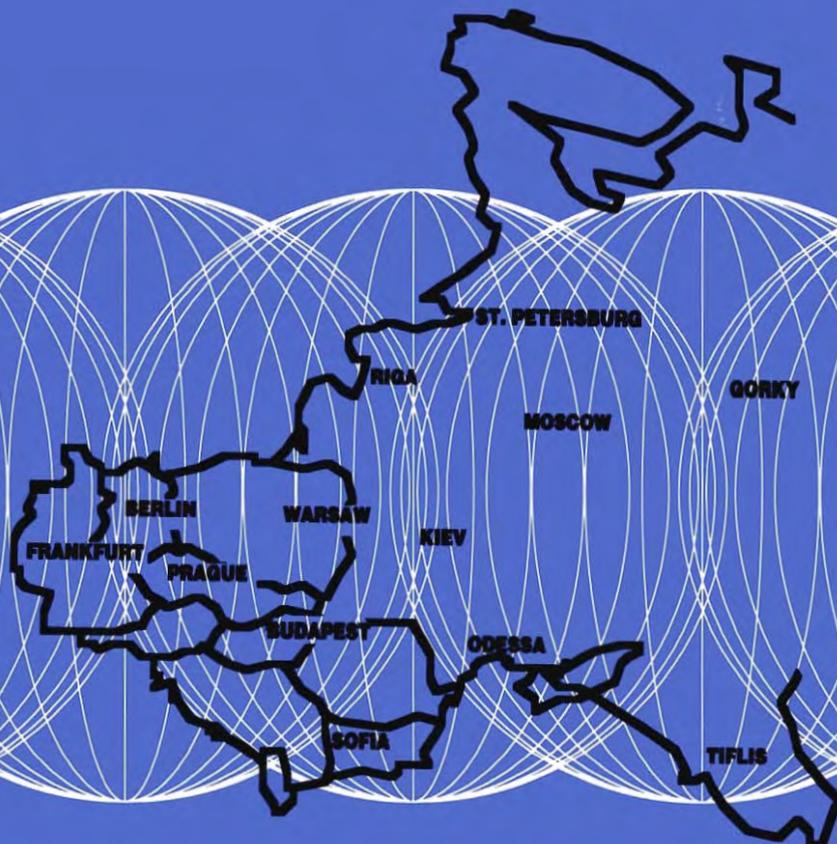


AN INTERNATIONAL ACTIVITIES PROJECT

**FROM PLANNING TO MARKETS
HOUSING IN EASTERN EUROPE**

**EVALUATION OF THE HOUSING
CERTIFICATE OPTION FOR ASSISTING
RETIRED RUSSIAN OFFICERS
OBTAIN HOUSING**



THE URBAN INSTITUTE

Prepared for the Office of Housing and Urban Programs (USAID)

**EVALUATION OF THE HOUSING
CERTIFICATE OPTION FOR ASSISTING
RETIRED RUSSIAN OFFICERS
OBTAIN HOUSING**

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ABSTRACT

In helping to resettle retired or demobilized Russian officers returning from the Baltics, the certificate program targets the officer; he receives a certificate (priced according to the composition of his family and the region's housing market), lists of local sellers and brokers, and is free to purchase any housing that meets certain minimum construction standards. If the officers wants to purchase a unit for more than the certificate value, he makes up the difference; if he purchases a unit for less than the certificate value, he receives the difference in cash. Despite low-to-moderate levels of construction in the regions, most officers were successful in finding a unit quickly. Those who took initiative and contacted multiple sellers were more successful in finding units below the certificate value.

EXECUTIVE SUMMARY

In 1992-1993 the newly independent Baltic countries were striving to secure their sovereignty. Russian leaders were attempting to withdraw their military forces from abroad without giving cause to nationalist sentiments or stirring up unrest in the military. How could America support democracy in the Baltics and the demobilization of Russian forces? At a summit in April 1993, President Clinton agreed with President Yeltsin that America would resettle 500 Russian officers who were discharged and demobilized from service in the Baltics. Later this initiative was expanded to 5,000 officers and two approaches were developed to achieve this goal.

Although resettlement of officers is basically a function of the Russian government, American participation and support is critical for two reasons: The first reason is political. The Russian people are losing an empire, for which they blame their leaders. When Russians ask "What are we getting in return for giving up Eastern Europe and the Baltics?" American financial support helps answer this question. The second reason is practical. The bankrupt Russian government does not have the means to provide their officers with housing in Russia. This means without American participation the officers would stay in the country where they were discharged. At the least this would mar Russo-Baltic relations; at the most extreme the continuing presence of Russian officers in the Baltics would give Russia the pretense and means for launching an attack.

The military housing certificate program is part of this larger American initiative whose primary goal is the timely and smooth resettlement of Russian officers returning from service in the Baltic States. Another goal of this larger initiative is to boost production and improve competitiveness and quality in Russia's construction industry. In addition to these goals, the certificate program aims to improve the officer's consumer welfare by allowing him choice in his new housing rather than assigning him a state rental unit.

One approach to resettling the officers was to hold competitive bidding for construction contracts under which units are now being built to house retired officers. The certificate program instead targets the officer; he receives a certificate (priced according to the composition of his family and the region's housing market), is given information on sellers and brokers in the region and is free to purchase any housing in the region that meets certain minimum construction standards. If the officer wants to purchase a unit for more than the certificate value he makes up the difference; if he purchases a unit for less than the certificate value, he receives the difference in cash. While this amount is modest in American terms, it serves as a strong incentive to the retired Russian officer whose monthly pension is the ruble equivalent of about \$70 to \$80.

In the certificate program, an officer signs a presales agreement for a unit soon to be completed, a recently completed unit or a previously occupied unit. Together with strict deadlines, such as three months to sign a presales agreement and six months total time to purchase a unit, the program insures the expeditious resettlement of officers. The program boosts new construction in the region since most of the officers choose a new unit. Finally, with a cash incentive to find a good price, the officer is more likely to bargain with sellers who must compete on quality and price for the officer's purchase. This ultimately helps to transform the Soviet state-owned housing sector into a real housing market where supply responds to demand.

A demonstration project of 80 certificates which was launched a few months prior to this program showed that the program's implementation design worked well. It was important, however, to evaluate implementation on a larger scale. For the distribution of approximately 500 certificates

under its management, the Urban Institute selected the oblasts (regions) of Pskov and Yaroslavl as program sites. Both are within reasonable travel time from the Baltic States, have low-to-moderate levels of construction production and had local administrations interested in helping to manage the program.

To gather information for the evaluation the Urban Institute sent out a team of interviewers to Pskov and Yaroslavl oblasts in February 1995. The interviewers found that the program was well-known among officers in the Baltics. All officers interviewed were anxious to leave the Baltics, felt very fortunate to be able to participate in the program and were disappointed that the program could not accommodate more officers. While the (Russian) North West Group of Forces (NWGF) was responsible for identifying and designating eligible officers, many participants had approached the offices of the NWGF upon hearing about the program through word of mouth.

The officers told of a worsening situation in the Baltic Republics. For example, the local officials of towns that were military bases, like Liepaya in Latvia, had cut off communication means and had threatened to cut off electricity. Officers who resided in desirable locations in the capital were put at risk by local officials who were posting their addresses. The officers universally expressed gratitude to the American government because they did not see any other option for relocating. Unlike the Russian government's vague promises of housing (many officers had already been on a waiting list for housing for more than two years, and some since late 1980s), the American program offered a certificate to purchase housing without bureaucratic obstacles and delays.

The interviewers were also surprised and encouraged by how the officers organized themselves to expedite and facilitate the resettlement process. In response to the question, "How did you search for housing?" an officer in Yaroslavl said "After receiving the certificate we divided into groups and searched for housing among the enterprises and real estate firms." In Pskov an officer replied, "Together with my friends I looked for housing among the building firms and called in response to advertisements. The result was I found a practically new apartment on the secondary market." One officer who had been among the first to resettle in Yaroslavl had also taken it upon himself to help other officers find employment in their new city of residence.

There are two main potential problems confronting the certificate program. The first is the limited supply of housing units available for sale: the level of new construction in Russia is currently depressed and the housing markets are still monopolistic; the second is that Russian officers do not have experience participating in a free market. Despite these obstacles, nearly 90 percent of all officers in Yaroslavl and two-thirds in Pskov had purchased a unit within six months of when the first tranche of certificates were distributed. Equally important, officers report a very high (85 percent) rate of satisfaction with their new housing. And while only about half contacted more than one seller, most (86 percent) shared information on units with other officers. This means that their knowledge and bargaining ability was greater than it would be otherwise. Other potential obstacles to the officer's search include travel time from the Baltics, cost, accommodations and the need to obtain a visa. Of these, we found that only cost affected the officer's search intensity.

In general, officers who made the effort to search were rewarded with finding more units in their price range, as well as one with a sale price more than \$100 below the certificate value. The housing market, though inchoate, responded to the officer's purchasing power. Administrations in both *oblasts* directed some officers to a particular unit or a seller, with the result that the officer was much less likely to contact other sellers. While this may have expedited the officer's decision, it was



unnecessary since most officers signed a presales agreement within a month of receiving a certificate anyway.

While both sites performed well in settling the officers quickly and providing satisfactory units, Yaroslavl offered the officers more choice in housing and better prices. One reason is that the administration in Yaroslavl took it upon itself to ensure that at least the largest developer would offer an officer several units in his price range. It also provided officers with accurate lists of brokers as well as sellers. Another reason is that the city Yaroslavl is three times the size of the city Pskov and the number of officers settling there was fewer; hence, market pressure was less.

Based on the experience of the programs in Pskov and Yaroslavl, we offer the following recommendations in choosing a site and administering a program to resettle retired officers:

- For the program to work well, new construction in the region should be at least at a low-to-moderate level; the new unit-to-officer ratio should be no less than 20:1 for the oblast and 10:1 for the oblast's main city.
- The members of the local administration responsible for briefing the officers should be strongly encouraged to provide comprehensive lists of sellers and brokers and other useful information pertaining to the local housing market.
- As part of its managing role, the local administration should monitor (and, when necessary, apply pressure to) the former main state producer to ensure that it is acting responsibly and fair in its transactions.

The certificate program demonstrates that assistance given directly to the officer can be efficient and effective. With the help of a cash incentive, good site selection and local program administration, retired officers are capable of finding for themselves appropriate housing for the best price. Finally, we also found that once resettled the retired officers are also capable of finding new employment that either matches their qualifications and/or is well-paying.

EVALUATION OF THE HOUSING CERTIFICATE OPTION FOR ASSISTING RETIRED RUSSIAN OFFICERS OBTAIN HOUSING

The military housing certificate program is part of a larger USAID program which is assisting the newly independent Baltic countries and Russia by facilitating the resettlement of retired or demobilized¹ Russian officers from the Baltics. In addition to its primary geo-political goal, the larger program aims to strengthen Russia's housing sector by helping to finance new construction and encouraging quality and competitiveness in production. According to the program's original design this was to be achieved through competitively-bid-for contracts to construct new units to house the retired officers. The certificate program achieves this goal by funding the officers' purchase of apartments, while adding another goal—increasing the consumer welfare of the retired officers by allowing them to choose their apartment.

The full program consists of these components:

- Approximately 2,500 units whose construction or completion is being done under contract funded by USAID for occupancy by retired officers;
- About 500 certificates distributed in Pskov and Yaroslavl oblasts (regions) under a program managed by the Urban Institute; and
- About 2,000 certificates distributed in several other oblasts by Abt Associates.

This evaluation addresses only the Urban Institute program which was a follow-on to an earlier demonstration project. The Institute began distributing certificates for this program in September 1994, about two months before the Abt program began.

In the certificate program, a participant selects from among several *oblasts* in Russia where he wants to resettle. At a formal seminar he is briefed by the local government administration on program requirements and given information on the local housing market. Following the seminar, the local bank responsible for administering the program registers the officer's certificate which he uses to purchase housing. The bank also keeps records of all documents, reviews the officer's presales agreement with a seller and transmits the funds when the purchase is finalized. The value of an officer's certificate varies by region, the composition of his family, the month for which the purchase is finalized and by whether he is purchasing a new or previously occupied unit.

Important to Russo-Baltic relations, the certificate program not only facilitates but expedites the officers' resettlement. Instead of breaking ground for completely new construction, the certificate program has the officer purchase either a recently constructed unit, a unit soon to be completed or a unit previously occupied. The program's expeditious nature is enforced by the requirements that an officer sign a presales agreement within three months of receiving a certificate and must finalize the purchase within six months of the same date. Achievement of this goal is easily measured by the percent of purchase closings within six months of the program's start-up.²

Strengthening Russia's housing sector is more difficult to measure. Clearly the program provided a much needed inflow of funds for new construction in the participating regions. One

¹ Hereafter referred to as retired officers.

² Note that after six months of start-up many certificates will still be unredeemed because officers received certificates in tranches over a four-month span.

indicator is the percent of purchases of new construction, compared to the purchases of previously occupied units. The second part of strengthening Russia's housing sector, to encourage quality and competitiveness in production, is tied to improving officers' welfare by allowing them choice in housing units. That is, only if officers exercise their consumer power will producers respond by providing quality and competitively priced units.

The first question is whether a Russian military officer will exercise choice: Will he search in the housing market or settle for his first offer? The program provides a strong incentive for the officer to search since the difference in the certificate value and the unit price is given to the officer in cash. The second question is: Given that an officer does want to exercise choice and will search in the market, will the market respond? Will the officer be rewarded for his search with more options and a better deal in the end? Given the history of state monopoly in Russia's housing sector, it is unclear that this would be the case.

This evaluation tries to arrive at answers to these questions by analyzing the officers' behavior in the housing market. We find that the answers vary according to conditions beyond the officer's control such as the cost of traveling to the region, the local administration's assertiveness in referring officers to units, and the region's housing market. Still, we find the officer does have the ability to influence the outcome of the process.

Finally we examine the extent to which officers have been able to find employment in their new city and how this employment matches their qualifications. Since job search normally takes time, our expectations were of marginal success shortly after relocation. However, based on the longer record of officers participating in the demonstration project, we expect most officers to obtain employment within several months of relocation.

Since it is important to understand the program's context, the paper begins with a brief description of Russia's housing sector under communism and its recent reforms. We also include some facts about the housing markets in Pskov and Yaroslavl, the regions where the Urban Institute is administering the certificate program. We follow with the eleven tasks to be fulfilled in implementing the military housing certificate program. In the next section we relate how implementation proceeded and our expectations based on the different conditions in the two regions and on the various obstacles that the officers faced. Presented next are the results of our analysis based on survey work of the parallel programs performed approximately four months after start-up. We conclude with observations on the effectiveness of this type of aid and specific recommendations for the continuing program administered by Abt Associates in other regions of Russia and for other former Soviet Union countries which are providing or considering providing assistance to retired officers to acquire permanent housing.

Recent Reforms in the Russian Housing Sector and the Housing Markets in Pskov and Yaroslavl

Until 1991, housing in Russia's cities was almost entirely controlled by the state. Construction was organized by *zakazchiks* who passed building orders from local governments and enterprises to *kombinats*, large state-owned construction firms. Residents were allocated housing according to governmental norms and paid nominal rent which had not changed since the 1920s. They could receive housing from the local government or their employer, both of which required



application on a waiting list and an average wait of up to five years. In this system the state served as investor, client, contractor and owner at the same time; the results were poor quality production and an inefficient allocation of housing.

Reform of Russia's housing sector began in 1991 with low-cost and then no-cost housing privatization, which in the past four years has shifted over 40 percent of state units to private ownership. Last year rents were raised in many regions and housing allowances programs were simultaneously implemented to protect the poor from excessive rental payments. According to a Presidential Decree on condominium regulation, owners of their units can organize into condominium associations and take over the management of their buildings. Privatization of state maintenance companies and competitive procurement of maintenance contracts are taking place in Moscow, Nizhni Novgorod, St. Petersburg, and other cities. Families on a waiting list who wish to purchase housing can receive a governmental subsidy for the down payment; these subsidies target the poor by varying inversely with the purchaser's income as opposed to earlier assistance in the form of interest rate write-downs.

While there has been clear progress in reform of the demand side for housing, the developments on the supply side have been less promising. Most serious is the sharp decline in total housing production, with output in 1992, 1993 and 1994 being about 60 percent of pre-reform levels. The large state-owned construction firms have been transformed into joint stock companies but maintain their predominance. On the other hand, many new companies are responding to the demand for single-family units and are even building on a speculative basis. Small companies have also partially filled the investment gap created by budget-torn enterprises and local governments; it is now common for a large project to have several small investors in addition to the main investor.

The oblasts of Pskov and Yaroslavl have seen some transformation of their housing sectors, but have not been on the leading edge of reform. These sites were chosen more for their proximity to the Baltics and the willingness of the local administrations to support the program. Pskov Oblast lies northwest of Moscow and shares its western border with Latvia and Estonia, while Yaroslavl Oblast lies northeast of Moscow. The two oblasts have centuries old cities that played important roles in Russia's history. As of 1994, the oblast population of Yaroslavl is approximately 1.5 million and the city Yaroslavl has over 600,000 residents. Pskov Oblast is smaller, with 835,000 residents, a quarter of whom live in the city of Pskov.

Table 1
Housing Production Indicators 1994^a

	Pskov	Yaroslavl
<i>Number of units constructed from all financial sources</i>		
Oblast (per 1,000 population)	3,192 (3.8)	5,988 (4.1)
City (per 1,000 population)	1,133 (5.5)	4,070 (6.5)
<i>Share of 1994 completions built by former main state producer</i>		
Oblast (percent)	33	22
City (percent)	70	29

Notes

a Figures from unpublished data provided by the Pskov Oblast and Yaroslavl Oblast Administrations.

Table 2
Dwelling Units Completed per 1,000 Population for Selected Cities: 1991 and 1992^a

<i>Russian Cities</i>		<i>Eastern European Cities</i>	
Moscow	6.30	Bratislava	6.80
Nizhni Novgorod	5.20	Warsaw	1.90
Barnaul	6.10	Budapest	3.03
St. Petersburg	2.30		
<i>Cities in Middle Income Countries</i>		<i>Cities in Industrialized Countries</i>	
Quito, Ecuador	9.28	London, U.K.	1.90
Istanbul, Turkey	6.59	Toronto, Canada	7.28
Monterrey, Mexico	6.01	Washington, DC	6.60
Manila, Philippines	5.73	Amsterdam, Netherlands	7.60
Kuala Lumpur, Malaysia	8.60	Stockholm, Sweden	6.86
Amman, Jordan	12.48	Oslo, Norway	5.64
Seoul, Korea	7.16		

Notes

a Data for Russian cities are for 1992; all other data are for 1991.

Sources: Russian cities, Daniell (1994); other cities, World Bank, published data of the Housing Indicators Program.

The indicators in Table 1 on the previous page show that housing production in both oblasts was at low-to moderate-levels in 1994. Yaroslavl, however, had more housing production both in terms of absolute units built and per thousand population. In 1994 Pskov Oblast had 3.8 housing completions per thousand population and Yaroslavl Oblast had 4.1. In both oblasts, production in the major city was somewhat higher than in other areas. This explains why most officers chose to settle in the cities, even though they could choose from housing anywhere in the oblast.

Similar data are given in Table 2 for cities in Russia for 1992 and for cities in Eastern Europe, and selected middle income and industrial countries for 1991. As shown in the table, the cities of Warsaw and Budapest had very low rates in 1991 when they were in the early stages of economic transition, one characteristic of which is a sharp fall in residential construction.³

In the municipalities of Pskov and Yaroslavl last year, the former main state producer still accounted for 70 percent and 29 percent of completions, respectively. For areas outside the main city, concentration was less. Even with this dispersion, however, housing production is concentrated in a fairly small number of projects—because of the industrial methods employed, projects average about 200-300 units. Hence, housing production in both was characterized by a modest annual flow of new units—on the order of 3,000—concentrated both among a small number of producers and a small number of projects. Nevertheless, there were also some small projects, particularly of cottage housing.

³ Baross, P. and R. Struyk. 1993. "Housing Transition in Eastern Europe: Progress and Problems." *Cities* 10: 179-188.



Implications of this pattern for the certificate program include a lumpiness in the flow of units to the market and potentially strong monopoly power for the supplier who has a project completed or nearing completion just as the certificates are issued. It is important to note, however, that the producer's potential market power is blunted by the three months' search time given the officer and the overall limit of six months to complete a purchase. Hence, units already built plus those being completed in the six months following the issuance of the housing certificate are available to the officer.

While the discussion so far has focused on newly constructed units, it is important to recognize that the existing housing stock is a much larger potential source of units. Unit turnover in Pskov and Yaroslavl ran several hundred units a month in 1994. The program permits the officer to choose a unit that was previously occupied, assuming it meets certain minimum structural conditions.

The Military Housing Certificate Program

The certificate program began in Fall 1994 when the first tranche of certificates were distributed to officers wishing to resettle in the oblasts of Pskov and Yaroslavl. The recipients were officers who were discharged from service while residing outside of Russia, primarily in the Baltic Republics. The description of the program is organized by the eleven tasks required for program implementation.

(1) Identification of certificate recipients. Eligible officers are those who, by the time they receive a certificate, were discharged from military service in the Baltic Republics or other countries outside of Russia. The eligible population is separated into the following categories of descending priority:

- (a) Officers demobilized and discharged from military service in a Baltic Republic on or after April 2, 1993 or January 28, 1992 in Latvia;⁴
- (b) Officers demobilized and discharged from military service in a Baltic Republic prior to April 2, 1993 or January 28, 1992 in Latvia; and
- (c) Officers demobilized and discharged from military service in other countries besides the Baltics Republics on or after April 2, 1993.

Of the certificates distributed in Yaroslavl, 92 percent went to officers from priority category (a), 8 percent went to officers from priority category (b) and none to officers from priority category (c). In Pskov, the picture was similar, with 90 percent of the certificates going to officers from priority category (a) and 10 percent to officers from priority category (b).

⁴ The significance of these dates is the following: April 2, 1993 is the date of the Clinton-Yeltsin summit in Vancouver that initiated the program; January 28, 1992 is the date of Baltic independence, thus the date when the Soviet army became an occupying force.

Officer eligibility was confirmed at three points during program administration. The first was the designation by the North West Group of Forces or local housing officials prior to placement on the list of eligibles. Second, officers were required to present documents proving their eligibility before issuance of a certificate. Finally, an independent auditor verified these documents prior to approval of purchase of the dwelling unit using certificate funds.

Ninety percent of the certificates were issued to officers designated by the North West Group of Forces. The remaining ten percent of officers were selected by the local administration based on their position on the local waiting list for housing. Officers selected were given the opportunity to participate but were not required to do so. Officers who chose not to participate or who participated but were unable to secure a unit, did not lose their place on the local waiting list.

(2) Certificate pricing. The city or oblast Housing Departments contract with independent pricing centers that exist in each oblast to estimate prices for each certificate issued.⁵ The value of the certificates was calibrated to each local market based upon comparable unit costs and standard cost extrapolations. Because of Russia's high inflation rate, each certificate bears three forward values for purchase of a newly constructed unit and three forward values for purchase of a previously occupied unit. The value paid when the certificate is redeemed depends on the month of certificate redemption. (For each month, there is one newly constructed unit value and one previously occupied unit value that is valid.) Later dates have higher values to take into account that units sold further in the future will have a higher cost. Certificate values also vary among recipients because officers are entitled to different sized units based on family size and composition and the prevailing social norms for housing. Thus, two officers who receive their certificates at the same time may have a different series of values if their family composition differs. Two officers who receive their certificates at the same time but live in different oblasts are also likely to have different series of values because values are determined separately for each housing market. Values were determined following the pricing methodology developed jointly by the local pricing center and the Urban Institute.

Table 3
Certificate Values for February 1995

	Pskov	Yaroslavl
<i>New Construction</i>		
1 room	\$22,085	\$13,262
2 rooms	\$25,000	\$19,195
3 rooms	\$25,000	\$23,383
4 rooms	\$25,000	\$25,000
<i>Existing Units</i>		
1 room	\$10,329	\$11,407
2 rooms	\$15,650	\$17,284
3 rooms	\$20,345	\$22,469
4 rooms	\$25,000	\$25,000

⁵ These estimates are prepared following a methodology developed by the Urban Institute. The estimates were reviewed for accuracy by the independent reviewer described below.



USAID imposed a limit of \$25,000 on each certificate to avoid excessive program cost--a constraint imposed shortly before the distribution of the certificates. Table 3 on the previous page shows dollar prices listed on certificates for February. To meet the requirement of pricing in dollars, units were priced in rubles (the currency in which prices outside of the program are quoted in both cities) and then converted to dollars. This meant that both future housing prices and the exchange rate had to be projected—a tricky job at best and one made more difficult by the Central Bank of Russia's active intervention in the foreign exchange markets over much of the program period.

(3) Disbursement of certificates and program explanation. In each city the municipal housing department thoroughly explained the program process and rules to participants. This explanation included written materials detailing all aspects of the program and an officer orientation seminar featuring a slide and sound presentation that helped to insure consistency of presentation. Individual counseling and interviews followed the general presentation, and it was during these sessions that the certificate was given to the officer after a detailed examination of documents proving he was eligible to participate.

(4) Supply side program promotion. For each city the Committee on Construction assisted by the Oblast Department for Capital Construction promoted the program to developers, brokers, and other sellers of newly constructed units. Promotional activities generally consisted of contacting builders known to the Administration (through lists of licensed firms) and a seminar to explain the program to sellers.

(5) Collection and distribution of housing market information. The Administration in each city compiled information on the region's market for new housing. This information included: the names, addresses and phone numbers of housing construction firms and developers and in some instances the addresses of buildings under construction. A representative from the organization which compiled this information prepared and distributed an information packet at the officer orientation seminar and answered officers' questions. An employee of the organization was designated to answer officers' questions concerning the market during program implementation.

(6) Certificate registration. Upon receipt of the certificate, the officer registered with the local bank contracted by the Urban Institute to administer the program. (The Institute was the overall program manager.) At the time the certificate was registered, the bank issued the participant a letter stating that the bank would pay a seller an amount up to the amount specified on the certificate when a completed unit of acceptable quality was delivered to the participant.

(7) Unit selection. The officer was free to purchase any unit he desired subject to the following restriction: for a newly constructed unit, construction must have been performed by a private firm. *Kombinats* (state-owned construction firms) and *zakazchiks* (a kind of monopolistic developer under the Soviet system) that have been converted into private firms were eligible to participate. In addition, the unit had to have a certificate of occupancy before being purchased.

When an officer located the unit he wanted to purchase, and negotiated terms with the seller, the officer provided the bank information about the proposed agreement. The bank verified that the transaction was reasonable on three counts:

- The unit meets or, if not yet constructed, is likely to meet, the quality standard necessary to obtain all municipal and oblast occupancy permits;

- The unit is likely to be completed for the price agreed to; and
- The unit is likely to be completed in the time agreed to.

If the bank determined that it is likely that the seller will not be able to deliver at the time and/or price agreed to, the bank advised the officer not to sign an agreement with the seller. However, the bank did not have the authority to prohibit the officer from signing an agreement.

In practice because of competition for units, many officers signed agreements without waiting for bank review. To address this situation, an optional presales agreement was developed that could be signed while still keeping the deal subject to a positive bank recommendation.

(8) Certificate expiration. The officer had 90 days to enter into a sales or presales agreement. If the officer had not done so at the end of this period, the certificate expires. The officer had six months from certificate issuance to conclude unit purchase.

(9) Unit purchase. When the unit was completed and ready for conveyance, the officer informed the bank. The bank verified that it has received the required occupancy permit. The bank then forwarded all substantiating documentation for the transaction to the program reviewer (see below), who verified that the documentation is in order. The reviewer informed the bank and the Urban Institute that the transaction was valid and UI disbursed the funds to the bank.

At the closing the bank paid the seller the contracted cost of the unit or the value of the certificate, whichever was less. If the cost of the unit exceeded the value of the certificate, the officer paid the difference. If the price was less than the value of the certificate, the officer kept the difference—a strong shopping incentive.

If the seller refused to deliver the unit at the originally contracted price, the officer could either pay the difference between the certificate value and the new unit price himself or choose not to take possession of the unit. In this latter case, the officer reports to the bank that the developer refuses to honor his contract. When the bank verifies this, the officer is issued a new certificate and begins the process again. However, the officer can only receive a new certificate once. If he is unable to redeem the second certificate, a new certificate is issued to another eligible officer. The limit on the reissuance of certificates to the same officer was expected to encourage officers to purchase almost-completed or already-completed units, which is desirable given the difficulty in forward pricing, and the limited time in which this program is to be completed.

(10) Bank compensation. Each time the bank makes a disbursement, it applies for its fee to the Urban Institute; this is a fixed fee negotiated between the Institute and each bank. To receive its fee, the bank furnishes the Institute with proof that an officer has obtained a unit and that the seller and the officer were paid.

(11) Program review. A U.S. accounting firm not otherwise associated with program implementation provides independent fiscal oversight of the program. This includes reviewing all proposed program procedures and documents to verify that they will allow for a thorough program evaluation. Each time the bank requested funding to redeem a certificate, the firm examined all documents supplied by the bank for compliance with program procedures and authorized the Institute to wire the funds.



Implementation of the Certificate Program and Anticipated Outcomes

Implementation

Figure 1 charts program activity in the two oblasts for the first seven months of the program. The first fifty certificates were distributed in Pskov at the end of September 1994. Two weeks later 42 certificates were distributed in Yaroslavl and over the next four months the remaining certificates were distributed. The last certificates were distributed in Pskov at the end of January and in Yaroslavl at the beginning of February, bringing the total to 271 certificates in Pskov and 240 in Yaroslavl.

In both oblasts, officers did not delay in signing presales agreements. However, Pskov clearly trailed behind Yaroslavl in percentage of unit closings. At the six-month mark, 88 percent of the Yaroslavl officers had already closed on a unit, while only two-thirds had in Pskov. The main reason for this is that Yaroslavl had a larger supply of housing that was close to being completed. The officers who first moved to Yaroslavl even remarked that it was their certificate money that made it possible to complete new buildings which would house the next wave of officers.

In Yaroslavl 95 percent of the officers who have finalized their purchase chose newly constructed units; in Pskov the figure is essentially the same—89 percent. The large percentage in both localities means that much of the certificate money went to help fill the investment gap in residential housing production.⁶ The high share is particularly striking in Pskov where a program-defined maximum unit price of \$25,000 was binding throughout the program (Table 3). One explanation for why few officers bought existing units is that the military certificate program created a public record of the actual purchase price. A common practice in Russia's secondary housing market is to report a much lower price to the tax authorities so the seller can avoid the 30 percent federal tax on the capital gains (which are taxed as regular income). The seller of newly constructed units can honestly avoid this tax by making the purchaser a share participant, or investor, in the project. In this case no one has to pay federal tax on the transaction.⁷

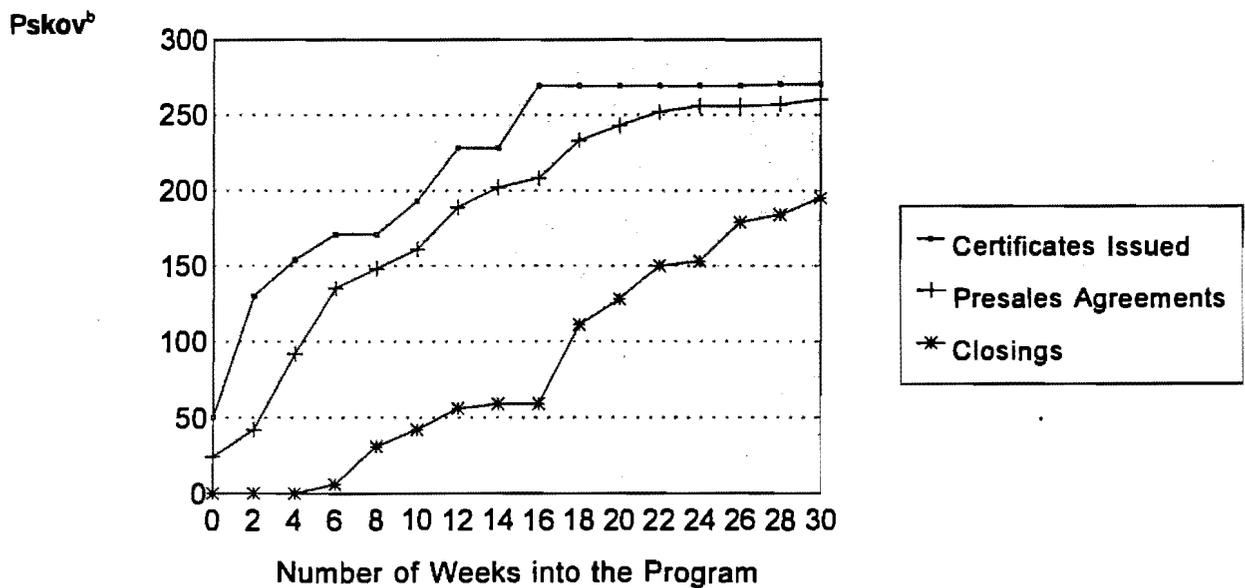
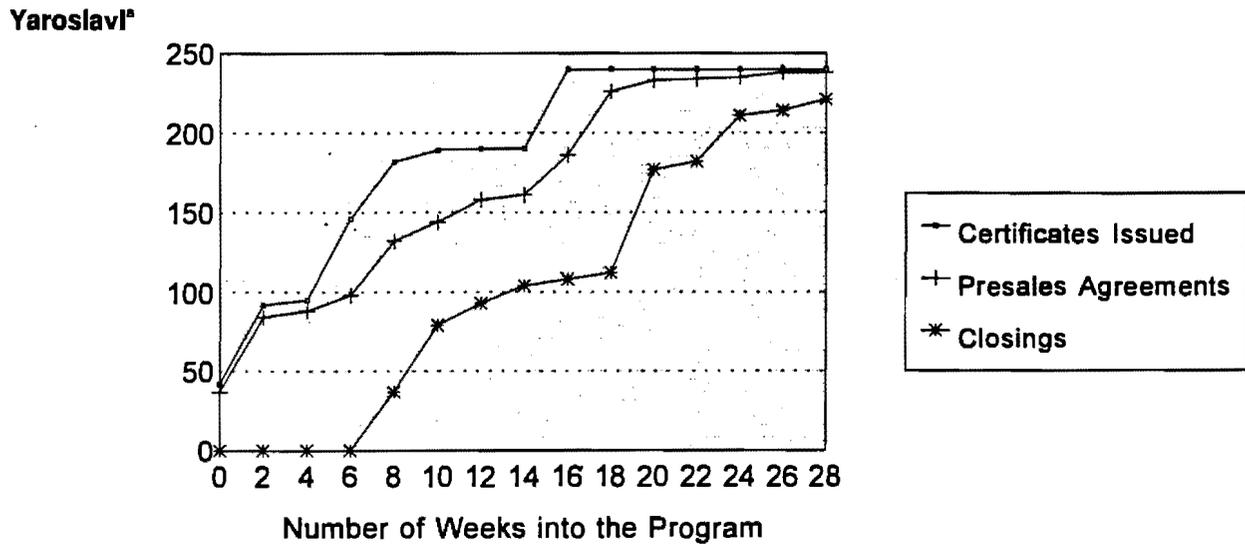
Anticipated Outcomes

The Urban Institute learned from the program's demonstration project conducted in Novgorod and Pskov several months before that program administration at the local level greatly influences the success of the program. In the demonstration project, the Pskov administration outshone its counterparts in Novgorod. This was due significantly to the Pskov deputy governor responsible for construction, who encouraged the team implementing the demonstration project to market the program to developers and brokers. When program start-up was delayed, he personally became

⁶ For the few families who did sell their apartment to an officer, what were their motivations? The Urban Institute team asked several questions about the previous occupants to seven officers in Pskov and three in Yaroslavl who had purchased a previously occupied unit. Six officers knew where the family had moved: four of the families had moved to another city, one family went to live with relatives and one family found other housing in the city. Six officers also stated they believed that the family had improved their living conditions somewhat, while the other four said they did not know how their living conditions had changed.

⁷ In the Russian system, a share participant is allocated an actual unit, as opposed to a share of the building, so in this case there was no impact on the officer's ownership of the unit.

Figure 1
Certificate Program Activity



Notes

- a The first tranche of certificates were distributed in Yaroslavl on October 4, 1994.
- b The first tranche of certificates were distributed in Pskov on September 22, 1994.

involved in trying to insure that developers completing projects would hold some units so that officers could consider them for purchase. He also favored real competition among producers and in 1993 had contracted with an Estonian firm to build housing in Pskov and help break the monopoly power of the oblast's former state producers. In contrast, the local administration in Novgorod had



designed the program to favor the former *kombinat*—with resulting relatively poor performance (Romanik and Struyk, forthcoming).

Unfortunately, the deputy governor from Pskov was relieved of his duties near the start-up of the larger program. This development had an initial negative impact on the program's implementation (as shown in Figure 1); but these difficulties were overcome. To replace Novgorod in the larger program, the Urban Institute team proposed that USAID select Yaroslavl on the basis of availability of housing and the attitude of its local administration, in particular the oblast construction committee which was willing to devote time and energy to the program.

Beyond the Pskov and Yaroslavl differences, we expected to see the officers' behavior and success vary according to obstacles they experienced. Based on this, we formulated hypotheses about housing search and success and about officers' experience in obtaining employment:

- S1: The intensity of search depends on where the officer and his family were living when given the certificate, i.e. those who were already living locally (in Pskov or Yaroslavl) would be able to conduct the more exhaustive search.
- S2: Among non-local officers, intensity of search depends on cost and difficulty of visiting Pskov or Yaroslavl. Difficulty and cost are defined as greater if the officer:
 - Had greater out-of-pocket costs for transportation, visas, and living expenses;
 - Had to borrow money for search-related expenses;
 - Had to stay in a hotel during his search; and
 - Had to obtain visa to return to Baltic country of residence.
- S3: Intensity of search depends critically on whether the city administration directed officers to a particular seller or apartment, or instead provided them with a list of sellers.
- S4: Officers who were directed by the administration to a particular seller or unit succeeded relatively quickly in signing a presales agreement.
- S5: Officers who shared information on units, talked to more than one seller or broker and who contacted sellers or brokers on their own initiative were more likely to have successful search results.
- E1: Finding new employment takes time. There will be a higher incidence of employment among officers who moved earlier.

Data Collection and Occupancy Rates

Data were collected in February 1995, about four months after the first officers received certificates. Two types of information were gathered. First, basic information on each case was collected from the administrative records kept by the accounting firm in charge of reviewing all documentation before cash was disbursed to redeem a certificate. Second, we attempted to interview a sample of approximately half of the officers who had received certificates. The main

difficulty was contacting respondents who were still living in the Baltics. Whenever possible in-person interviews were conducted with officers living in Pskov and Yaroslavl.

In Yaroslavl, 148 officers were interviewed out of a possible 240 who had received certificates. From the 270 officers who received certificates in Pskov, 103 were interviewed by the Urban Institute team. Seventy-one percent of the interviews were performed in person in either Pskov or Yaroslavl. The most common location was the officer's new apartment and the second most common was the administering bank. The remaining interviews were conducted by phone, primarily with officers who were still residing in the Baltics.

The survey asked officers for the date or expected date for occupying the new apartment. At the time of the interview, 43 percent of the officers had already moved to the new apartment; 49 percent estimated that they would be moving in Spring 1995 and 8 percent did not provide an answer. In general, officers did not delay much in moving to their new apartment. In both *oblasts*, over 80 percent of those who had finalized purchase had already moved into their new apartment.

Since it was still rather early to expect full occupancy for the main program, the interviewers also visited officers who participated in the demonstration project to determine the occupancy rate. Out of the 37 officers who received certificates in Pskov, the interviewers found 29 residing in their new apartments. Five apartments were found empty, presumably because the officer was still residing in the Baltics. One reason often cited by officers for postponing moving was simply that their children were in school in the Baltics. Another reason is that a newly constructed apartment in Russia requires significant repair before it is inhabitable; these repairs take both time and money. Finally, it may take an officer several months to save the considerable sum of money it takes to rent a truck to move their belongings.

In two cases the officer had sold his apartment. One of these officers had sold his apartment to another officer and had moved to Smolensk, another region of central Russia. In the final case, the interviewers found the apartment that the officer had purchased being occupied by the seller. On further inquiry they found out that the officer resides with relatives in Pskov.

The questionnaire administered to the officer or his wife concentrated on the search process, difficulties and costs encountered by officers living in the Baltics participating in the program, and their opinions about their experience with the program and suggestions for improvement. Search process data include how the officer gathered information on available units, including how he contacted sellers and brokers; whether he was "directed" by the administration to a particular seller; the number of units seen; whether he shared information with other officers; and, the details of how he found the unit on which he signed a presales agreement.

Analysis Results

The program's design is predicated on the belief that given the opportunity and incentive to search, even retired military officers, unaccustomed to choice and operating in a highly monopolistic housing market, will search. Thus, the evaluation focuses on the officers' behavior and success in the housing market. This can be analyzed through the intensity of their search, and the results of their search. Two simple questions which attempt to quantify the officer's search intensity ask the number of sellers and brokers he contacted and the number of units on which he collected concrete



Table 4
Basic Indicators of Search Intensity and Search Results

	Pskov	Yaroslavl	Pskov and Yaroslavl ^a
How many contacts did officer make? (Median value)	2.7 (1.0)	3.4 (2.0)	3.1 (2.0)
On how many units did the officer collect information? (Median value)	1.8 (1.0)	3.5 (3.0)	2.6 (1.0)
How many units did the officer find in his price range? (Median value)	1.6 (1.0)	2.8 (2.0)	2.2 (1.0)

Note

a When Pskov and Yaroslavl data were combined, a weight of 1.62 was assigned to the Pskov data to correspond with the lower sampling rate.

information. In addition, we characterize the officer's search method as passive or assertive depending on whether he made contacts on his own initiative. We considered an officer to have taken initiative if he used information from brokers, newspapers, acquaintances or other officers to contact sellers instead of solely relying on the administration's or officer leader's recommendations. The results or successfulness of his search can be ascertained by the number of units he found in his price range and the difference in the sale price of the unit and the officer's certificate value. The mean and median values for the continuous search variables are found in Table 4.

In addition to these variables, more anecdotal information was collected from the open-ended question, "How did you search for an apartment?" These answers reveal why many officers chose an apartment offered by the former main state producer after talking to other sellers. The most common reason was that this firm offered housing that was already ready or which would be ready by the time the officers' certificates expired.

We speak of search intensity, but for Russian officers who are used to having everything decided for them, the real question may be did they search at all? For that reason, the continuous variables mentioned above were used to create flag (dichotomous) variables shown in Table 5, which roughly divide the officers into those who conducted any search and those who did not. We then tested our aforementioned hypotheses employing the flag variables in Chi-square tests of independence.

We tested hypotheses with data from each city and also using pooled data from both cities. The latter helps to overcome problems of small sample size. However, there were clearly different conditions in the two cities, in terms of the housing market and efforts by the city administration. We choose to present results from analyzing the cities separately and jointly to allow comparison of how the various factors influenced the officer's search in the two cities.

■ **Hypothesis S1.** The intensity of search depends on where the officer and his family were living when given the certificate, i.e. those who were already living locally (in Pskov or Yaroslavl) would be able to conduct the more exhaustive search.

Table 5
Basic Indicators of Search Intensity and Search Results

	Officers Responding "Yes" (percent)		
	Pskov	Yaroslavl	Pskov and Yaroslavl
Did the officer contact more than one seller or broker?	47.1	56.8	51.6
Did the officer collect information on more than one unit?	27.5	71.6	48.3
Did the officer contact sellers or brokers on his own initiative?	37.9	41.9	39.8
Did the officer find more than one unit in his price range?	21.6	62.3	40.7
Did the officer receive a nontrivial amount of money (more than \$100) as the difference between the sale price and his certificate value?	32.4	85.4	56.5

Note

- a This is calculated only for the officers who have finalized purchase of their apartment (69 percent of the officers interviewed in Pskov and 65 percent of those in Yaroslavl). A few purchases were made at very low prices, indicating that there was a deal made between the officer and the seller to help the latter avoid taxes (as mentioned earlier, a common practice in Russia's secondary housing market). This may lead us to doubt the actual amount of money received by the officer, but given the effort taken by the officer it seems a safe assumption that he must have received at least \$100 in the end as the result of the deal.

Only 10 percent of the Yaroslavl officers and 6 percent of the Pskov officers were residing in the locality at the time they received the certificate. Except for the seven officers living elsewhere in Russia, the others were still residing in the Baltic country where they were discharged. Only one officer settling in each locality had served in Lithuania; over two thirds had served in Latvia and less than one third in Estonia.

Although the sample size of locals may have been too small to capture any effect, evaluated separately and together, we found no evidence that residing locally in Pskov or Yaroslavl enhanced the search intensity of the officer.⁸ One reason for this may be that the officers who lived locally did not need to search because they already had an idea of where they wanted to live and from whom they wished to buy an apartment.

■ **Hypothesis S2.** Among non-local officers, intensity of search depends on cost and difficulty of visiting Pskov or Yaroslavl.

Difficulty and cost are defined as greater if the officer:

- Had greater out-of-pocket costs for transportation, visas, and living expenses;
- Had to borrow money for search-related expenses;

⁸ None of the Chi-square tests of independence performed with the three search intensity flag variables indicated that local and non-local officers differed.

Table 6
Hypothesis: Cost of More than \$10 per Day Deters Officer's Search

	Pskov	Yaroslavl	Pskov and Yaroslavl
Did officer contact more than one seller or broker? (percent positive response)			
Of those who spent less than \$10 per day	60.6	66.7	63.0
Of those who spent more than \$10 per day	39.3**	52.6	45.4***
Did officer collect information on more than one unit? (percent positive response)			
Of those who spent less than \$10 per day	30.3	77.8	49.4
Of those who spent more than \$10 per day	26.2	68.4	46.5
Did officer contact sellers or brokers on his own initiative? (percent positive response)			
Of those who spent less than \$10 per day	54.5	47.2	51.6
Of those who spent more than \$10 per day	30.6**	37.9	34.2***

Note

Asterisks indicate significance of difference in positive response rates between the two groups:

** Chi-square test of independence significant at the 0.05 level.

*** Chi-square test of independence significant at the 0.01 level.

- Had to stay in a hotel during his search; and
- Had to obtain visa to return to Baltic country of residence.

Would some officers find the cost involved in searching prohibitive? One hypothesis states that a greater cost would discourage search; another states that if the officer had to borrow money for the search, he would be less likely to search as much.

Table 6 displays the results from testing if a greater cost would discourage the officer from conducting an intensive search. To test this hypothesis, a flag variable was created to categorize the officers as having paid more (68.2 percent) or less (31.8 percent) than \$10 a day during their search in the locality. When we combine the Pskov and Yaroslavl data or analyze the Pskov data alone, it appears that a higher cost per day deterred officers from making an intensive search in terms of contacting sellers and brokers. The results regarding how many units the officer collected information on, however, were not significant.

For the second hypothesis we employ the flag variable, whether or not the officer borrowed money for his search. Using the Yaroslavl and pooled data set, we find weak evidence that officers who had to borrow money for search purposes were also less likely to make more than one contact.

The results from testing the second hypothesis are shown in Table 7. Contrary to our hypothesis, a Chi-square test of independence using the pooled data set indicates that those officers who borrowed money were more likely to collect information on more than one unit. This result might be questionable because of the small number of officers who borrowed money (20). On the other hand, it may signify that those officers were more persistent because of their debt.

Table 7
Hypothesis: Having to Borrow Money for Search Would Discourage Officers from Searching More

	Pskov ^a	Yaroslavl	Pskov and Yaroslavl
Did officer contact more than one seller or broker? (percent positive response)			
Of those who did <i>not</i> have to borrow money	47.4	60.5	53.0
Of those who had to borrow money	0.0	36.8*	33.9*
Did officer collect information on more than one unit? (percent positive response)			
Of those who did <i>not</i> have to borrow money	28.4	70.2	46.2
Of those who had to borrow money	0.0	78.9	72.7**
Did officer contact sellers or brokers on his own initiative? (percent positive response)			
Of those who did <i>not</i> have to borrow money	39.6	43.0	41.0
Of those who had to borrow money	0.0	26.3	24.2

Notes

* Chi-square test of independence significant at the 0.10 level.

** Chi-square test of independence significant at the 0.05 level.

a It was not possible to test the "borrowed money" hypothesis in Pskov because only one officer interviewed had to borrow money.

In addition to cost, there are logistic concerns which might make searching more difficult as well as more expensive. Two of these problems faced by some officers were having to stay in a hotel in the locality and having to obtain a visa to reenter the Baltics. In both localities most non-local officers had to stay in a hotel (88 percent in Yaroslavl and 69 percent in Pskov). Fewer officers had to obtain a visa thanks to the intervention of the Russian military which provided lists of participating officers to the Baltic officials and border guards. Twenty-two percent of the officers interviewed in Yaroslavl needed a visa while only five percent of the ones settling in Pskov needed one. Most of these (80 percent) were able to obtain a multi-entry visa and reported paying less than \$20, although one officer reported paying \$100 for a visa. We found no consistent significant findings concerning these potential obstacles to searching for a unit.

■ **Hypothesis S3.** Intensity of search depends critically on whether the city administration directed officers to a particular seller or apartment, or instead provided them with a list of sellers.

We characterized 21 percent of the officers in Pskov and 16 percent of the officers in Yaroslavl as directed because they were given recommendations for a particular seller or apartment, but did not receive a list of sellers or brokers. These officers were less likely to take initiative in their search or to search at all. As shown in Table 8, this result is consistently significant whether we look at the data for the two cities separately or together, with the one exception of collecting information on units in Yaroslavl.



Table 8
Hypothesis: "Directed" Officers Will Have Lower Search Intensity and Will Be less Likely to Make Contacts on Their Own Initiative

	Pskov	Yaroslavl	Pskov and Yaroslavl
Did officer contact more than one seller or broker? (percent positive response)			
For those <i>not</i> directed	54.3	62.4	58.3
For those directed	19.0***	26.1***	21.9***
Did officer collect information on more than one unit? (percent positive response)			
For those <i>not</i> directed	33.3	73.6	53.0
For those directed	4.8***	60.9	27.4***
Did officer contact sellers or brokers on his own initiative? (percent positive response)			
For those <i>not</i> directed	46.3	47.2	46.8
For those directed	4.8***	13.0***	8.1***

Notes

*** Chi-square test of independence significant at the 0.01 level.

■ **Hypothesis S4.** Officers who were directed by the administration to a particular seller or unit succeeded relatively quickly in signing a presales agreement.

Although direction by the city administration may have inhibited the officer's search, it expedited and perhaps facilitated the process of finding an apartment to buy. Table 9 shows that all the officers who were directed by the city administration in Pskov signed a presales agreement in less than a month's time.

As mentioned above, the program required that officers sign a presales agreement with a seller within three months of receiving their certificate. Most of the officers decided to sign even earlier for fear of competition from other officers for the same fixed supply of apartments. Of the officers interviewed, 78 percent in Pskov and 86 percent in Yaroslavl had signed within a month.

Table 9
Hypothesis: "Directed" Officers Are More Likely to Sign a Presales Agreement with a Seller Within a Month of Receiving a Housing Certificate

	Pskov	Yaroslavl	Pskov and Yaroslavl
Did officer sign a presales agreement within a month of receiving the certificate? (percent positive response)			
For those <i>not</i> directed	72.5	84.8	78.5
For those directed	100.0***	91.3	96.4***

Notes

*** Chi-square test of independence significant at the 0.01 level.

Table 10
Hypothesis: Officers Who Shared Information Had More Successful Search Results

	Pskov	Yaroslavl	Pskov and Yaroslavl
Did officer find more than one unit in price range? (percent positive response)			
For those who shared information	24.4	64.6	43.6
For those who did <i>not</i> share information	6.3	47.4	23.6**
Did officer receive a nontrivial amount of money as difference in sale price and certificate value? (percent positive response)			
For those who shared information	32.8	85.4	57.7
For those who did <i>not</i> share information	30.0	85.7	46.8

Notes

** Chi-square test of independence significant at the 0.05 level.

The hypotheses presented above evaluate how certain conditions, mostly beyond the officer's control, affected his search intensity and search methods. In the end, though, do search intensity and search methods make a difference in a housing market that is still highly monopolistic? With the next three hypotheses we investigate whether the enterprising officer who shared information, talked to multiple sellers, and contacted sellers on his own initiative had more successful results. Success is defined here as finding more than one unit in the officer's self-defined price range and as finding an acceptable unit significantly below the certificate value, with the difference going to the officer.

■ **Hypothesis S5.** Officers who shared information on units, talked to more than one seller or broker and who contacted sellers or brokers on their own initiative had more successful search results.

Table 10 above displays the results from testing if sharing information helped the officer. When evaluating the data from Pskov and Yaroslavl separately, sharing information does not seem to improve the officer's search in terms of units found in their price range. However, when combining data from both cities, it appears that sharing information helped officers find more units in their price range.

Sharing information did not seem to increase the chances of an officer finding a unit at a price considerably below the certificate value. An interesting result in itself, however, is that 86 percent of the officers did share information on units. This may have created a spillover effect by keeping city housing prices in line, thus benefitting all officers whether or not they shared information.



Table 11
Hypothesis: Officers Who Talked to More than
One Seller or Broker Had More Successful Search Results

	Pskov	Yaroslavl	Pskov and Yaroslavl
Did officer find more than one unit in price range? (percent positive response)			
For those who contacted more than one broker or seller	41.7	69.9	56.2
For those who contacted one seller	3.7***	52.4**	24.1***
Did officer receive a nontrivial amount of money as difference in sale price and certificate value? (percent positive response)			
For those who contacted more than one broker or seller	58.1	83.0	70.7
For those who contacted one seller	8.1***	88.4	41.6***

Notes

- ** Chi-square test of independence significant at the 0.05 level.
- *** Chi-square test of independence significant at the 0.01 level.

In addition to supporting the hypothesis, the figures in Table 11 clearly demonstrate the difference in conditions in Pskov and Yaroslavl. Both cities have highly concentrated housing markets. In Yaroslavl, however, more than half of the officers could find more than one unit in their price range, even if they only spoke with one seller. In contrast, only 4 percent of the Pskov officers who spoke with one seller were offered a choice of apartments in their price range. Several factors may be at play here. The most important reason is that new construction prices are higher in Pskov than in Yaroslavl.⁹ Although the certificate values were also higher to compensate, the prices of many three and four room units exceeded the program's \$25,000 ceiling per unit. (See Table 3 for sample certificate values.) Another factor was the assistance of the local administration. In Yaroslavl, five officers reported that the administration helped lower the price of the unit they were purchasing, but no such cases were reported in Pskov.¹⁰

In Pskov and Yaroslavl, approximately the same percent of officers contacted sellers or brokers on his own initiative (38 percent in Pskov and 42 percent in Yaroslavl). The result of this effort, however, is strikingly different in the two cities. Similar to Table 11, the figures in Table 12 show that it was important in Pskov, but not in Yaroslavl, for officers to contact sellers and brokers other than those recommended by the city administration. This time the reason for this gap probably lies in the difference in the quality of information provided by the two city administrations. More than three-fourths of the participants in each locality reported receiving a list of sellers. However, only

⁹ A concern was that the demonstration project conducted a few months before in Pskov had increased demand and consequently raised housing prices. While this may be the case, even before the demonstration project housing prices in Pskov were much higher than those in Yaroslavl. Over the course of the program, housing prices in Pskov increased slightly less than inflation (calculated using the Russian CPI) and housing prices in Yaroslavl increased slightly more than inflation.

¹⁰ No other forms of contribution by either administration were reported by officers.

Table 12
Hypothesis: Officers Who Contacted Sellers and Brokers on
Their Own Initiative Had More Successful Search Results.

	Pskov	Yaroslavl	Pskov and Yaroslavl
Did officer find more than one unit in price range? (Percent positive response)	48.7	66.1	57.3
For those who contacted sellers on own initiative	4.8***	59.5	29.5***
For those who did <u>not</u> contact sellers on own initiative			
Did officer receive a nontrivial amount of money as difference in sale price and certificate value? (Percent positive response)	63.3	78.9	70.2
For those who contacted sellers on own initiative	9.8***	89.7	47.0***
For those who did <u>not</u> contact sellers on own initiative			

Notes

*** Chi-square test of independence significant at the 0.01 level.

5 percent of the Pskov officers reported receiving a list of brokers while close to 60 percent of the Yaroslavl officers said the administration had provided them with such a list. Apparently, the lists provided by the Yaroslavl administration were also more helpful than the ones provided by the Pskov administration. In answer to the open-ended question on search, one officer said that when he tried to telephone sellers from the Pskov list, all of the numbers were wrong.

We began by asking whether enterprising behavior would matter in a highly monopolistic market and we found that such behavior on the part of the officer or the administration did make a difference. In Yaroslavl the administration's efforts ensured success in terms of quick resettlement and limited choice for the officer. In other words, the city administration gave the officer a running start. The officers resettling in Yaroslavl faced lower prices and had the support of an energetic city administration, which meant that less effort was needed to find a good deal.

In Pskov, however, it was only the enterprising officers who benefitted from the program's major incentive, the difference in the unit's sale price and the officer's certificate value. Only one third of all Pskov officers were able to purchase a unit significantly below the certificate value, compared to 85 percent of the Yaroslavl officers. For officers who contacted sellers on their own initiative, however, the difference is not great—63 percent in Pskov compared to 79 percent in Yaroslavl.

■ **Hypothesis E1.** Finding new employment takes time. There will be a higher incidence of employment among officers who moved earlier.

What are the employment prospects for these retired officers in their new place of residence? Only 3 percent of the officers interviewed in Yaroslavl and 6 percent in Pskov said that they were retired and not seeking employment. However, most were not young: two-thirds of those

interviewed were between the ages of 45 and 55.¹¹ At the time of the interview most of the officers (82 percent in Yaroslavl, 80 percent in Pskov) were looking for employment, but lacked leads or contacts. Eleven percent of the Yaroslavl officers were already employed, as was 9 percent of the Pskov officers.

Clearly, it was too early to expect that most of the officers would have found employment since many were still in the process of moving. For this reason, the Urban Institute team interviewed 20 officers in Pskov from the demonstration project conducted several months before. Judging from the results shown in Table 13 we can expect that most officers will take several months to find employment. We found that *all* of the officers who had moved by September 1994 had obtained employment, but only a quarter of those who moved in the last three months of 1994 had done so. Overall, this is a clearly encouraging result, especially since employment opportunities was not one of the criteria for site selection.

We were also interested in what types of employment the retired officers are finding. Of the 31 officers who reported being employed at the time of the interview,¹² we found that 65 percent have jobs that match their self-reported qualifications. Most of the others are working as security guards. While working as a security guard may not use their professional skills, it is a well-paying job in Russia today. Retired officers may be considered particularly competent for this type of work because of their experience in handling weapons and reliability.

Based on the experience of the officers who have obtained employment, the officers seeking employment had realistic expectations of their employment opportunities. Sixty percent of the officers who were seeking employment at the time of the interview expected to find work that matches their qualifications. In this endeavor they understand that they will not receive assistance from the local administrations. None of the officers in Yaroslavl and only a few in Pskov reported receiving offers of assistance from the local administration. However, one officer who had been among the first to resettle in Yaroslavl had taken it upon himself to help other officers find employment in their new city of residence.

Table 13
Employment Status of Participants in the Demonstration Project^a

	Moved in 1995	Moved end of 1994	Moved mid- 1994
Employed (percent)	16.7	27.3	100.0
Seeking employment (percent)	83.3	72.7	0.0

Notes

- a A Chi-square test of independence (significant at the 0.05 level) indicates that when the officer moved is related to whether he will have found employment.

¹¹ The ages of the officers interviewed range from 27 to 70 years old.

¹² This includes officers from the demonstration project in Pskov and the main program in Pskov and Yaroslavl.

Conclusions and Recommendations

The certificate program set out to resettle retired Russian officers in an expeditious manner, boost production and improve competitiveness in the housing construction industry, while offering the officer choice in housing. The results of the programs in Pskov and Yaroslavl are encouraging for the larger on-going certificate program resettling Russian officers and potential future programs to resettle officers from the former Soviet Union. The encouraging fact is not that the program worked well, but that it did so facing considerable obstacles.

The first obstacle is the current state of the Russian housing market, at the same time both monopolistic and depressed. The second obstacle is the officer himself: Would a retired Russian officer, having to travel from the Baltics, make the effort to search in the housing market?

The certificate program compensates for the depressed housing market by pump-priming new construction in the region. Its success can be measured by how many officers had purchased units within six months of when the first tranche of certificates were distributed—88 percent in Yaroslavl and 66 percent in Pskov. The reason why Yaroslavl was more successful is that it had a higher ratio of units constructed in 1994 to officers participating in the program. The new unit-to-officer ratio for Yaroslavl oblast is 25:1 and for the city, 17:1. In Pskov oblast, when officers from the demonstration project are included, the unit-to-officer ratio is 10:1, and in the city, less than 4:1. The low unit-to-officer ratio in Pskov made it more difficult to find housing and might have affected prices in the housing market.¹³

Without directly intervening in the housing market, it is difficult to moderate its monopolistic character. One way the program attempts to improve competitiveness is to give the officer, in cash, the difference of the unit's sale price and the certificate value. This provides the officers with an incentive to search, which in turn provides the sellers with the incentive to offer quality and competitively-priced units.¹⁴ Considering the typical officer's complete lack of experience selecting housing for himself, it is encouraging that approximately half of the officers (more than half in Yaroslavl and slightly less than half in Pskov) contacted more than one seller. Another positive finding is that 86 percent of the officers shared information on units and sellers, perhaps reducing the need to contact multiple sellers. Potential obstacles faced by officers include travel time from the Baltics, cost, accommodations and the need to obtain a visa. Of these, it appears that only cost somewhat deterred the officer from searching more.

One factor that clearly affected the officer's search intensity was the actions of the local administration. If the local administration directed the officer to a particular unit or seller, he was unlikely to contact other sellers. While this may have expedited the officer's decision, it appears unnecessary since most officers, even those who were not directed, signed a presales agreement within a month of receiving a certificate. On the other hand, the local administration can facilitate the officer's search by providing comprehensive and accurate lists of sellers and brokers. The

¹³ This explains why in response to the question "How can the program better help officers find housing?" a quarter of the officers in Pskov suggested more ready housing. In Yaroslavl ten percent of the officers answered in the same way.

¹⁴ Allowing the officer to purchase a previously occupied unit increases the number of sellers and limits their monopoly power.



information provided by the local administration was critical, since less than half of the officers in either oblast took the initiative to contact sellers or brokers not on the administration's lists.

We can see how better information from the administration affected the officers' success by this comparison: In Pskov less than 10 percent of the officers who relied on the administration's lists received a "good deal," i.e., a unit for more than \$100 less than the certificate value; in Yaroslavl 90 percent of the officers who relied on the administration's lists still received a "good deal."¹⁵ The other way to look at this, is that the market did respond to those willing to search. Despite the tough housing market in Pskov, half of those who took the initiative to contact sellers on their own were rewarded with finding more than one unit in their price range; and 63 percent of those found a "good deal."

Since the oblast's largest seller is almost without doubt the former main state producer, one way to moderate its monopolistic power is through the local administration. For example, the local administration in Yaroslavl is a shareholder in the joint stock firm which used to be the main state producer. The firm probably enjoys certain advantages such as obtaining building sites cheaply. In turn, the local administration was able to pressure the firm to make sure officers were offered several units in their price range. This partially accounts for why 62 percent of the officers in Yaroslavl found more than one unit in their price range, while only 22 percent in Pskov were able to. The other reason why Pskov officers were less successful in finding apartments in their price range is that the certificate values for 2-, 3- and 4-room units were consistently at the \$25,000 program ceiling. When prices for 4-room units in Yaroslavl exceeded this ceiling, the administration played a role in lowering the sale price in a few cases for officers entitled to four-room units.

Recommendations

Based on the experience of the programs in Pskov and Yaroslavl, we offer the following recommendations in choosing a site and administering a program to resettle retired officers:

- For the program to work well, new construction in the region should be at least at a low-to-moderate level; the unit-to-officer ratio should be no less than 20:1 for the oblast and 10:1 for the oblast's main city.
- The members of the local administration responsible for briefing the officers should be strongly encouraged to provide comprehensive lists of sellers and brokers and other useful information pertaining to the local housing market.
- As part of its managing role, the local administration should monitor (and, when necessary, apply pressure to) the former main state producer to ensure that it is acting responsibly and fair in its transactions.

Despite a depressed and monopolistic housing market, retired Russian officers are searching and making choices about their new housing. Over half are finding units for more than \$100 less than the certificate value, and are receiving the difference in cash. Finally, 86 percent in Yaroslavl

¹⁵ This is particularly striking considering that certificate values in Yaroslavl were lower for 1-, 2- and 3-room units.

and 84 percent in Pskov report that they are satisfied with their new apartment. The certificate program demonstrates that assistance given directly to the officer can be efficient and effective. With the help of a cash incentive, good site selection and local program administration, retired officers are capable of finding for themselves appropriate housing for the best price. Furthermore, within a half year of their moving date, it appears that they are adjusting and finding employment in their new cities that either matches their qualifications and/or is well-paying.



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