AMD 2,000m (ca. \$ 6m) to replace elevators in residential high-rise buildings (see A.2.2, p. 10).³ Replacement is fully financed with grants of the State.

The non-approved *State Program* of 2008 estimates the number of multi-storey buildings with requirement for capital repairs of roofs with almost 6,000, which is 55% of the total stock, and even around 70% of the multi-storey building stock in Yerevan. For this venture, a total investment volume of AMD 45,000m (\$ 150m, ca. \$ 20,000 per building) is estimated. The Program came to the conclusion that overall repairs of roofs at the expense of only the owners is almost unrealistic and the state assistance shall have an essential role in this issue (see A.10, p. 30).⁴

A.4 HOUSING CONSTRUCTION

Until a few years ago, the need to increase new construction was regarded low. UNECE has detected no shortage of housing, due to the drop in population. Some housing shortage could be solved by the use

¹ Interview Galoyan.

² UNECE (2004: 38).

³ Interview Tovmasyan.

⁴ State Program (2008).
See also: Vacvagare and Hamilton (2003) and Vanoyan (2004).

of housing purchase certificates for existing units.¹ This assessment has changed. Demographic development has stabilized (see A.1, p. 9). Possible vacant housing supply is not on places of demand. Urbanization is expected to increase again.² But more than this, a growing part of the existing housing stock is deteriorated in an extent that replacement seems more reasonable than refurbishment (see A.5.2, p. 20).

Housing construction was an important driver of the rapid economic growth in Armenia in recent years. The investment boom has been concentrated on housing construction. The sector contributed one-fourth of Armenia's GDP in 2008. And a sharp decline in the construction sector was one of the main reasons for the downturn of GDP in 2009 for about 15%.³

But the importance of the construction sector for national economy contradicted with the output. In all years of the economic boom, the number of completed dwellings never exceeded 5,000 units per year and was even below 2,000 units between 2004 and 2007. This is a construction rate of some 0.5 completions per 1,000 inhabitants, compared with around 5.0 in EU average and 2.0 to 4.0 in all CEE countries.⁴ Different reasons for this strange incoherence can be detected. Completion of dwellings is meant differently in Armenia compared to Western countries. To leave a building shell unfinished until new liquidity comes along seems quite normal. Since transition, ever again housing construction was started but then stopped, if the economic situation changed.⁵ Then of course, the construction boom almost entirely focused on the upscale market. The newly created, so-called “elite” apartment blocks are priced extremely high and are unaffordable even for the aspiring Armenian middle class (see A.7 and Table 12, p. 21). The spectacular new developments in center Yerevan (see front page) are targeted at international and speculative investment only. It fits to the picture, that the number of families which moved into new apartments decreased from 4,500 in 2003 to only around 500 in 2006 and 2007. Housing production was not at all targeted at local demand.⁶

Bagrat Asatryan, former chairman of the Central Bank of Armenia, speaks of an “absurd (low) number of apartments that have been put into service over the last years” and postulates the need for annually 14,000 new dwellings in Armenia.⁷ Even though this is a multiple of previous production rates, it would be only at around EU average (see estimations of necessary construction rates in B.5, p. 49).

Quality standards of new construction have developed very positively, but only for the upscale market segment. This segment is also well equipped with maintenance schemes. But only reluctantly housing developers started to serve the economy market segment.

Resulting from this development, construction costs are relatively high with \$ 450/m² even for the economy segment. Taking high financing costs, land costs and necessary risk premiums, private market seems hardly able to provide housing for domestic demand.

¹ UNECE (2004: 12).
Anlian & Struyk (2003). Struyk et al. (2004: 5).

² See Chiquier/Lea (2009: 6).

³ CIA World Factbook. EIU (2009). USAID (2005: 8, 9, 17). www.rferl.org, 11 April 2009.

⁴ Armstat. Euroconstruct. IIBW.

⁵ Gevorgyan & Hirche (2006: 20)

⁶ Gevorgyan & Hirche (2006: 20). Armstat.

⁷ www.news.am, 22 February 2010.

In previous years, public landlords started social housing construction for new, with after all almost 1,000 new dwellings in 2007. State initiative is based on a program for estimated 13,000 families for whom the State has responsibility to provide replacement housing.¹

In January 2010 the Government approved an “affordable housing to young people program”. It consists of commercial loans of up to AMD 16m (ca. \$42,000) per case for altogether 300 families, with interest rates of 10.5%, reduced by 2% State interest grants, for a 10-year credit period.² Such a loan suffices for a 35m² dwelling in center Yerevan. Monthly installments of some \$ 530 can hardly be targeted at moderate income households.

A.5 NEW CONSTRUCTION WITHIN THE EXISTING STOCK

A.5.1 REDENSIFICATION OF THE ATTIC ZONES

Extending living space by adding floors to the attic of existing residential buildings could be a striking strategy to increase housing supply, particularly in expensive center locations. It could contribute to upgrade neighbourhoods, improve social mix and to better utilize existing infrastructure. Such developments are observable in Yerevan, but are insufficiently regulated (Image 11).

Image 11: Condominiums in Yerevan – construction of additional storeys



Source: Authors

Formerly it happened that people just added another storey to existing buildings. Today, legal regulations are respected more closely. They define that such an intervention requires 100% consent of all owners. But many owners regard such an investment as reduction of the value of their own property, as they have to share the asset with an additional owner. In practice, only owners living in the previous top floor have a chance to realize new dwelling space in the attic. By contrast to current practice, such developments would have high potentials to cover expenditures for the refurbishment of common owned space (see B.6.4, p. 54).

¹ Armstat. Struyk et al. (2004: 5).

² www.news.am, 19 Feb. 2010.

A.5.2 REPLACEMENT OF RESIDENTIAL BUILDINGS

Obviously, not all existing residential buildings can be maintained in a long perspective, not even in the case of improved refurbishment schemes (which are not in sight, see A.3, p. 16). Termination of condominiums is an unresolved problem worldwide. Not even rich Western countries possess viable models to compensate and force condominium owners to give up their ownership titles in the cases of severe deterioration of their building. Ending an owners' association or condominium is legally and economically extremely difficult. Legally, because consent for tearing down the home of the owners is required. Economically, because the remaining value of the land (after demolition costs) does not cover the costs of a new dwelling at all. Replacement at the expense of the State is unaffordable for the public. Hence, all efforts have to be focused on the extension of the life-span of the existing housing stock. A solid building shell may persist for centuries. But all other components have to be replaced periodically. Achievement of state of the art standards in thermal insulation and seismic stability requires major investments.

In Armenia, a substantial part of the housing stock has exceeded life expectancy. An "Overall examination of multi-apartment buildings" in 2007 has classified all buildings in 4 categories. Category 4-buildings are in urgent need for replacement. Category 3-buildings require urgent renovation to prevent further deterioration and downgrading to category 4. According to expert opinion some 40% of the housing stock is in need for replacement in the perspective of few decades.¹

In several State programs, such buildings (mainly with destruction caused by the 1988 Spitak earthquake) have been replaced on State expenditure. But such a costly way of housing provision is unaffordable for the State for other than emergency action.

In some cases, deteriorated condominiums were replaced by private developers by offering new dwellings to all previous owners. But this model only works in extremely valuable locations such as downtown Yerevan (see picture on the front cover). Usually the value of the building land (minus demolition costs) is not more than 10-30% of the value of a new dwelling.

Business models are in discussion to compensate owners of category 4 dwellings with new dwellings of smaller size. But no regulation is in place for such compensation so far. Regulatory measures for compensation and expropriation are in place only for cases of public use (e.g. for roads). It is doubtful, whether this legal procedure may be applied for residential buildings in the case of deterioration as well. A possible way out is described in B.5.5 (p. 52).

A.6 FINANCING OF MULTI-APARTMENT HOUSING CONSTRUCTION AND RETROFIT

In Armenia 21 financing institutions are active. The mortgage finance market has been growing fast until 2008, supported by favorable macroeconomic conditions and a continued strengthening of the banking sector. Banks offered "loan to value ratios" (LTV) of 50% in 2003 and 2004, which increased to 70% in 2006. Loan terms have increased step by step from below 5 years to 10 years. Developing financing markets led to an impressive upturn of issuance of mortgage loans from below 5,000 in 2003 to more than 25,000 in 2007. This resulted in a rapid growth of the mortgage loan to GDP ratio, which was virtually at zero by 2002, but reached 8.3% of GDP in 2006.²

¹ Interview Tovmasyan.

² Armstat. Gevorgyan & Hirche (2006: 19 ff.). CASE (2008: 118).

With the crisis, financing of housing purchase has become much more difficult. Banks offer much lower loan to value ratios than before, require extensive securities and charge higher interest rates. Hence, both the upturn and the downturn of housing production output were mainly driven by availability of retail mortgage financing products.

Existing mortgage products mainly target at retail financing of single households to purchase dwellings. There is hardly any activity in financing condominiums for refurbishment measures. Condominiums have no own property to provide as collateral for mortgage loans. They have the legal possibility to take mortgages in the name of the owners. But this requires 100% consent of all owners,¹ which is unrealistic in practice. Missing availability of financing products for housing refurbishment is a major obstacle for urgently required action (see A.3, p. 16).

In 2009 the Central Bank of Armenia with support of IFC and the World Bank has established the National Mortgage Company (NMC) to promote the development of the Armenian housing finance market. NMC is a mortgage refinancing company. It should operate in form of a liquidity facility. The NMC concentrates on the development of a primary market by providing long-term funds to lenders to refinance their housing finance operations. Additionally, NMC should develop the nascent bond market through the issuance of adequate instruments.

A.7 HOUSING MARKETS

Housing mobility of the Armenian population used to be low and even decreased in previous years. Struyk detected in 2004 that only 2% to 3% percent of the stock changes hands annually.² This equals to an average residence time of 33 to 50 years in the same apartment! In most Western countries this rate is above 5%. For 2008 less than 13,000 sales of dwellings (in multi-apartment blocks) have been registered, of which around 8,000 in Yerevan.³ This is a mobility rate of far below 1%. As described in chapter A.4 (p. 17), move-in to newly built apartments decreased from some 4,500 in 2003 to 500 in 2007.

Housing market development suffers from the predominance of “elite”-housing, which does not target at domestic demand and mainly follows speculative price mechanisms. The market for used apartments in existing condominiums suffers from the poor quality and legal uncertainty of the sector.

Table 12 shows the development of market prices for apartments in Yerevan and the three next biggest Armenian cities in recent years with strong increases even in 2008 and a downturn of -10% in 2009 (which is even -24% in \$). An average dwelling costs 15 to 25 average yearly net incomes. This “house price to income”-ratio is only 5 to 7 in most Western countries.

Table 12: Market prices for apartments per m²

	2007		2008			2009		
	AMD	\$	AMD	\$	increase	AMD	\$	Decrease
Yerevan center	448.000	1.300	483.000	1.590	8%	435.000	1.210	-10,0%
Yerevan average	257.000	740	296.000	980	15%			

¹ Art. 11, para. 7 and 8 Law on Apartment Building Management.

² Struyk et al. (2004: 5).

³ RA Housing Stock and Communal Services 2008.

Gyumri	71.000	210	104.000	340	46%			
Vanadzor	72.000	210	94.000	310	31%			
Vagharshapat	128.000	370	167.000	550	30%			

Source: RA Housing Stock and Communal Services 2008, www.news.am, 19 Feb. 2010

A.8 SETUP OF CONDOMINIUMS

Similar to many transition countries, the Armenian Condominium Law follows the model of voluntary establishment of condominiums. A majority of above 50% of owners is sufficient for establishment. By contrast, condominium legislation in most Western countries regulates the relationship of owners of multi-apartment buildings on an obligatory basis.

Infrastructure, such as roads or schools, is mostly a public good with a public obligation to maintain. This was very much the same with common parts of multi-apartment buildings in Armenia before privatization. If infrastructure is in private property, it seems evident that the obligation to maintain is at the owners – all owners. A constellation, that only a part of the owners voluntarily form an association, which then has to take over all maintenance obligations, sounds absurd. But exactly this happened when the condominium legislation was introduced.

Privatization was executed as a simple deal with a simple transfer of title. The consequences of the transformation of the formerly public good of the common shared property in private ownership were recklessly neglected. The common use of commonly owned infrastructure does not work without contractual or legal agreements between all owners. In the process of privatization this was abandoned. From the distance in time it is difficult to identify the reasons. Probably it was regarded unacceptable to force purchasers into contractual relations with their neighbors. At the same time no model to handle common shared property in a contractual or legal way was easily available. Privatization was a political priority and urged for quick results. Solving this complicated problem could have hampered or decelerated housing privatization considerably. On the other hand, obligatory owners' association may have caused constitutional concern regarding freedom of assembly.

From today's point of view the only option for a beneficiary household for privatization should have been the voluntary accession to an owners' association including comprehensive contractual obligations. If a household would not have accepted such a step it should have had the option to remain tenant (possibly connected with some disincentives).

This fatal error and basic misunderstanding of the nature of a condominium is responsible for some of the most burdensome problems in Armenia's housing sector today.

A.8.1 THE CONDOMINIUM LAW OF 1996

Privatization of the housing stock in the early 1990s required a new legal framework. With support of international donors, particularly USAID and the Urban Institute, condominium legislation following the US model was introduced.

First condominiums have been established already in 1995 on the basis of a Government Decree. A bulk followed in 1996 after proclamation of the new Law, until 1998. After 2002 almost no further condominiums have been established. Currently, around two thirds of multi-apartment buildings in

cities and towns is managed by altogether approx. 700 condominiums, one third by local governments. In 31 out of 48 cities and towns in Armenia condominiums are not altogether established. The biggest part of condominiums is active in Yerevan.¹

A big part of condominiums was founded with the help of NGOs, namely “NACO – the National Association of Condominium Owners” and the “Condominium Association”. A moderate share of condominiums is until today organized in these lobby groups.²

The new Condominium Law provided for voluntary registration of condominiums and identified condominium organization as voluntary option of housing management. To attain direct representation of the owners in housing management it followed the bottom-up principle: 1 building – 1 condominium. The original intention was to establish a representation of owners which should contract service providers for management and maintenance. Only later the possibility of self management was introduced. Inefficiencies in service provision were explained with a too small size of the managed stock. Hence, in 1998 the Law was amended and subsequently allowed for condominiums consisting of several buildings. Most mergers of condominiums were driven by local political leaders, i.e. in a “top-down” procedure, mostly without voting of the concerned dwelling owners. With this reform, direct representation of the owners in housing management was abandoned.³

All multi-apartment buildings, which did not form condominiums, continued to be managed and maintained by the public. This was done in continuation of the Soviet model of state housing maintenance organizations (zheks). In 1997, in the course of decentralization of political powers, the responsibility for management and maintenance of the housing stock was transferred to the local governments. The zheks were transferred to them and are now municipally owned enterprises.⁴

But zhek structures reportedly survived as well in the later development of condominiums, regarding their size, the mean representation of tenants in management decisions, kind and quality of services and even staffing.

A.8.2 CONDOMINIUM LAW 2002 / LAW ON APARTMENT BUILDING MANAGEMENT

The existing Condominium Law was adopted on 7 May 2002, together with the Law on Apartment Building Management. The latter, complemented with a Government Resolution from 2007,⁵ was introduced to fill the management vacuum in those buildings, which had not formed condominiums so far.⁶

The new legislation was developed by the Ministry of Urban Development in the framework of the USAID funded Local Government Program.⁷ It shows some references to international models of housing legislation, but was developed mainly incrementally based on own experience with the hitherto

¹ State Program (2008). Vanoyan (2004). UNECE (2004: 49). Interview Vanoyan/Ter-Grigoryan. Interview Grigoryan. Registration office.

² Interview Vanoyan/Ter-Grigoryan. Interview Grigoryan. See UNECE (2004: 28).

³ Vanoyan (2004).
Interview Vanoyan/Ter-Grigoryan.

⁴ Government Decrees 42, 51 and 116 of 1997.
Vanoyan (2004). UNECE (2004: 18).

⁵ Resolution of the RA Government No. 1161-N, 4 October 2007.

⁶ UNECE (2004: 34). Vanoyan (2004).

⁷ Vanoyan (2004).

existing legislation. The Condominium Law concentrated the different amendments after the Law of 1996 and tried to improve the framework for housing management. But it did not motivate for further formation of condominiums. Hardly any have been established after 2002.

The Law on Apartment Building Management introduced authorized managers and trustees as alternatives to a condominium as management body (Art. 20). But this innovation produced hardly any visible progress.

The legal basis of condominiums was clarified. They are defined as non-profit and non-commercial cooperative entities for the purpose of management of common shared property in residential buildings (Art. 3 Law on Condominiums 2002.). With this definition they are much closer related to the traditional zheks than to condominiums as used in most Western countries as self-government of owners.

A.8.3 WEAKNESSES OF CONDOMINIUM LEGISLATION

Today, several deficiencies and inconsistencies got apparent.

a) UNCLEAR CHARACTER OF A CONDOMINIUM:

Multi-apartment buildings require representation of all owners for management and maintenance of common owned property. This is today achieved neither with condominiums, nor with alternative management bodies provided by Law. The Law on Apartment Building Management introduced the institution of an assembly of owners, which should represent all owners, but does not seem to be effective. Most condominiums have been established only by a simple majority of owners. Merger of condominiums mostly were decided not by the owners at all. Today, most condominiums are nothing but housing maintenance organizations, following the model of zheks. With the difference that they are not owned by the State, but effectively by nobody. With this development the idea of a condominium has been discharged from the original meaning. Owners' representation should be reestablished for new. A possible way is shown in B.3 (p. 40).

b) VOLUNTARINESS OF CONDOMINIUMS

Representation of ownership on common shared property is not effective on a voluntary basis.

c) UNCLEAR DIVISION OF POWER

The Law on Apartment Building Management defines the assembly of (all) owners as the highest governing body of the management of common shared property (Art. 11). In contrast to this, the Condominium Law defines the general assembly of the condominium members ($\neq$ all owners) as highest governing body of the condominium management (Art. 14). In real practice of big condominiums, neither of these institutions has real power. In these cases, the general assembly does not consist of individual owners or members of the condominium, but of each one representative per building. Individual requests of owners have to be applied in writing and are answered in the same way.¹ Instead of a clear structure with effective power in the hand of the owners, a wish-wash of decision-making power has taken place. No wonder that condominiums complain about difficulties to get consent of the owners in questions where the owners cannot be ignored.

¹ Interview Galoyan.

d) INEFFECTIVE QUORUM REGULATIONS

A simple majority of owners is sufficient to form a condominium. On the other hand, 100% consent of owners is required, if the condominium wants to take a mortgage or the attic shall be developed.

e) UNCLEAR REGULATIONS ON USEABILITY AND MAINTENANCE OF COMMON SHARED SPACE

The Law on Apartment Building Management seems to be mainly responsible for the derogated look of many multi-apartment buildings in Armenia, as any owner is allowed to do changes on common space and structures without the consent with other owners (Art. 8, para. 2 and 3). This seems to be the reason for the widespread mutilation of entrance areas and outside appearance of buildings (see Image 8, p. 15).

f) UNCLEAR OBLIGATIONS OF OWNERS

The Government Resolution 1161-N from 2007 is a conglomeration of minimum standards in terms of hygiene, repair and structural stability as well as ambitious regulations on technical improvements of common parts to face seismic risks. But facing heavy deficiencies in funding, plenty of these regulations, even obvious ones such as doors for entrances, remain ineffective.

g) INEFFECTIVE SANCTIONS

Neither the dwelling owners in the case of non-payment of maintenance fees, nor the condominium management in the case of poor performance, have to fear serious sanctions. The Law on Apartment Building Management contains some kind of foreclosure procedure in the case of non-payment of fees (Art. 10 para. 5), but the formulation seems rather weak and enforcement obviously is poor. The Code on Administrative Infringements of the Law threatens some offences with rather low penalties. On the other hand it is almost impossible for owners to get rid of their condominium management or the chairmen of this.

Altogether it is the unanimous comment of Armenian experts that condominium and maintenance legislation requires fundamental reform and improvement.

A.8.4 LACK OF PERFORMANCE OF CONDOMINIUMS

Condominiums as management units are today active for around two thirds of the multi-apartment housing stock. Following a survey of 2004, 15% of condominiums report total inactivity with no collection of fees at all, 20% actively collect dues, hold meetings and provide a range of services to their members, the remaining condominiums provide varying levels of services.¹

Analysis of the sector shows low effectiveness of service provision, mainly in the following respects:

a) UNCLEAR IDENTITY

As described above, condominiums have no clear definition whether they are a service provider for the owners or their representatives. Being at the same time ordering customer and contractor creates confusion. Established as self-government of the owners by the Condominium Law of 1996, condominiums transferred to management bodies with the Condominium Law of 2002. This transformation seems not to be recognized by a majority of involved people.

¹ Vanoyan (2004).

b) LACK OF REPRESENTATION OF OWNERS

As a consequence of the unclear identity of the condominium, the owners' role in the game is confusing as well. Owners frequently do not recognize their ownership rights and obligations. Mass media are reportedly not part of a solution but part of the problem. And even the condominiums and their chair-persons often have different interests than to stimulate the owners in participation.¹

The missing link between the owners and the housing management creates a "circle of non-payment", as residents do not pay because they do not trust in the management and do not see any maintenance activity. Maintenance activity on the other hand is not provided because of lacking payment of service fees.²

The most visible expression of this deficiency is the indifference of owners regarding the semi-public areas in residential buildings, the entrance areas and courtyards (see A.2.4d), p. 14)

c) INSUFFICIENT FUNDING AND FINANCIAL SOLIDITY

Maintenance fees and the average collection rate are extremely low in international comparison (see A.9.3, p. 28). For this reason often enough not even the most urgent repairs can be done. Condominiums don't have own property. Common property belongs to the owners pro rata and is not registered individually. The courtyards mostly still are owned by the public. Some condominiums get incomes from advertising space. But places for such installations are defined by the municipalities. Hence, income possibilities for management bodies are very limited.

As non-commercial cooperative entities, condominiums are not meant to make surpluses. Building up a reserve fund over several years to collect fees for bigger repair works in the future is therefore legally not covered. Anyway most condominiums make deficits.³ Condominiums are in all their action vulnerable and forced for short term measures.

d) BUDGETING

By law each multi-apartment building should have its own budget. But facing extremely low fees and the missing possibility to build up reserve funds, this reduces the anyway small possibilities for repair works even more. One of the advantages of bigger management units is their possibility to balance between buildings and collect the fees of many buildings for one bigger investment in one of the buildings. This is against the law and strongly criticized by local experts. It is regarded as one major disincentive for payment of fees.

e) REGISTRATION OF COMMON SPACE

Common shared property belongs to the owners pro rata, but it is not individually registered in cadastre. This scheme is common to condominium legislation in many Western countries. The courtyards are usually municipal property. A reform is in discussion that condominiums shall be legally responsible for maintenance and cleaning of the courtyards. Some experts regard the introduction of individual titles on the account of the condominium as an important resource for better performance.⁴ The rationale for this proposition seems not quite traceable (see B.3i), p. 42).

¹ Interview Areyan. Interview Malkhasyan.

² Vanoyan (2004).

³ Interview Vanoyan/Ter-Grigoryan.

⁴ State Program (2008).

f) SIZE OF CONDOMINIUMS

30 out of 700 condominiums are dealing with 40 or more buildings, mainly in Yerevan, the biggest with 370 buildings (“Center Condominium”, see A.9.4a), p. 29). Criticism on the new condominium scheme after the 2002 legislation very much focuses on these units, mainly regarding items of funding, insufficient representation of owners, insufficient transparency, illegitimate establishment, poor service conduct and political instrumentalisation. On the one hand, the big size of these management units is made responsible for low payment discipline of owners. On the other hand there is consent that size is a lever for efficiency in housing management.

g) POOR MANAGEMENT PERFORMANCE

The next chapter A.9 goes in-depth with management and maintenance performance of condominiums. Due to unclear division of power (see A.8.3c), p. 24), condominiums usually have low authority opposite to the owners. At the same time chair-persons particularly of small condominiums are attributed unprofessional performance. This is different in some big condominiums with sufficient staffing and structures in continuation of the traditional zheks. There are no qualifications defined for the position of a manager of a condominium, nor does any kind of specific education exist.¹

A.9 HOUSING MANAGEMENT AND MAINTENANCE

A.9.1 COMMON SHARED PROPERTY

Common shared property of apartment buildings is defined by law as “spaces, structures, property and other property rights designed and intended for common and full service and maintenance of the apartment building and held with the right of ownership by all structure owners”. The share of the individual owner on common shared property is proportional to its dwelling ownership in relation to total floor space.²

The building land has been transferred to the dwelling owners only in the extent immediately below the buildings plus 1.5m around the outer building walls.³ Housing management and maintenance concerns almost entirely common shared property. The treatment of courtyards is heterogeneously. They are usually owned by the municipalities and not by the condominiums. Still, in many cases courtyards are used by the dwelling owners, e.g. for private gardens or garages. Similar heterogeneously is its maintenance, if it is done at all.

A.9.2 SERVICE PROVISION

Management and maintenance services to be conducted by condominiums or other management bodies, are defined in the Law on Apartment Building Management (Art. 10) and in a Government Resolution of 2007 on mandatory standards.⁴ They include a very complete list of obligations, amongst others:

Interviews e.g. with Grigoryan and Galoyan.

¹ Interviews Melkonyan, Harutjunor, Tovmasyan, Beglaryan.

² Art. 2 Law on Apartment Building Management 2002.

³ Resolution of the RA Government No. 1885-N, 30 November 2006.

⁴ Resolution of the RA Government No. 1161-N, 4 October 2007 on Definition of Mandatory Standards for the Maintenance of Common Shared Property of Multi-Apartment Building.

- Waste disposal (at minimum every 3 days),
- Pest control (at minimum every 3 months),
- Cleaning up of common space (at minimum every 2 days),
- Repair works and preventive measures (visual examination twice a year),
- Surveys of the state of the buildings (every ten years).

Repair works are detailed regarding different parts of the buildings.¹ They include obvious standards such as functioning entrance doors or leak-proof roofs. This kind of targeted state of a building may be achieved with reasonable improvements of the existing maintenance scheme. But the regulations also contain absurd and unachievable standards. Damages in constructive parts, such as foundations, are not repairable with reasonable effort. Such standards may cause interesting questions of guilt in lawsuits following possible destruction. On the other hand there are no thermal standards of buildings. Standards regarding gas and water installations concern unhindered rendering without losses, but do not consider any aspects of architectonic shape. Devastated entrance areas in almost all multi-apartment buildings are a direct result from this one-sided technical focus (see Image 8, p. 15).

Following data from the beginning of the decade, even active condominiums have shown poor maintenance services. Only 70% have organized garbage management or payments, 62% cleaning of common areas, 41% water supply maintenance or payments and 25% common areas repair or maintenance.² The truly minimal quality of housing maintenance is a priority task of the government since many years.³ Improved legislation of recent years brought some progress. But the status quo with deficient legal enforcement is still not at all satisfactory.

The Government is currently developing a new waste management concept for Yerevan. The World Bank awarded the contract to the German engineering consultant Fichtner. Effective waste collection is obstructed by low fees and a low collection rate. It is considered to connect administration of waste charges with a possible new scheme of maintenance fees.⁴

A.9.3 MAINTENANCE FEES

Following official statistics, maintenance fees vary from 6 to 16 AMD per m² and month, with an average of 8.7 AMD (2.4 ¢).⁵ For an apartment of 70m² this is not more than 7,000 AMD per year (\$ 20!), which obviously is far below required funds. Even if this amount does not include waste disposal (which is the case in many condominiums), with this amount almost none of the required services may be achieved. Maintenance fees are exempt from VAT.

Similar serious as the very low maintenance fees is the disastrous collection rate of hardly over 60%. A survey of 2003 reports that less than 10% of condominiums have collection rates over 60%, most of them in Yerevan. Mostly the collection rate does not exceed 30%.⁶ Payment behavior is much worse

¹ Appendix 2 of the Resolution.

² Environmental Resource Management; 2001; Urban Heating. Strategy for Armenia; Demand Analysis, Tacis/World Bank. Cited after Vanoyan (2004).

³ Struyk et al. (2004: 5).

⁴ Interview Yeritsyan.

⁵ State Program (2008).

⁶ USAID/The Urban Institute, Armenia Local Government Program, 2003. Armenia Local Government Management Handbook. Cited after: Vanoyan (2004).

for maintenance services than for basic infrastructure such as gas or water supply (with individual metering). For a condominium outside Yerevan, uninhabited apartments was reported to be a serious problem, as collection of fees for those apartments is all but impossible.

Debts on maintenance fees are very difficult to levy. The Law on Apartment Building Management contains some kind of a foreclosure procedure in the case of non-payment of fees (see A.8.3g), p. 25), but possible claims are very much limited. Usually such debts become ineffective after three years. In practice, foreclosure procedures are not applied to enforce maintenance debts. In some municipalities, e.g. in Yerevan, the cadastre office refuses registration of purchase of a dwelling in the case of debts of maintenance fees.¹

Information about required maintenance fees vary naturally. In Western Europe, e.g. in Austria or Germany, average maintenance fees are at around € 1.60 per m² and month (AMD 800 / \$ 2.20), which is roughly the 90fold amount of Armenia. This does not include fees for major repairs. The CEE country Montenegro is on the way to introduce obligatory maintenance fees of € 0.2 per m² and month (AMD 100 / \$ 0.30), which is regarded as insufficient to cover repair works. New “elite” housing estates in Yerevan charge service fees, which are closer to the Western European level than to the level in the old condominium housing stock around the corner. Some experts argue that for the old stock maintenance fees of AMD 350 to 400 per m² and month would be necessary. But in the same sentence they admit that this is unrealistic, that even with AMD 200 the biggest part of owners would not be able to pay (see recommended fees in B.2.2a), p. 34).²

A.9.4 CASE STUDIES

a) “CENTER” CONDOMINIUM IN YEREVAN

With 371 buildings, approx. 13.000 owners and 40.000 inhabitants, “Center” Condominium is the biggest condominium in Armenia. Maintenance fees are at AMD 13 per m² per month (3,6 ¢) including waste disposal, which takes more than half of the maintenance fees. They have a collection rate of 60-65%. Because of non-payment, the condominium has accumulated debts of AMD 300m (\$ 800,000). Only 12% of the budget goes to salaries. The salary of the chairman is with AMD 120,000 per month (\$ 330) slightly above the average salary in Armenia. Urgent repair works concern roofs, elevators and waste water pipes. Only the most urgent repair works can be accomplished. The chairman refers to a survey which states 70% consent of all owners with their management quality.³

b) “KARS” CONDOMINIUM IN YEREVAN

The condominium consists of 31 buildings with 1,300 dwellings, 4 of the buildings with 9 storeys, the biggest part with 4 storeys. Maintenance fees are AMD 14 per m² and month (3,9 ¢), but charged only for living rooms. Around 20% of maintenance fees is for administration (7 persons as permanent staff) and office space, and 63% for routine repairs, e.g. roof pipes, 9% for cleaning and the remaining 9% for pest control, cleaning ventilation and solid waste removal. Daily waste is

¹ Interview Malkhasyan.

² Interview Galoyan.

³ Interview Galoyan.

removed with individual contracts. The collection rate is 60-70%, but the management sees no chance for improvement.¹

c) CONDOMINIUM IN ECHMIADZIN

Echmiadzin is the fourth largest city in Armenia in close distance to Yerevan. The condominium was formed after a proposal of the municipality in 1996 and consists of 16 buildings with altogether 650 apartments. Maintenance fees are currently only AMD 6 per m² and month (1,7 €) but planned to be increased to AMD 15. Waste disposal is paid separately. With these fees partial roofs, doors and entrance doors may be repaired. There are arrangements with some owners to do repair works by themselves as in-kind payment of the maintenance fees. A big problems are 20-30% of closed door apartments, owned by people who do not live there. It is practically impossible to force them to pay maintenance fees. Altogether the condominium has a high collection rate of 80-85%. The salary of the manager is with AMD 40,000 per month (\$ 110) close to the minimum salary in Armenia.

A.10 STATE PROGRAM ON MANAGEMENT, EXPLOITATION AND MAINTENANCE OF MULTI-APARTMENT HOUSING STOCK

This resolution was developed by the Ministry of Urban Development in order to solve the burdensome situation of the multi-apartment stock and the insufficient effectiveness of legal regulations on housing maintenance.

The *State Program* was to be decided in April 2008, but was revoked by the Government. The draft version is characterized as follows:

- It is regarded as a profound program with solid analysis and conclusions and a traceable set of measures. Costs of the program and resulting State expenditure is calculated on realistic estimations (see A.3.2, p. 17).
- Certain recommended measures seem very promising, e.g. State assistance for clearly defined repair works, linkage of maintenance fees and water supply (with the sanction to cut supply in the case of non-payment), training of personnel, long term financing options (loan guarantees), or an implementation unit ("Agency for Assisting Multi-Apartment Building Management").
- But the program is no strategic approach. Long term functioning of the sector is not traceable. The non-effectiveness of condominiums is not recognized, its reasons not properly identified and counteracted.
- The rational for the proposed registration system for common-shared property does not seem traceable (see A.8.4e), p. 26).
- 50% to 90% of investments in maintenance and modernization of housing infrastructure should be covered by State budget assistance, which equals to AMD 1,650m to 2,200 per year (\$ 5-6m). This amount is regarded insufficient, taking the volume of necessary refurbishment works.

To sum up, the *State Program* represents a technical approach and not a political or institutional one. It is about abating current problems and does not seize the opportunity for economic leverage (see as well A.3.2, p. 17).

¹ Interview Melkonyan.

A.11 SWOT ANALYSIS

Housing construction, housing provision and housing policy in Armenia is characterized with the following strengths and weaknesses.

STRENGTHS

- Housing provision is over-average compared to other transition countries (but below compared to EU average). The population of around 3.1m people (“de facto” population) has access to 820,000 dwellings, which counts to an average household size of 3.7 persons. This is 267 dwellings per 1,000 inhabitants, compared to 446 in EU average. Slightly more than 50% of dwellings are in multi-apartment buildings (only 1/3 of floor space) (see A.2, p. 9).
- Dwellings are spacious with in average 83m² in urban and even 140m² in rural areas. The average useful floor space per capita is 26m², compared to 36m² in EU average. The share of dwellings with sufficient utilities (sanitation, electricity, gas) is high.
- Cadastre system and building code work effectively.
- There are only few informal settlements (but considerable informal construction).
- In the new “elite”-housing settlements, the construction industry proves high capacities.
- Enforcement capacities of the State seem according.
- There is willingness to implement legal reforms and subsidy programs.

WEAKNESSES

- For many years, there is hardly any progress in the development of the existing multi-apartment housing stock. Deterioration worsens from year to year. A growing number of residential buildings are in urgent danger of physical destruction. This might become political dynamite.
- Heavy backlog in mitigating seismic risks in the housing sector with insufficient funds.
- A big part of housing and maintenance legislation is not effective.
- Housing production is low, despite of the construction boom in the urban centers between 2006 and 2008. 1,900 completed dwellings in 2008 is a production rate of only 0.6 completions per 1,000 inhabitants, compared to ca. 5.3 in EU average.
- Market prices for new housing property are prohibitive for local demand. Prices of 1,600 \$/m² in center Yerevan contradict to average gross incomes of ca. \$ 250 (2008). Even the economy market segment in Yerevan has prices close to 1,000 \$/m². This is an income to house price ratio¹ of 15 to 25, compared to 5-7 in many Western countries. Hence, new production failed local demand. The number of families to move in new apartments declined from more than 4,000 in 2003 to only 500 in recent years. Housing mobility is extremely low (see A.7, p. 21).
- Construction prices are relatively high with around 450 \$/m² for the economy sector.
- There is only few social housing construction and a lack of capacity in housing construction, housing administration and maintenance for low and middle income groups (not for the upscale market segment).
- Condominiums in the existing housing stock have a poor performance, particularly because of extremely low maintenance fees. They allow not even for the most urgent repair works (see A.8, p. 22 and A.9, p. 27).
- Absence of a comprehensive housing policy strategy: the non-approved *State Program* is no strategic approach (see A.10, p. 30).

¹ Average yearly household income to average house price.

- Insufficient societal consensus on housing policy development. Housing policy does not seem to have priority on the political agenda. The discontinuous development of the condominium sector left quite an inconsistent understanding of housing property, its rights and obligations.

A.12 PROSPECTS

Urgency of policy reform becomes evident, if a scenario is drawn about what happens if nothing happens:

The existing housing stock has particular negative prospects in a status quo scenario: Commitment of owners for common shared property will remain low. Condominiums do not represent the owners as collectivity and will not do so in the future. Without resolute policy action, maintenance fees will stay on the presently extremely low level. Even if maintenance fees would be doubled they are far away from being sufficient. Non-payment of fees will remain a trivial offense and a common reaction of owners, expressing their discontent with the housing management. There will be spectacular cases of deterioration, possibly with human damages, which will force politics to take action. Policy action in a situation of pressing public opinion will hardly be such to increase obligations of apartment owners, but more likely public spending to cushion most visible anger. A situation of emergency is unsuitable for structural reform. The present situation of housing management and maintenance is a Gordian Knot. Striking through this knot is not possible with incremental improvements, but only with fundamental change.

The presently extremely low housing construction rates will worsen housing provision of Armenian people. The lack of affordable new apartments is a threat for labor mobility and hence economic development. Shortage of supply on the housing markets inevitably will lead to a further price increase.

An analysis of a status quo scenario on a country such as Armenia must consider the worst case of heavy earthquakes. Prevention of most heavy damages requires substantial investments in the housing stock. Even though, a big part of the stock cannot be modernized according to presently valid earthquake standards. This deficiency only can be abolished with step-by-step replacement of the most vulnerable housing stock with new construction. But prevention of a natural disaster also requires the enforcement of capabilities to fight the impact. This can be achieved with well established institutions, an efficient construction industry and well educated professionals. This is not only a question of economic prospects and welfare, but as well of national security. A developed country as Armenia should be able to rely on own forces, in bad times, but even more in good times.

The housing sector can act as a shock absorber.¹ But this requires substance.

¹ Struyk (2000). Tsenkova (2009:6).

B. RECOMMENDATIONS

B.1 STRATEGIC APPROACH

B.1.1 COMMUNICATION STRATEGY

The fundamental changes, as described in the following chapters, require basic acceptance of the population and particularly of condominium owners. This is a major challenge in communications. The communication strategy may be supported substantially by some spur action to generate quick results, which are highly visible in everyday life of condominium owners.

B.1.2 QUICK RESULTS

For this purpose it is recommended to introduce a short term program of high significance, e.g. public funding of repairs of roofs ("1,000 roofs program") or a mortgage program for young families (see p. 19). The public attention shall be seized to communicate the necessary further changes and to promote less visible reforms. Public communication and promotion must be prepared thoroughly, measures shall be coordinated by a task force with decision-making power. Policy makers should seek for public discussion and societal consent. As a nationwide problem, policy lead must be at the national government. A resolute top-down policy approach is recommended.

B.1.3 LEGAL STRATEGY

Good governance can be recognized if policy measures become effective with only small visible pressure of authorities. This requires regulations close to public understanding of fairness, participation of big parts of population, legislative transparency and trust in the authority of state institutions, altogether political leadership. Legal regulations have to be written according to the recipient. Laws targeting individuals (e.g. on condominiums) must fulfill quite different criteria of tangibility compared e.g. to company law, which regulates economic units. The former have to be brief and well understandable. More than this the legal requirements have to be achievable with USUAL efforts. Legal enforcement can be improved heavily if combined with economic incentives. A carrot and stick strategy is in most cases recommendable. Citizens usually try to follow the rules. They will do so more willingly, if the requirements are achievable and they can see economic benefit.

For the execution of the comprehensive recommendations of this study it is necessary to develop and decide major amendments to the Condominium Law (2002) and the Law on Apartment Building Management (2002). Several related Government Decisions need to be amended as well and should be merged to one comprehensive legal body. The establishment of a PPP Housing sector requires according regulations, best as a new PPP Housing Law.

B.1.4 FUNDING STRATEGY

A strategic position of the Government should be developed in the form of a Housing Finance Strategy (see B.8.1, p. 56).

B.2 CHANGE OF MANAGEMENT AND MAINTENANCE

B.2.1 MULTI-APARTMENT BUILDING MANAGEMENT MODELS

Housing management of owner-occupied multi-apartment buildings is generally more difficult than rental housing. Serving a multitude of clients is more complex than serving one single owner with a multitude of tenants.

Regardless of obligatory or voluntary formation of owners (see B.3, p. 40) it seems essential to instruct and enforce all owners to manage and maintain their property and particularly the common shared parts of it. The privatization process in Armenia, similar to many CEE countries, has missed to organize this essential precondition for sound housing management, as described in A.8 (p. 22).

Self management of an owners' association or a condominium is an obvious option and frequently applied particularly in low income countries. This model often suffers from unprofessional service provision. This can be solved with obligatory minimum standards, which are enforced with a licensing scheme (see B.2.4, p. 38).

In many Western countries social landlords play an important role not only in affordable housing construction, but as well in housing management. Mostly they manage only own rental stocks and owner occupied housing which was realized by them. But in some cases they offer their services also to municipalities and private owners.

But housing management in Western countries is mostly performed by professional commercial property management companies. For new construction, a management contract is often part of the purchase contract of an apartment. In many transition countries this is only a business case for the newly developed upscale housing market, but not for the privatized housing stocks. As described in A.9.3 (p. 28), maintenance fees required for such (commercial) services are a multitude of the common level in the old stock.

In absence of professional housing management companies or alternatively to it, in some countries the new service of "facility management" is capturing the market. This is a more technical approach to housing management and maintenance.

B.2.2 IMPLEMENTATION OF A NEW SCHEME

Housing maintenance in the old multi-apartment housing stock is highly ineffective today. To transform housing management into a business case, major change is required. The following draft implementation strategy seems qualified to meet this challenges:

a) SUBSTANTIAL INCREASE OF MAINTENANCE FEES

Bold action is recommended with an increase of the maintenance fees from presently in average below AMD 10 per m² and month (2,4 ¢) to 200 AMD (55 ¢) per m² per month in average. This fee includes funding for capital repair works. In Western European countries maintenance fees are at about AMD 800 (2,20 \$/m²) – without fees for major repairs (see A.9.3, p. 28). Western households pay 5% to 10% of their incomes for housing maintenance (without major repair works). AMD 200 is at the upper end of this range (see A.1, p. 9). This seems to be a realistic balance between affordability and urgent investment requirements. UNECE has recommended an

increase to 1\$/m² per month.¹ Of course this fee should be differentiated according to location (deviation of incomes) and investment requirements of the buildings.

b) COLLECTION OF FEES

An increase of the collection rate is imperative. This may be realized with incentives, social support and sanctions (“carrot and stick”), such as:

- Change of the scheme of owner representation (see B.3, p. 40),
- Legal definition of the maintenance fee (see para. d)),
- More transparency in spending of the fees (see below),
- Better legal enforcement (see para. i)),
- Publication of non-payment (social pressure),
- Introduction of an allowance scheme for those who really cannot afford (see para. g)).

c) LINK TO WASTE DISPOSAL SCHEME

The new maintenance scheme shall be combined with the currently introduced scheme of waste disposal, water supply and sewerage.

d) OBLIGATORY COMPONENTS OF MAINTENANCE

The existing Government Resolution 1161-N/2007 on mandatory standards of housing maintenance (see A.9.2, p. 27) shall be amended. The following compulsory components of maintenance fees shall be defined by law:

- Property tax and insurances,
- Administration fee (including salaries etc., also for municipalities acting as management unit),
- Electricity and cleaning of common shared property as well as of courtyards (arrangement with the municipality as owner of the courtyard is required),
- Service of elevator,
- Pest control,
- Waste disposal (municipalities have to publish tariffs),
- Repair works and preventive measures (including water and sewerage pipes),
- Costs for the surveys of the state of the building and seismic risk evaluation,
- At least 30 AMD/m² per month shall establish a reserve fund for future capital repair works.

Some of the regulations of the Government Resolution 1161-N/2007 on mandatory standards for housing maintenance can hardly be performed within a regular maintenance scheme (see A.9.2, p. 27). To avoid illegal action even for those who want to act conforming to the law, the Resolution should be evaluated and such regulations deleted.

The maximum total fee of AMD 200 per m² useable floor space per month, indexed (CPI) and differentiated by location and investment requirements of the building, shall be defined by law.

The treatment of accounts of the owners’ association and of the reserve funds have to be defined legally.

¹ UNECE (2004: 18).

e) MAINTENANCE FEES EVEN FOR VACANT DWELLINGS

Unoccupied dwellings shall have similar payment obligations for maintenance as occupied ones (besides usage-bound individual contracts). This is a major measure to increase the collection rate of maintenance fees and to stimulate the economic use of vacant dwellings for rent or sale (see B.5.4, p. 51).

f) LINK TO SEISMIC RISK EVALUATION

As described in the parallel expertise of Dr. Papa, seismic risk evaluation is required for almost the whole housing stock. The estimated costs for evaluation of 15 AMD (4 €) per m² per month shall be collected as a part of the maintenance fees.

g) CUSHION SOCIAL IMPACT

Social tension must be absorbed with income-tested allowances. Affordability of maintenance fees may be limited with 10-15% of proved household income. Anyone who wants to get allowances has to accept that the public dept is registered in cadastre without expiration date. Accumulated debts have to be paid back by the previous owner in the case of sale, inheritance or endowment of the dwelling. In the case of income increase the allowance shall phase out. But to avoid negative incentives, income increase shall not release an immediate duty to payback.

h) REGISTRATION OF OBLIGATIONS

The sale of a dwelling shall be allowed only if all debts to the public and to the owners' association are paid (executed by registration to cadastre). The debts of an owner shall not expire.

i) SANCTIONS, LEGAL ACTION

Quite effective would be a right of the management unit to cut supply of water in the case of non-payment of the maintenance fees, as considered in the *State Program* on Management and Maintenance (2008). The legal and technical feasibility of such a measure needs to be clarified.

Systematic legal action for non-payment of fees is of particular importance. In Art. 10 (5) of the Law on Apartment Building Management the "building governing body" is authorized to apply to the court for forced levy of maintenance fees. This regulation is quite limited in setting and effectuating of the fees and therefore insufficient.

A successful tool to effectuate maintenance debts could be a "privileged lien" in favor of the owners' association, as practiced e.g. in Austria. It stipulates, that debts towards the owners' association are to be served in the first rank, before all other liens or mortgages.¹

Sanctions in the case of non-payment must be more efficient and easier to apply. All procedures (foreclosure) to levy maintenance debts shall be simplified. The respective regulations in the Law on Apartment Building Management shall be amended accordingly.

Filing law suits is necessary despite of eventually low debts. The single owner must know that non-payment has serious consequences, in the worst case even the loss of his/her apartment. The new strategy aims at improving financial literacy of the population. A major part of this is the threat to

¹ Lujanen (2010).

lose the dwelling in the case of shortfall of payment. Avoiding foreclosure is usually in the interest of both lender and borrower, because of inefficiencies of the judicial foreclosure process.

A difficulty to enforce foreclosure, particularly in transition economies, is the absence of social housing sectors that could provide housing alternatives for defaulting borrowers. Such alternatives of course are indispensable regarding social policy considerations (see below k) and B.5.3, p. 50).¹

Legal action shall be communicated offensively.

j) RULES OF CONDUCT

The obligatory establishment of rules of conduct for condominiums is recommended. But it should be clear that this is a rather weak tool to motivate people for acting accordingly and cannot substitute legal regulations and legally defined sanctions.

k) SOCIAL HOUSING AS SAFETY NET

Enforcement of foreclosure procedures requires the availability of alternatives for the households concerned. A PPP Housing sector may provide the necessary social rental dwellings as a safety net (see B.4, p. 43).

l) REFORM OF EXISTING SOCIAL HOUSING

A small share of public rental housing has survived privatization (see A.2.3, p. 11) with rents far below costs of even basic maintenance. This sector has to be included to the new management and maintenance scheme as well, including all implications.

B.2.3 FISCAL, FINANCIAL, TECHNICAL AND SOCIAL CONSEQUENCES

The described strategy is intended to partly replace the non-approved *State Program on Housing Management and Maintenance* of 2008. It requires a substantial financial commitment of the State. Some subsidies for urgent repair works seem indispensable ("1,000 roofs program"). But the focus of State support goes to the (minority) group of owners, which really cannot afford increased maintenance fees (see B.8.1, p. 56). A projection of required State funds is very difficult, as variables are manifold and uncertain, but as well influenceable. It should be targeted that not more than approx. 10% of households in multi-apartment buildings receive housing allowances. This is within the range of European countries.

With the new strategy, the multi-apartment buildings are able to acquire much higher fees. An increase for the factor 20 allows them to perform all duties, which are already today legally required (see A.9.2, p. 27). But the new scheme comprises even more necessary services to be performed and coordinated by the management unit, particularly the fee collection for the newly introduced waste disposal regime. This is a very important initiative not only to improve the quality of life of the Armenian citizens, but also has a strong economic impact. Well organized public infrastructure is a major driver for economic development.

The new scheme allows that the technical equipment within the boundaries of the building can be maintained by the owners. This counteracts a recent initiative to make water supply companies responsible for the technical infrastructure not only up to the boundary of the plot of land, but within the building as well, up to the apartment or even the water-tap within the apartment. It is strongly recommended not to

¹ Chiquier/Lea (2009: 147p).

proceed with this initiative. The technical infrastructure of the building should belong to the building. Service obligations inevitably entail claims. The proposed solution may solve some problems, but without any doubt it will create new ones, e.g. in the context of future refurbishment works.

An important innovation is the introduction of an obligatory reserve fund. This is not only important to save money for capital repair works. Building up financial assets will contribute to owners' awareness. But most important: With some own equity of the owners it will become much easier to finance capital repair works including mortgage loans. Introducing the capital market into housing refurbishment is a most promising action of housing reform. Handling such a reserve fund of course requires additional regulations. It is necessary to open a bank account in the name of the owners' association, to define access authorization and to regulate the decision making procedure for investment projects.

The establishment of reserve funds is regarded a crucial measure to initiate investments in thermal and earthquake resistant refurbishment of the individual buildings (see B.6, p. 52). The residents need to be prepared for this target. In the long perspective, investments in refurbishment may have a bigger construction output compared to new construction.

For an evaluation of the social consequences of this strategy the additional expenditures have to be balanced with the lower risk for future disaster and costs for repair. Taking the measures to cushion social impact (allowance scheme, para. g)) the strategy is to be regarded social targeted.

B.2.4 GOOD PRACTICE: A NEW HOUSING MANAGEMENT AND MAINTENANCE LAW FOR ROMANIA

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

Commissioned by the Romanian Ministry of Development, Public Works and Housing in 2007, IIBW has developed a new Housing Law for Romania,¹ including a Housing Management and Maintenance Law, based on European best practice while meeting EU requirements.

The rationale for this work stemmed from major inefficiencies in the Romanian rental housing sector. As a result of mass privatization in the 1990s involving 27 per cent of the total housing stock (accounting for some 2.2 million dwellings), virtually no rental dwellings remained (Graph 13, p. 50). Only an informal rental sector exists which is largely self-organized on an irregular basis. An estimated 1.0 million privatized condominiums are rented out privately, without any consumer protection and very often even without written contracts.

Housing management and maintenance was partially regulated within the condominium legislation. However, as common across all CEE countries, enforcement is inadequate. Today, housing administration is mostly organized by single owners and rarely by professional service providers. Nevertheless, in Romania private initiative has achieved the licensing of administrators requiring the completion of basic training. Housing maintenance continues to be a major challenge, particularly thermal refurbishment, which has only been realized in a few projects. Despite rather generous subsidies, improvements have

¹ Amann et al. (2008). Amann & Mundt (2010b).

been impeded by a decision making process which now involves multiple owners, including many with very few resources.

The proposed new Housing Management and Maintenance Law covers all regulations in the field of housing operation, administration, accounting, maintenance and refurbishment. It provides simple regulations for the whole housing stock, because the ownership regimes shall be reduced to one (condominium property in all buildings).

As maintenance and improvement of housing is largely dependant on a reliable and competent management, this law states the rights and duties of a housing administrator in a comprehensive way. It provides a useable legal framework for management and operating of residential buildings in all its aspects.

The Law provides the following main contents:

1. Management of a realty:

- Obligation to manage residential buildings:

Owners of residential buildings must either manage their residential property themselves or appoint a housing administrator for this purpose.

- Regular management:

The Law regulates the extent of management activities, stating that the housing administrator is responsible for the “daily business” of management. For all decisions of (special) importance, the consent of the property owner(s) is required. In case of measures going beyond the maintenance of the building this consent must be unanimous.

2. Operating costs of a realty:

- Operating costs:

The Law defines operating costs, which are:

- Running costs and public fees (to be paid periodically),
- Special expenses for common facilities,
- Expenses for maintenance,
- Expenses for useful improvements (refurbishment).

- Running costs:

The Law gives a definition of running costs and distinguishes between running costs and the actual rent which is a price paid for the use of the dwelling. It is a characteristic of running costs that they are flow-through items (e.g. cost for water, snow clearance etc.) The communal authorities are to supply a detailed catalogue of all such items. It is to be noted that the landlord will have to be compensated for the work connected with providing a statement of expenditure.

- Maintenance:

The Law defines maintenance costs and distinguishes between maintenance costs and running costs. As maintenance measures benefit the property owners, the respective costs must be borne by them. The tenant’s contribution to the maintenance of the house is automatically contained within the rent.

- Improvements (refurbishment):

The Law is based on the assumption that as a rule, improvements are paid for by the property owners. If the improvements also benefit the tenants, they can be invited to share the costs. If a tenant notoriously refuses to agree to any improvement without giving a reason, his consent can be substituted by the court. This provision is intended to benefit other tenants even more than property owners. “Contracting” is expressly allowed by the law.

3. Housing administrator:

- The Law regulates the appointment and the duties of the housing administrator. These duties remain unchanged if they are performed by the owner himself.

4. Accounting of operating costs:

- Accounting period:

The Law defines the calendar year as principal accounting period. Divergent agreements are possible. The tenants or owners have to be informed in time.

- Reserve fund:

The Law states that it is the owner's duty to set aside adequate means (reserve fund) to maintain the building in a state of repair compatible with the state of the art (not only in status quo). This duty in itself is an important contribution towards preventing purely speculative purchases of housing.

- Division of costs:

The Law includes regulative contents, that expenses regarding a building are borne by the property owners according to their respective shares in the property. Tenants must only be charged with running costs which benefit them. It is permitted to divide costs (e.g. of energy) according to the amount consumed.

- Division of earnings:

The Law states that rent paid for an individual dwelling is due to its respective owner. Rents paid for common facilities, e.g. garages, are to be divided according to the respective shares in the property or according to the respective financial contributions of the owners.

- Approval of accounting; surplus, debit:

The Law regulates the procedure of providing an expenditure statement. Six months after presentation of the statement, all parties concerned should be able to rely on the binding character of the statement. A surplus or a debit are to be paid within two months by tenants and owners respectively. The rules for the presentation of the statement are to be found in the new Condominium Law.

The new Romanian Housing Law has been decided only in small parts so far.

B.3 INSTITUTIONAL CHANGE OF CONDOMINIUMS TO OWNERS ASSOCIATIONS AND MANAGEMENT UNITS

The legal approach of both the Condominium Law of 1996 and the Condominium Law of 2002 did not work properly. The original intention of self-organization of property owners resulted in too small management units. The change in 2002 to large scale condominiums as management units was kind of a fallback to the Soviet zheks with a loss of direct representation of the single owners in the organization of his/her property (see A.8, p. 22).

With the transformation of condominiums to management bodies, the function of self-government of owners was left vacant. The "non-owner" attitude¹ of so many condominium members is rooted in this development. The Law on Apartment Building Management (2002) has introduced the terms "building governing body" and "meeting of owners", but there is neither a definition of these terms, nor a clear

¹ State Program (2008).

distinction of rights and obligations to the “condominium”. Clarification and a redefinition of the roles of owners on the one hand and of the management organization on the other hand is urgently needed.

Closely related to the proposed new maintenance scheme, the following reform of condominium legislation is proposed:

a) OBLIGATORY OWNERS’ ASSOCIATIONS

More direct representation of owners is essential and utmost eligible. For this purpose the obligatory establishment of owners’ associations for all owner occupied multi-apartment buildings should be established (1 building – 1 owners’ association). Obligatory owners’ associations are common practice in most Western countries and do not contradict to the constitutional freedom of association. An owners’ association is not an association in the sense of association legislation, but a contractual relation between all owners of one building, which immediately establishes an independent legal personality. It is simple to set up such a body in the moment of establishment of a condominium (e.g. in the course of construction and sale or privatization). But it is more difficult in the case of already privatized dwellings. The establishment of owners’ associations as obligatory contractual relations between all owners of one building, which immediately establish an independent legal personality, has to be commanded by law. By contrast to the regulations of the Condominium Law of 1996 this measure only indirectly targets at maintenance of the building. Prior target is to organize decision making.

Starting point may be the Law on Apartment Building Management (2002), which mentions the “building governing body” and the “meeting of owners as the highest governing body for management and common shared property”. Both terms may be changed into “owners’ association” and complemented with clearly defined rights and obligations.

If there is concern about the compulsory character of such an action, the previous owners may be offered alternative models. If they refuse to accept responsibility for common shared property, they may get a right to opt for a re-transformation of their asset into a rental apartment, connected with an unlimited contract. In this case they may receive quite a small purchase price, but afterwards have to pay rents as defined for social rental housing (according to B.2.2I), p. 37). Such dwellings may be taken over by the municipalities or by PPP Housing organizations, as describe in B.4 (p. 43).

b) OBLIGATORY MANAGEMENT AND MAINTENANCE

Owners’ associations are to be obliged to organize professional management and maintenance. In principle, this can be done by the owners by themselves, but only with strict professional requirements (licensing, see next paragraph). Taking the obligatory list of components of maintenance (see B.2.2d), p. 35), it must be clear that self-management has only small cost-saving potentials.

c) LICENSING

Housing management shall be established as a new business sector. Access to the profession shall require licensing. All existing housing management units (condominiums, communities, privates) shall be recognized as licensed housing managers at once according to their previous experience. Licensing shall contain the obligation to periodical advanced vocational training (see B.7c), p. 55). Following the example of Romania (see B.2.4, p. 38), accreditation authority may be the municipalities, a superior authority or a professional accreditation institution.

d) PPP HOUSING ORGANIZATIONS

Today housing management of the existing condominium stock is no business case. It is doubtful whether this may change for the short and medium term. In such a situation, the establishment of PPP Housing organizations is regarded reasonable (see B.4, p. 43). In a hardly marketable environment, they may develop more successfully, compared to private market players. Advantages are professional audit and control, an implicit quality assurance scheme and easy applicability of public subsidies. Existing housing management units (condominiums, respective departments in municipalities) could easily be transferred to PPP Housing organizations (on a voluntary basis).

e) OBLIGATORY STANDARDS FOR HOUSING MANAGEMENT

Obligatory management standards and standards of financial conduct for all licensed housing managers shall be defined in maintenance legislation (amendment of the Law on Apartment Building Management, see B.2.2, p. 34) and/or a PPP Housing Law.

f) STRENGTHEN FINANCIAL CONDUCT

The new housing management organizations shall develop to financially strong organizations, particularly with the following measures and business areas:

- Increase of maintenance fees (see B.2.2a), p. 34),
- Right of usufruct (lease) for defined common parts of the property of the owners' association (commercial space in the ground floor, roofs and walls for advertising, realization of new floor space in the attic etc.),¹
- Right of usufruct for courtyards, which today are mostly owned by municipalities, e.g. to levy rents for currently illegal garages or to realize new construction.

The intention to create financially strong institutions has to be communicated openly.

g) SIZE MATTERS

A consolidation of the market with few but big management organizations shall be promoted. Size matters, if this difficult business area shall develop in a prosperous way.

h) MARKET FORCES

Albeit the advantage of market consolidation, competition is crucial. Contractual relations between owners' associations and management organizations shall be easy to dissolve. A change from one to another management organization (or a licensed private person) shall be possible with not more than 2/3 majority of owners, considering adequate cancelation periods. Private market competitors shall be welcome. For medium term it seems feasible that management of the existing housing stock will become a business case for private companies.

i) OWNERSHIP OF COURTYARDS

Courtyards beside of building land of 1.5m around the residential buildings still do not belong to the building owners (see A.9.1, p. 27). This should be changed. If the remaining land is big enough for additional new construction, this should be notified by the municipality in the way of a zoning plan and sale of this plot of land (auction for commercial use or provision free of charge for social housing). If the remaining land is not big enough for additional new construction it should be registered as non-

¹ By contrast to the existing regulation in Art. 7 (6) Law on Apartment Building Management 2002.

residential space¹ and transferred to the owners' association for its economic use (right of usufruct for the management organization, see above paragraph f)).

These regulations may be implemented as amendment to the existing Condominium Law of 2002 or the Law on Apartment Building Management.

B.4 A NEW PPP HOUSING SECTOR

Public private partnership (PPP) in housing describes an approach that private companies fulfill public service obligations, such as housing provision for defined households with need. It combines the strengths of the markets (privately-run companies) with the backing of a public authority (privileged access to subsidies, public control). In many Western European and Asian countries, construction and maintenance of affordable housing is successfully organized by PPP sectors. PPP models for housing provision for low and moderate income groups is today recommended by many international organizations, such as UN, World Bank, CEB and Eurocities.²

B.4.1 INTERNATIONAL BEST PRACTICE

The functioning of PPP Housing organizations varies considerably across countries. Its housing stock not exclusively belongs to the social rental stock oriented at low income households but may be accessible for middle income households as well. There is a large variety of legal forms (associations, foundations, co-operatives, limited companies, publicly or privately owned or under mixed-ownership). Usually there is some form of government control or approval of social housing developers which operate under special rules overriding ordinary law. Often their field of operation is constrained to the local or regional level. In some countries PPP housing developers depend heavily on public funding, whilst in others, private financing is increasingly channeled towards them.³

a) LIMITED-PROFIT HOUSING ASSOCIATIONS IN AUSTRIA

By providing discounted building land, grants, public loans or tax favored investment, the federal government of Austria, together with its regional (Länder) and municipal governments has strategically promoted the development of limited-profit, cost-capped housing with estate-based cost rents. Limited profit housing is procured and managed mainly by limited-profit housing associations (LPHA) but also by municipal housing companies. LPHA in Austria comprise altogether 190 housing co-operatives, private-limited and public-limited companies with a total housing stock (rental dwellings and owner-occupied apartments) of 865,000 units (approx. 22% of the total housing stock in Austria). The LPHA are responsible for one third of new residential construction. That is more than half of all multi-storey housing construction. With this very high market share, LPHA have not only outperformed municipal housing, but also private multi-apartment housing construction. The housing associations are co-operatives or are owned by public authorities, charity organizations, parties, unions, companies, banks or private persons. To avoid moral hazard, it is prohibited for construction firms to be owners of LPHA.⁴

¹ Art. 2 Law on Apartment Building Management 2002.

² UNECE (2005a). UNECE/REM (2010). Chiquier/Lea (2009: 393, 447). CEB (2004). Eurocities (2009). Amann & Springler (2010).

³ Scanlon & Whitehead (2007). Czischke (2009). Cecodhas (2005).

⁴ Amann & Mundt (2010a). Reinprecht (2007).

LPHA are undertakings organized according to private law and a strict federal law. They are exempt from corporate tax, are not classified as state or "charitable" undertakings and are limited in the extraction and distribution of profit and in their field of operation. They aim at creating a housing sector that is characterized by a legally defined long-term binding of the built-up capital within the housing sector and the constraint to therefore reinvest in housing matters. The aim of LPHA is the provision of affordable housing for large parts of the population.

In short, the limited-profit housing system is characterized by four principles:¹

- Cost coverage principle: the obligatory calculation of rents based on construction costs in combination with rent limitation defined by the subsidy schemes guarantee a low and continuous level of rents (3-5 €/m² net).
- Limited field of action: the housing associations have to focus on housing construction, refurbishment and housing management. In fact it is an important aspect for long term success of the system that housing associations in general manage the houses they have produced before.
- Binding of property – limitation of profit: Housing associations ought to make profits. But these profits have to be reinvested: in purchase of land, refurbishment or new construction. A limited part of the profit (max. 3.5% of registered capital) may be divided to the owners or share-holders.
- Control: Self control through umbrella organization, supervision through provincial governments.

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

b) "WONINGCORPORATIES" IN THE NETHERLANDS

Nowhere in Europe limited-profit housing is more dominant than in the Netherlands. It is owned and carried out by housing associations ("woningcorporaties"), which in many cases are foundations without real owners. They have to act on a commercial basis, but any profits they make must be reinvested in housing. They participate in one of six performance areas, such as providing target groups with suitable housing, maintaining the standards of homes, ensuring financial security and contributing to the quality of life in neighborhoods.² After a process of deregulation, in 1995, housing associations became financially independent through the so-called "grossing and balancing operation" ("bruterig"). Over the last decade, the stock of limited-profit housing remained stable (around 2.4 million apartments), because the number of sold and demolished dwellings more or less equaled the number of new-built and purchased dwellings. At present, there are around 500 housing associations with a tendency of mergers due to efficiency reasons.

Despite its independence from the government,³ the limited-profit housing sector is subject to two 'safety bodies', the Guarantee Fund for Social Housing (WSW) and the Central Housing Fund (CFV). Both are financially independent from the government and act as guarantors to housing association loans, which results in loans that are cheaper than those available on the capital market. Associations must register with the WSW and undergo a credit check. The fund is now financed by contributions from housing associations, who are required to set aside a certain amount, in case the assets of the

¹ Amann et al. (2009).

² Boelhouwer (2007). Elsinga & Wassenberg (2007).

³ Boelhouwer (2003).

WSW fall below a minimum level. If, for any reason, a housing association is not able to meet the financial demands of the WSW and is unable to obtain funds, it may be eligible for financial support from the Central Housing Fund (CFV). The CFV maintains financial supervision on behalf of the Minister of Housing and may restructure financially weak associations. In return, associations must consent to undertake reorganization in order to establish financial stability. Once CFV support is accorded, the association can once again apply for membership and, in turn, WSW loan guarantees.

An internal supervisory body advises management, monitors the work of associations and takes action where necessary. Although central government withdrew from the field, the Minister of Housing still retained some powers of intervention. The Minister of Housing also has the power to block plans by the associations that were adopted without his prior permission. The associations endeavor to show that they act responsibly to society by promoting transparency of their policies and encouraging collaboration with others. A recent decision of the EU Commission (Dec. 15th 2009) demanded a clearer separation of commercial and social activities of housing association and ensured that the allocation of dwellings is conducted in a transparent and objective manner, focusing more on a predefined target group of socially less advantaged persons. Other than that, the Commission confirmed the operation of Dutch housing associations to be in line with EU competition law.

c) PPP HOUSING SECTORS IN TRANSITION COUNTRIES

In recent years, some CEE countries started with the establishment of PPP Housing sectors. As the developments of non-profit and cooperative housing schemes for example in Slovakia and the Czech Republic show, which are rather restricted in their operations due considerable political or heavily criticized for their structure and forbidden after a few years in place, the establishment of a PPP sector requires a strong political commitment, a well organized legal background as well as provision of financial means. In Poland, a concentrated semi private non-profit sector (TBS) is responsible for rental housing construction and receives financial support from BGK Bank, the National Housing Fund and in the last years from EIB and CEB, in the form of state guaranteed loans.¹

d) PPP HOUSING INITIATIVES OF IIBW

A new approach to establish public private partnership for affordable housing has been provided by IIBW. Current projects in Romania, Montenegro and Albania follow a dual strategy to establish a legal framework for this new business type with PPP Housing legislation and to develop a funding scheme including sources from international financing institutions.² In Montenegro a PPP Housing scheme with altogether approx. 300 affordable rental dwellings in 10 different municipalities is currently developed. This is realized by the Montenegrin Fund for Solidarity Housing Development Ltd. (CFSSI, Crne Gore Fond za Solidarnu Stambenu Izgradnju), a joint venture of the Government of Montenegro, the Confederation of Trade Unions of Montenegro and the Montenegrin Employers Federation in a social partnership model. The first rental dwellings based on the IIBW model were financed by DIGH – Dutch International Guarantee for Housing. Currently a CEB loan is in application. In Albania the establishment of a PPP Housing organization as a joint venture of the Albanian Ministry of Public Works, Transportation and Telecommunication, the Municipality of Shkodra, the Albanian National Housing Agency, the Austrian social landlord “Wien Süd” and IIBW is in preparation. It aims at the realization of a pilot project of 200 affordable dwellings in the northern Albanian city Shkodra.

¹ Amann & Springler (2010).

² Amann (2009).

The PPP Housing legislation, developed by IIBW, has the following contents:¹

1. General provisions
 - General aspects of PPP housing
2. Preconditions for approval
 - Legal form
 - Supervisory board
 - Minimum capital
 - Incompatibilities
 - Allowed limitation of beneficiary
 - Limited business activities
 - Sales prices and rents
 - Resale of buildings
 - Sale of shares
 - Treatment of assets in the case of liquidation
 - Legal ineffectiveness
 - Economic efficiency of business
 - Reliability of housing management
 - Affiliation to an auditing association
3. Procedure
 - Responsible authority
 - Regulatory decisions
 - Approval procedure
 - Divestment of approval
 - Participants in the procedure
 - Legal process
 - Trade name and registration
4. Auditing and supervision
 - Auditing association
 - By-laws of the auditing association
 - Legal status of the auditing association
 - Audit and supervision
 - Accounting
5. Promotion of PPP Housing
 - Preferred access to housing subsidies for new construction and refurbishment
 - Remission of fees and charges
6. Final clause and transformation ordinance

B.4.2 INTRODUCTION OF A PPP HOUSING SECTOR IN ARMENIA

PPP housing companies combine the functions of a housing developer, an investor, and a housing administrator and are particularly eligible for rental housing construction, the takeover of social housing stocks and the refurbishment of existing residential buildings. The introduction of such a scheme requires substantial efforts, but promises to solve some of the most burdensome problems of the present housing situation in a transition country such as Armenia. Such a model is fully in line with an open market economy and free competition, aiming at the most efficient allocation of resources.

¹ Amann et al. (2008). Amann & Mundt (2010b).

It is recommended that the Government investigate the possibilities to introduce and develop such a model in Armenia. A PPP Housing sector for Armenia could be introduced according to the following cornerstones:

a) NEW BUSINESS MODEL

PPP Housing is a new business model. It applies well for ventures, which are not yet a business case or which require state support. Social partnership models as shareholders of PPP Housing organizations have proved efficient, e.g. in Montenegro (see B.4.1d), p. 45). PPP Housing has to be distinguished from concession models which often are called PPP as well.

b) PPP HOUSING MANAGEMENT ORGANIZATIONS

PPP Housing organizations would qualify particularly well as legal successor of the existing management units, which are wrongly called “condominiums”. The existing management units could be the starting point. With the new management scheme, as outlined in chapter B.2 (p. 34), PPP Housing organizations would have an economic basis. Subsequently they may start refurbishment works and even new construction in the attics or in the open space between existing buildings.

c) PPP HOUSING FOR NEW CONSTRUCTION

PPP Housing organizations qualify very well for new construction of affordable housing. This is the core business of such institutions in most countries where they are established already. Formation of PPP Housing organizations will start to flourish as soon as a legal basis is established and specific subsidies for affordable housing construction are provided. Shareholders of PPP Housing organizations may be industries (for company housing), ministries, municipalities, existing management units, trade unions, NGOs, charity organizations, the financing sector or private persons. The construction sector should be excluded to avoid conflict of interest. The first pilot organizations should be organized as joint ventures with experienced international social landlords.

d) PPP HOUSING LAW

PPP Housing is a top down approach, which requires legal definition. IIBW is already developing respective legal regulations for Romania, Montenegro and Albania (see B.4.1d), p. 45). PPP Housing cannot be covered with a legislation on concession models.

e) ALTERNATIVE TO PUBLIC HOUSING

Public housing is usually financed from the budget (municipalities, ministries, public entities). Usually the public cannot afford more than single small projects for most vulnerable groups. Such a housing model is strongly in danger to produce ghettos. Due to different disadvantages, social housing provided directly by the public has become unpopular in most Western countries. In most cases it is to be replaced by different kinds of PPP Housing sectors.¹

f) LEARNING FROM THE BEST

Armenia should take advantage from good practice in Europe or Asia. It should ask for support in building up such a sector and create a friendly environment for possible joint ventures with social landlords from these countries. Dutch housing associations (see B.4.1b), p. 44) together with “Habitat for Humanity” are already active in Armenia to build up an affordable housing sector

¹ Chiquier/Lea (2009: 376).

(Social Housing Foundation, www.shf-armenia.org). International funding may be acquired for such a venture (see B.7, p. 55).

g) PPP PRINCIPLES

According to regulations on PPP Housing sectors in Western Europe, the following pillars of a PPP Housing sector for Armenia may be defined:

- PPP Housing organizations shall be established as private companies that provide public service obligations.
- In return they get privileged access to subsidies, relief from company income tax (similar to today's condominiums) and/or low cost building land (from municipalities).
- They have to accept strict procedures of audit and public control.
- They usually act on the basis of cost coverage, both on housing management and new construction. Dwellings must be rented or sold neither above nor below own costs. Own costs include an appropriate profit, which is defined by law.
- The assets of PPP Housing organizations are strictly protected. Disbursement of profits is limited to a low percentage of invested capital. Any options to capitalize the assets are prevented.
- PPP Housing organizations may only be active in defined fields of business, all of them related to housing. They e.g. have to reinvest their profits in housing or purchase of land.

h) AUDIT AND CONTROL

An obligatory auditing and revision scheme for all PPP Housing organizations should be introduced. This would be an important tool for quality improvement also and particularly for existent housing management units.

i) PUBLIC INTEREST

- Public service obligations are executed by specialized organizations with expert skills.
- Market procedures may be integrated effectively (competition, allocation).
- Hence, housing provision becomes cheaper for municipalities, compared to public housing.
- PPP Housing organizations are useful partners for municipalities, but political influence is limited.
- Political responsibility is "outsourced".
- A PPP Housing scheme for the management units in combination with the proposed new management scheme may solve many of the existing problems, including anti-seismic refurbishment of the existing housing stock.
- New construction of earthquake-proof affordable housing is an efficient lever to solve seismic risks by replacement of the most vulnerable buildings with new construction (see B.5.3, p. 50).
- Housing for lower and middle income groups may become an important economic driver.
- In many Western countries PPP Housing organizations have proved efficiency and reliability for many decades. International aid is available for the establishment of pilot organizations and pilot projects.

j) PRIVATE INTERESTS

- A PPP Housing scheme may offer a coherent new legal framework for existing housing management units.
- Because of limitation of profit and strict public control, PPP Housing organizations qualify for public subsidies. Altogether this will result in cheaper management services for apartment owners and affordable new construction of dwellings.
- PPP Housing organizations can establish markets in economic segments, which are not yet a business case. After the establishment of markets, private competitors may enter the markets as well.

- New construction of PPP Housing organizations may serve the clientele of its shareholders.
- Secondary business: PPP Housing organizations may be (co-)owned by banks or insurance companies who can market their core products in this way.
- Portfolio considerations: The low risk and the substantial undisclosed reserves of PPP Housing organizations may be a big advantage for the overall risk-position of the owners. Private owners may attain a better credit rating for their overall business activities.

B.5 NEW CONSTRUCTION AND MOBILIZATION OF VACANT DWELLINGS

Policy reform regarding the existing housing stock can only be faced successfully, if it includes also policy reform on new housing construction. As described in chapter A.4 (p. 17) new housing construction in Armenia is not at all sufficient and in big parts targeted to artificial demand of “elite” housing. The burdensome situation with the small number of category 4 buildings and the big number of category 3 buildings can only be solved, if affordable new construction is available as alternative. Armenian population is growing again. Mobilization of the big number of unoccupied dwellings is very difficult (see below, B.5.4, p. 51). The extremely low mobility of Armenian households is a threat for economic development. A benchmark for necessary new construction may be the construction rates of CEE countries, which is at 3 to 5 units per 1,000 inhabitants. For Armenia this would mean a yearly housing production of 10,000 to 15,000 dwellings. This new supply must be targeted at domestic demand (affordability). Deficient affordable housing construction mainly concerns young households and migrants to the economic centers. It has therefore direct negative effects on the overall economic development of Armenia. Increase of affordable housing supply is one of the few measures to abate prices and rents on the housing market. If housing construction continues to be low, than market prices will continue to rise inevitably.

Already before the crisis, some commercial housing developers have started with new construction of economy apartments. But quantity and prices require improvement.

B.5.1 OPTIONS TO INCREASE COMMERCIAL CONSTRUCTION OF ECONOMY HOUSING

The following measures may help to increase the volume of commercial housing construction in the economy sector and/or to restart housing developments that have been stopped during the crisis:

a) (RE-)ESTABLISHMENT OF MORTGAGE FINANCING

As a result of the economic crisis, mortgage financing has virtually stopped. Reestablishment not only relies on business policy of the banks, but on Governmental policy as well. Innovation and tighter competition in the financing sector may reduce the interest spread to make financing cheaper.

b) IMPROVEMENT OF MARKET EFFICIENCY

The high level of housing market prices is very much driven by high land prices and intransparent construction prices. Market transparency may be improved by new ways of price documentation and communication. Land prices may be abated by streamlining of administration (zoning, permissions). Corruption is a major cost driver in housing.

c) SUBSIDIZED MORTGAGE PROGRAMS

The recently decided “affordable housing to young people program” (see A.4, p. 17) seems to be a good start. Subsidized mortgage programs have proved successful in several countries, both to

stimulate the construction industry, the banking sector and to meet social targets. Possible follow-up programs may benefit from the experiences in other countries with similar initiatives. Room for improvement is seen particularly in social targeting and steering of the housing market.

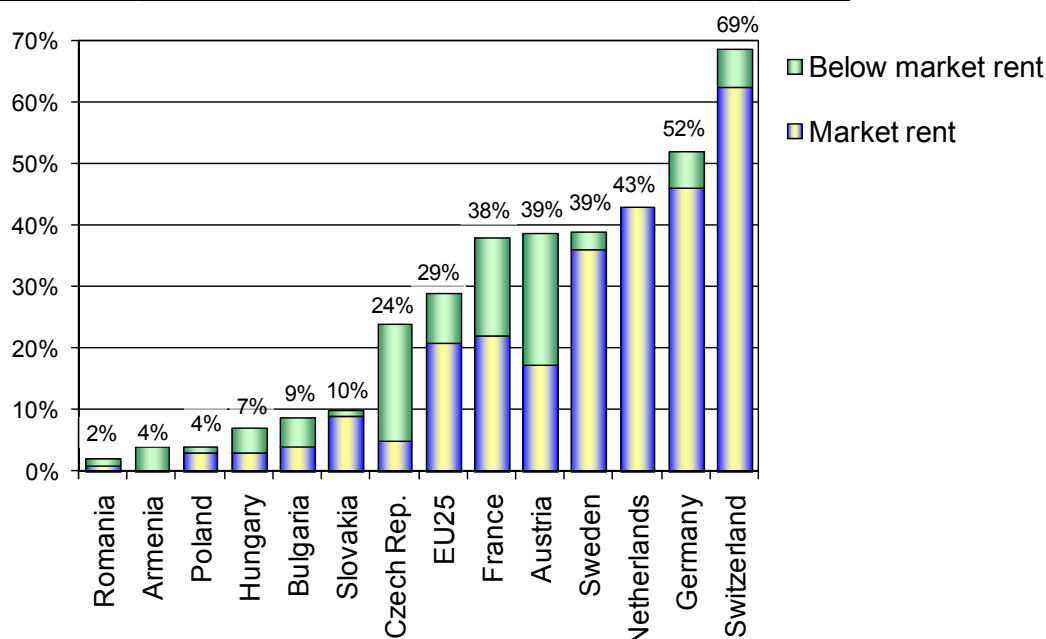
B.5.2 AFFORDABLE HOUSING CONSTRUCTION

The good performance of housing provision in many European countries derives from quite different models of subsidized housing construction, mostly realized by the one or other model of PPP Housing. The establishment of such a sector in Armenia with moderate State support is seen realistic (see B.4.2c), p. 47).

B.5.3 RE-ESTABLISHMENT OF A RENTAL HOUSING SECTOR

Most transition countries have focused their housing production on the top end of the condominium market in high value and central areas. Existing rental housing stocks were privatized in huge quantities. There was almost no new rental housing construction after transition. As a result, most transition countries have extremely low rental housing shares, as shown in Graph 13.

Graph 13: Rental housing stock in Europe (2007, in percent of total housing stock)



Source: IIBW, Eurostat (EU SILC), UIPI (for Switzerland, 2003), Statistik Austria (for Austria), Armstat (for Armenia)

A sizeable rental sector has important functions for a national economy, far beyond social policy targets. Rental housing not only offers low entry prices, it also promotes mobility of workforce. A rental market for housing is crucial for young households and domestic migrants who have not accumulated sufficient capital to access financial and mortgage markets for home purchase. A sound rental sector is important to accommodate those who do not want or are unable to become homeowners. Consumer choice regarding housing tenure activates market mechanisms and improves efficiency of allocation. In the long run, establishing a rental market offers substantial institutional investment opportunities.

Affordable housing should be developed, which integrates social and private rents, following the integrated market concept of Jim Kemeny.¹ But rental housing is only an alternative, if rents are lower than mortgage rates for similar condominiums. Commercial rental housing hardly may achieve this goal. The supply of affordable condominiums and rental dwellings should be developed to sufficient and considerable quantities in order to influence the private markets and stabilize its development.

Policy reform should follow options to re-establish rental housing supply:

a) COMMERCIAL CONSTRUCTION OF RENTAL HOUSING

This usually only works in well developed markets at the top end, but not for affordable housing. The framework for commercial construction of rental housing may be improved e.g. with tax incentives (expensive for the State) or housing allowance schemes.

b) PPP RENTAL HOUSING

As described in B.4.2c) (p. 47) PPP Housing organizations may qualify very well as developer, investor and administrator of affordable rental housing.

c) LEGALIZATION OF INFORMALLY RENTED DWELLINGS

As indicated in chapter A.2.3 (p. 11), there is a big number of informally rented dwellings. Their legalization could be attained with the following measures:

- Introduction of sound rent regulations, e.g. according to the IIBW Rent Law for Romania.²
- Incentives for the owner, such as decent rent settings (e.g. comparative rents), rent contracts limited in time, reasonable possibilities to terminate rent contracts etc..
- Disincentives for the owner, such as a right for the tenant to get a formal rent contract for unlimited time, if the lease is not formalized within a defined period.
- Tax incentives, i.e. a reduced VAT rate for rents.

In order to re-establish rental housing it will be necessary to change privatization law, as new rental housing must not lead to the right of privatization of the dwelling.

It is recommended that the Government take a strong initiative (including legal and financial commitments) to introduce a rental housing market and that it encourages the overall development of this sector in the private, the PPP and the public domains.

B.5.4 MOBILIZATION OF VACANT DWELLINGS

The big number of unoccupied dwellings (see A.2.5, p. 16) has a high potential to relieve shortage in housing provision. But supply of these dwellings does not meet demand in all cases. The share of vacant dwellings is particularly high in cities with strong out-migration, but low in regions of economic prosperity.

Protection of property does not allow to force owners of vacant dwellings to sell or rent them out. But a scheme of incentives (and disincentives) may be applied with positive prospects, including the following measures:

¹ Kemeny (1995). Kemeny et al. (2001).

² Amann et al. (2008). Amann & Mundt (2010b).

- Introduction of sound rent regulations as described in B.5.3c);
- Better enforcement of maintenance debts even for vacant dwellings with the threat of foreclosure in the case of permanent non-payment will motivate the owners to use their assets economically (see B.2.2e) and i), p. 36);
- Specific taxation of vacant dwellings has not proved efficient in some European countries, as it is difficult to prove evidence.

B.5.5 REPLACEMENT OF CATEGORY 4-BUILDINGS

Chapter A.5.2 (p. 20) describes previous action to replace deteriorated residential buildings. This concerns mainly high-risk buildings in high-risk location. An “Overall examination of multi-apartment buildings” in 2007 has classified all buildings in 4 categories. A small number of buildings have been appraised in the worst category 4, but a big number in category 3. The high significance of new policy tools for maintenance and repair follow the goal to avoid further deterioration of category 3 buildings to category 4.

In any case, a growing number of residential buildings will require replacement, which entails major legal and economic difficulties. The following procedure seems feasible to address this challenge:

- a) Condominium owners are offered the real value of their dwellings, which may represent 10-30% of the value of a new dwelling.
- b) This compensation is to be invested as down-payment for a new dwelling. The new dwelling will be affordable only with an advanced financing model (see B.4.2c), p. 47 and B.8.1, p. 56), e.g. as an affordable rental dwelling realized by a PPP Housing organization with a right to buy after a couple of years.
- c) Legal feasibility has to be improved. A majority of e.g. 50% of owners must suffice to command all owners to give up their previous property rights.

B.6 REFURBISHMENT

Comprehensive refurbishment initiatives require functioning maintenance schemes (see B.2, p. 34) and a clarification of the role of owners and management units (see B.3, p. 40). Furthermore, renewals seem to be determined mostly by subsidization and investment programs, rather than by initiatives from the owners themselves.¹ This difficult set of interests has to be clarified in advance.

B.6.1 REQUIREMENTS FOR REFURBISHMENT PROJECTS

Refurbishment projects have similar requirements, either they target seismic risks or thermal rehabilitation. And they are complicated in all cases:

- They are costly. Comprehensive rehabilitation works have to be calculated with 20% to 50% of the costs of new construction.
- Decisions on refurbishment require consent of a majority of owners. Experience in many countries proves that this aspect is even more tricky than financing. It is most difficult to define the regulations for quorums. If 100% consent of all owners is required, than not one single project will be realized. But quorums of less than 100% result in payment obligations for owners who did not want the investment, voted against and maybe cannot afford. This can be solved with a State allowance scheme for households in need, combined with a registration of these subsidies and repayment

¹ Gruis & Nieboer (2004: 212).

obligation in the case of sale (similar to B.2.2g) and h), p. 36). Such policy has been introduced in the Czech Republic. Similar difficult is the treatment of the owners who do not take part in the decision making process. In Italy it is regulated with a twofold voting procedure. If a first voting does not reach a majority of all owners, decision is taken in a second voting, for which only the participants of the first round are entitled for voting. In this way the “negative power” of passive owners can be broken.

- Indispensable drivers for refurbishment activities are
 - mandatory regulations (obligatory repair works),
 - maintenance regulations including a well endowed reserve fund (B.2.2d), p. 35),
 - feasible models for owners’ associations to take mortgage loans (without State guarantee, see B.3f), p. 42 and B.7, p. 55),
 - comprehensive subsidy models (B.8, p. 55),
 - educated experts within the housing management units,
 - the availability of skilled workers (see B.7c), p. 55)
 - and good building materials (B.7e), p. 55).

B.6.2 FRAMEWORK FOR ANTI-SEISMIC AND THERMAL REFURBISHMENT

The set of measures proposed in this report establishes a legal and financial framework for comprehensive anti-seismic and thermal rehabilitation works for multi-apartment buildings and hence for an upturn of housing renovation activities. Major challenges are the substantial costs and very difficult organizational aspects with a multitude of low income owners. The following measures may pave the way:

- Change of the scheme of responsibilities for common shared property with obligatory owners’ associations as legal person and clearance of decision making procedures (see B.3, p. 40).
- Change of the housing management maintenance scheme with more financial prospects for small repair works (see B.2.2, p. 34).
- Coverage of costs for the surveys of the state of the building and seismic risk evaluation within the maintenance fees (see B.2.2d), p. 35).
- Establishment of a reserve funds.
- Improvement of the framework for capital market financing (collection of own equity of the owners in a reserve funds, clearance of decision making procedures, improvement of the repayment scheme).
- Introduction of a housing allowance scheme for the households which really cannot pay (B.2.2g), p 36).
- Improvement of possibilities to develop the attic zones as a contribution to fund refurbishment measures for the whole building (see B.6.4, p. 54).
- Introduction of a scheme to replace category 4 buildings (B.5.5, p. 52).

B.6.3 PRIOR REFURBISHMENT MEASURES

Of course, measures to safeguard structural stability and safety of residential buildings, such as repair of roofs, of roof drain systems, of foundations etc., must have priority.

But apart from them, it is urgently advised to improve and upgrade the semi-public space in multi-apartment buildings. Two initiatives could help to create ownership awareness of common shared property and increase the value of such buildings considerably:

- Creation of semi-private space in entrance rooms and staircases: Entrances with doorbell and intercom system define a semi-private space in entrance halls, staircases and elevators. This increases owner awareness and protects from devastation. A similar model has been executed in St. Petersburg (Russia), resulting from public initiative.

- Ban of installations in common parts: Installation of metering has allowed for provision of gas for big parts of population. But it is unacceptable that common shared property is visually deteriorated by installations of service providers (see Image 8, p. 15). Securing uninterrupted service is possible with more sensitive measures in all developed countries. It should be no problem in Armenia as well. Service providers (gas, electricity, water) should be obliged to change their installations and concentrate all to indoor stand-pipes. They must recognize architectural concerns. There should be no installations on the outside of buildings, and no meters openly installed in entrance areas. This requires a change of Art. 8 (2 and 3) of the Law on Apartment Building Management 2002, which allows single owners to make structural changes on the outside of buildings without permit of the other owners.

B.6.4 REMOVAL OF OBSTACLES TO DEVELOP ATTIC ZONES

As described above (see A.5.1, p. 19), there is currently no business approach to realize additional floor space in the attic of existing multi-apartment buildings. This could be a powerful initiative to fund refurbishment of whole buildings. The treatment of attic zones requires clarification. Firstly, attic zones are common property of the owners. Gains from exploitation have to inure to the benefit of the owners. This may be solved, if the management organizations get the right of usufruct for the attics, as described above (see B.3f), p. 42). Secondly, the requirement of unanimous consent is counterproductive for such a measure. A simple majority should suffice (see B.6.1).

Additional floor space of course changes floor-area ratios (FARs), i.e. the share of the owners on common shared property. The single owner will have a smaller part of the value of land, but then again smaller obligations for maintenance of common shared property. In practice, there will be a bargain between the cession of the ownership titles and a disproportionately high contribution of the new owner to refurbishment investments of common shared property. New floor space in the attic may be compensated e.g. with a thermal refurbishment of the façade or mounting of an elevator.

Mobilization of additional floor space in the attic zones requires additional regulations and procedures. Of course such construction must be subject of building permission procedures. Urban zoning plans must allow for such intervention. Finally it has to be proved that the existing building structure is sufficiently stable for additional load (seismic stability). This will generally only be the case with buildings up to 5 storeys.

B.6.5 PRIORITIZATION OF ACTION

It must be State interest that high-risk buildings (i.e. frame-panel buildings) in high-risk locations (micro-zones) are prioritized for retrofitting. This may be realized with mandatory regulations that define obligations for refurbishment and incentives with subsidy programs.

But even in this case, it should be considered that housing refurbishment is not primarily a State obligation but an obligation of the owners, with the State to define the legal framework and to give incentives (see B.1.4, p. 33). Hence, owners of high-risk buildings in high-risk locations, should be confronted with stricter obligations for refurbishment, but at the same time be qualified for higher subsidies.

Prioritization can be handled easier with new construction (e.g. for replacement of category 4 buildings, see B.4.2c), p. 47). If a municipality provides building land and the State according subsidies, it is not difficult to make a housing organization realize a new building on an intended location.

B.7 OTHER MEASURES

The following additional recommendations will help to improve housing provision:

a) CAPACITY BUILDING

The following measures, described above, serve to build up capacities and human resources:

- Enforcement of owners' associations,
- Creation of a legal basis for PPP Housing organizations,
- Licensing for housing managers,
- Promotion of representations of interest,
- Education.

b) AWARENESS BUILDING

Awareness of rights and obligations of ownership needs to be improved. The following measures, described above in detail, may contribute to this:

- Better regulations on maintenance obligations,
- Better representation of owners in decision making on management and maintenance,
- Traceable and effective sanctions (p. 36),
- Transparency on spending of maintenance fees (p. 35),
- Quick results with a "1,000 roofs program" (p. 33),
- Option to leave ownership and return to rent (p. 41).

c) EDUCATION

A strategy for education in housing and real estate professions shall be developed and implemented (training on the job, licensing, apprentice, graduate education). This is most urgent for the existing housing management units.

d) LOBBY GROUPS

Representations of interest are regarded as important players in civil society and shall be promoted.

e) ESTABLISHMENT OF AN EPS INDUSTRY

Many recommendations on improvement of the housing maintenance scheme target in the medium term at thermal refurbishment of the buildings. An additional precondition for thermal refurbishment is the availability of moderate cost insulation material. EPS (expanded polystyrene) is a cheap and easy workable product. Due to its volume and low weight it requires local production. For the establishment of an EPS industry in Armenia, it is recommended to go for a joint venture between the State and a foreign EPS producer.

f) MONITORING AND EVALUATION

All described measures shall be monitored and evaluated within an appropriate period of time. A framework for monitoring and evaluation (M&E) is to be developed.

B.8 FINANCING / STATE SUPPORT / FUNDING

Armenia is successfully developing its financing markets and according legislation, with support amongst others of the World Bank. But not even a most efficient capital market could solve the housing challenges in Armenia, as shown in this report, without additional State support. Mark Stephens

describes the present situation: “Even if a fully efficient housing finance system were established, many – quite probably most – households would be unable to access housing finance. This is because their incomes were too low, erratic or difficult to verify. Or their property was not properly registered”.¹

Targeting at affordability of housing, it is an illusion to believe that the markets will provide the best possible results without State intervention. There is no developed country that goes without State support of housing. Hence, the right question is how to design a State housing policy that produces best possible results for lowest possible State expenditures.

Refurbishment of the existing housing stock and new housing construction face very difficult economic circumstances. Taking the vulnerable income situation of big parts of the population, public funding of parts of the costs will be indispensable. The development of a comprehensive Housing Finance Strategy should be the starting point.

B.8.1 HOUSING FINANCE STRATEGY

Subsidies are often perceived as giving or receiving something for free. That notion is misleading. A US-American definition from 1969 is more precise: “A subsidy is an incentive provided by government to enable and persuade a certain class of producers or consumers to do something they would not otherwise do, by lowering the opportunity cost or otherwise increasing the potential benefit of doing so” (The World Bank).²

A comprehensive Housing Finance Strategy should include aspects of State funding, the regulatory framework and the development of capital market tools for housing finance. Some cornerstones of a Housing Finance Strategy may be:

a) RESPONSIBILITIES AND NON-RESPONSIBILITIES OF THE STATE IN HOUSING

Definition of State responsibilities is an ambivalent matter. On the one hand, a commitment on public service obligations helps to streamline State activities. On the other hand, such a commitment limits future room for maneuver of policy makers.

In any case it should be emphasized that maintenance and refurbishment of the existing housing stock is in the responsibility of the apartment owners. The State may stimulate some action with subsidy programs. But generally, the existing housing stock shall be self-sufficient in the sense, that funds acquired from the owners suffice for upkeep of the buildings in a state-of-the-art status.

b) HOUSING POLICY TARGETS

After thorough analysis of housing policy systems worldwide, the author strongly recommends the client to go for integrated housing markets.³ Main aspects of such a policy are:

- Policy measures to allow for affordable housing not only for most vulnerable groups but for moderate income households as well. In countries such as Austria, this policy contributed

¹ Stephens (2005: 1813).

² Cited from: Chiquier/Lea (2009: 426).

³ Kemeny (1995). Kemeny et al. (2001).

substantially to welfare and development of a broad middle class.¹ It counteracts segregation and the emergence of ghettos and contributes to social mix and social integration.

- No rigid focus to one subsidy type, but selection of the most efficient tools of subject oriented or object oriented subsidies.
- No blanket subsidies, subsidies only following well evaluated programs.
- Targeting at substantial quantities of affordable housing that can influence the other market segments (quality standards, price level).
- Measures to establish different housing tenures, including affordable rental housing (see B.5.3, p. 50).
- Additional policy measures to abate and stabilize the price level on private housing markets.
- Utilization of housing programs not only or in the first line for social policy issues, but as well for economic and environmental policy issues.
- Subsidies should help to build up and strengthen structures and capacities.

c) LEVEL OF STATE EXPENDITURE ON HOUSING

The EU-15 countries have, on average, state expenditure on housing of around 1.5% of their GDP. The number varies from below 1% in some Southern European countries up to above 2% in Great Britain, Denmark and France. Some countries significantly reduced state expenditure on housing within the previous decade. Denmark and Finland cut some 30% between 1997 and 2003, Sweden even 60%. Finland and Sweden have now reached an expenditure of no more than 1.1% of GDP. In Austria, some 80% of new housing construction is co-financed by the public. Still, total housing expenditures only amount to 1.0% of GDP (2008). This is below most other western European countries and even the USA.²

Facing different preconditions, such as the backlog of public housing investment in Armenia for at least 20 years, the bad condition of the existing housing stock, the backlog in new construction etc., it is regarded necessary to define State expenditure on housing with at least 1.0% of GDP. Taking the estimated data from 2009 this would be a yearly amount of AMD 30,000m (\$ 80m) to promote housing maintenance, refurbishment and new construction.

d) KINDS OF SUBSIDIES

As mentioned, it is recommended not to focus rigidly to one subsidy type, but to search for the most efficient tools, to try them within temporary programs, evaluate and compare them. Housing subsidies are distinguished between subject oriented tools (housing allowances, subsidized retail mortgages, such as the recent “affordable housing to young people program”, see B.5.1c), p. 49) and object oriented tools (“subsidies for bricks and mortar”). For the first, the beneficiary is the individual household (demand side), often with income-tested benefits. For the latter, the beneficiary is the housing organization (supply side).

Within this report the introduction of the following subsidies is recommended:

Subsidies for brick and mortar:

- “1,000 roof program” (see B.1.2, p. 33);
- A program to install entrance doors with doorbells and intercom (see B.6.3, p. 53);
- Single initiatives and programs according to political rationale;

¹ Amann & Mundt (2009).

² Ball (2007); PRC Bouwcentrum International (2005); Lujanen (2004); de la Morvonnais (2004).

- New construction for municipalities and PPP Housing organizations (see B.4.2c), p. 47 and B.5.3, p. 50).

Subject oriented subsidies:

- For housing maintenance and refurbishment it is recommended to focus on subject oriented tools (B.2.2g), p. 36). Owners, which cannot afford maintenance fees or costs of refurbishment, should be eligible for housing allowances, combined with registration of these subsidies in the cadastre and an obligation to pay back in the case of sale, inheritance or endowment of the dwelling. This scheme should replace the object oriented approach of the *State Program* of 2008. It should meet concerns that generally maintenance and refurbishment should be in the responsibility of the owners and not of the State.
- The “affordable housing to young people program” is appraised positively. After evaluation and some improvements it should be continued.

e) NATIONAL HOUSING FUNDS

Some Western European and a growing number of CEE countries use the instrument of housing funds. A particularly successful example is the Dutch Waarborgfonds Sociale Woningbouw (Social Housing Guarantee Funds), which was set up already in 1980s and provides a triple loan guarantee (through the structure of the association, the capital assets of the fund and the state and local authorities).¹

Existing housing funds in CEE countries rely in their sources of capital partly on revenues from housing privatization, partly on loans of international financing institutions and budget grants. Especially Poland, the Czech Republic, Slovakia, Slovenia, Romania and Albania take advantage of national housing funds as funding source.² A housing fund may organize State housing policy on the whole. It may work more efficiently than public administration, presuming that its mandate and control are properly regulated. For such a fund, public guarantees may be an appropriate and cheap way of public commitment, but, at the outset, direct public funding seems to be indispensable, at least in the initial phase. The effectiveness of such a fund is dependent on its size.

The establishment of a National Housing Funds can make sense for Armenia as an implementation agency for a new housing strategy.

f) INCLUSION OF THE CAPITAL MARKET

The main financing source and driver for housing market development is the private capital market. Advanced housing policy tools shall combine the strengths of the capital market with the strengths of public backing. The financing sector in Armenia is already well developed (A.6, p. 20).

One important aspect is to allocate risks to those who best can bear it. Institutions and the State have the resources and expertise to manage risks much better than individuals or households.³ Hence, financing models should be designed in a way that the households face only limited interest risks.

¹ Boelhouwer (2003).

² Amann & Springler (2010). Chiquier & Lea (2009).

³ See Chiquier/Lea (2009: 167).

The recommended strategy outlined in chapter B.3 (p. 40) targets at making condominiums and owners' associations bankable subjects. This and other recommendations in this report may substantially strengthen the banking sector in developing a primary financing market.

g) ACQUISITION OF FUNDS:

Besides of public funds (subsidies from the State, building land from the municipalities), international financing and the local capital market are to be addressed. International Financing Institutions and donors are willing to support affordable new construction and refurbishment projects as well as capacity building measures. But their involvement requires feasible project conceptions (financial feasibility, project implementation, allocation mechanisms etc.) and State commitment.

B.8.2 BEST PRACTICE: STRUCTURED FINANCING FOR PPP RENTAL HOUSING

PPP Housing legislation has been described as a strategy towards the establishment of a new business sector, targeting at affordable housing, particularly rental housing.¹ However, in order to establish PPP-housing as a new business sector, a second strategy is necessary, i.e. financing schemes that allow for affordable rents, without leaving the paths of market based operations. Together, the aim is to develop social housing as a bankable product.

For the projects described in B.4.1d) (p. 45), IIBW has developed a structured financing model, based on the following principles:²

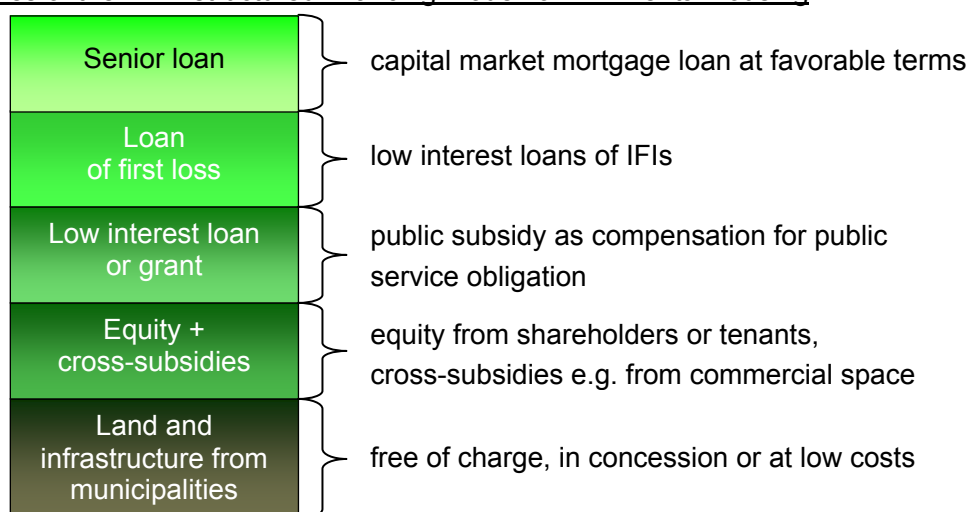
- Legal framework: As financing is bound to public funding, a legal framework is inevitable, which is achieved via PPP Housing legislation.
- Affordability is basically defined with cost coverage. It means condominiums at own costs and rents of about 2 €/m² useable floor space. This is only possible by drawing on public support on several levels (Graph 14). Rents and prices shall never be determined by political decision, but in principal by sound financing schemes. Mortgages have to be repaid by rent incomes, which rise according to the consumer price index (CPI) or slightly above.
- Target groups: Beneficiaries of affordable rental housing shall be households from the 2nd to the 6th income decile, i.e. lower and middle income groups. Affordable condominiums may address even higher income groups. Lowest income groups and vulnerable households may be served as well, but require additional housing allowances. There shall be no housing estates with predominantly lowest income households. The inclusion of lowest income groups is a social policy task and has to follow criteria of integrative development of communities.
- Consumer choice: The share of rental dwellings and condominiums shall be determined by transparent parameters, such as availability of retail financing for buyers or equity of the developer, but first and foremost by demand and consumer choice. Rental housing shall be established in a way that it is economically rationale for tenants to go into rental markets.
- Management and maintenance: Today, a big part of the housing stock lacks sound management and maintenance. The IIBW financing scheme includes monthly fees for operating costs of the building.
- Subsidies must be available. This may be low interest loans of 30-40 per cent of construction costs or grants of about half that amount.
- Cooperation with municipalities: IIBW financing requires the cooperation of municipalities. Land and infrastructure should be provided free of charge, by concession or at a low price. In return, municipalities should play a main role in the allocating of dwellings.

¹ UNECE (2005a), Lux (2006).

² Amann/Lawson/Mundt (2009). Amann (2009).

- Equity: The housing developer (PPP Housing organization) should have sources of equity to invest in affordable housing. This will be rather limited at the commencement of operations, but may grow to a substantial quantity over time.
- Cross-subsidies: Sources of cross subsidies should be tapped, i.e. from richer to poorer regions, from for-profit condominiums or from commercial space to affordable rental dwellings.
- International Financing Institutions (IFIs): IIBW financing includes international financing sources. Most helpful are mortgage loans from a housing fund, such as *DIGH – Dutch International Guarantees for Housing*. These loans are guaranteed by Dutch housing associations to cover the risk of first loss. Hence, they are regarded as being equal to equity capital. Meanwhile, other International Financing Institutions have been addressed (CEB).
- Capital market financing is addressed for bridging-financing during the construction period and, in the medium term, for strategic long term investments in rental housing. Taking the risk position of the other tranches, capital market financing shall be addressed only for senior loans with appropriate conditions (Graph 14). Affordable rental housing may develop as an important property sector attracting investment from the capital market, as shown in Austria or Switzerland.¹
- Allocation of dwellings must follow transparent procedures. Similar to the housing developer, who is bound to a limitation of profits, the tenant shall be limited to ‘cash up’ or extract public subsidies. Resale of affordable condominiums shall be allowed only with regulated prices for a defined period e.g. ten years. Sublease of affordable rental dwellings shall be prohibited.

Graph 14: Tranches of the IIBW structured financing model for PPP rental housing



Source: IIBW

The financing model described above has been applied to Montenegro and is in preparation for application in Albania (see B.4.1d), p. 45).

¹ UNECE (2005b).

C. ANNEX

C.1 INTERVIEW PARTNERS

- Ruzanna Alaverdyan, Deputy Minister of Urban Development Ministry of Urban Development (19 November 2009);
- Kamo Areyan, Deputy Mayor of Yerevan (19 and 21 November 2009);
- Gagik Beglaryan, Mayor of Yerevan Republic of Armenia (18 November 2009);
- Robert Galoyan, chair of "Center" condominium (20 November 2009);
- Armen Gevorgyan, Deputy Prime Minister Government of the Republic of Armenia (21 November 2009);
- Aram Grigoryan, Head of the "Condominium Association" (20 November 2009);
- Vahram Harutjunor, director of Inhabitants Contributors Center (20 November 2009);
- Gevorg H. Malkhasyan, Deputy Minister of Justice Ministry of Justice (19 November 2009);
- Hamlet Melkonyan, chair of "Kars" condominium (20 November 2009);
- Samvel Srabyan, Head of Housing Fund Management and Communal Division Ministry of Urban Development (23 November 2009);
- Ruben Ter-Grigoryan, NACO - National Association of Condominium Owners (November 2009);
- Hrair Tovmasyan, Lawyer (20 November 2009);
- Mayis Vanoyan, Local Government Program Leader USAID (20 November 2009);
- Nerses Yeritsyan, Minister of Economy Ministry of Economy (18 and 21 November 2009);
- Chair of Condominium in Echmiadzin (21 November 2009);
- The local World Bank team.

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