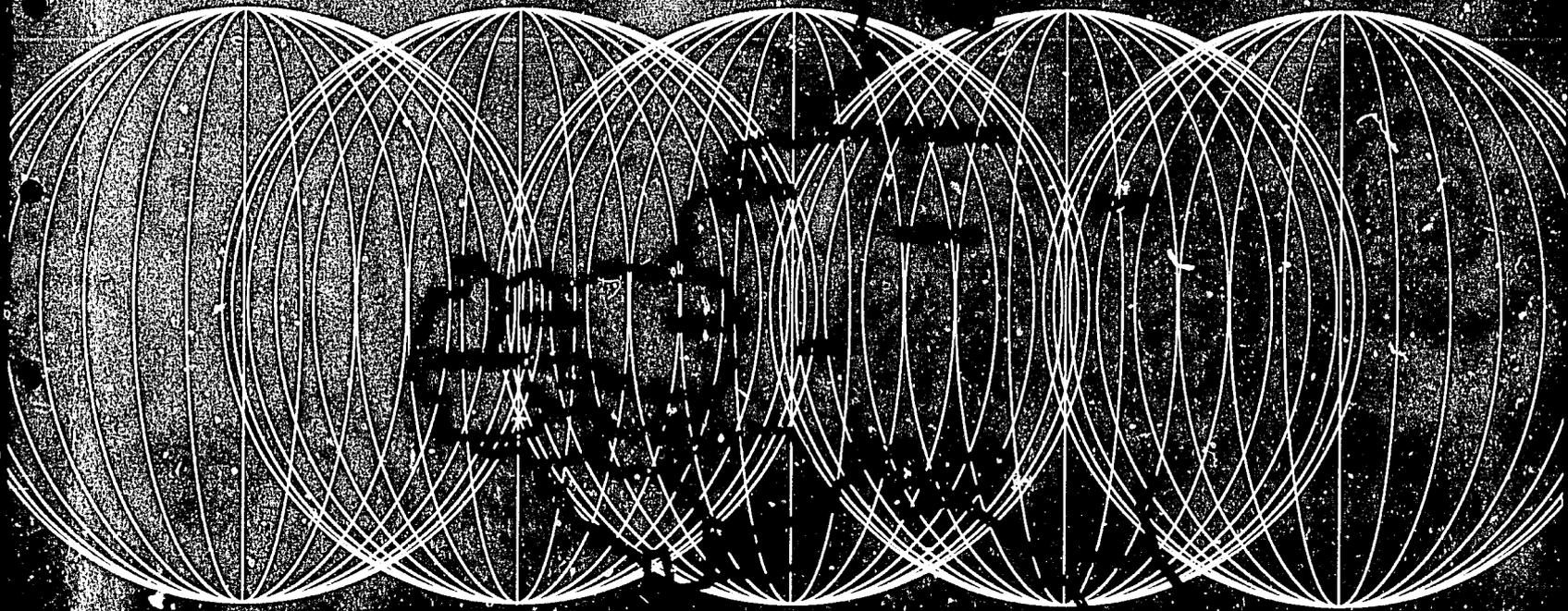
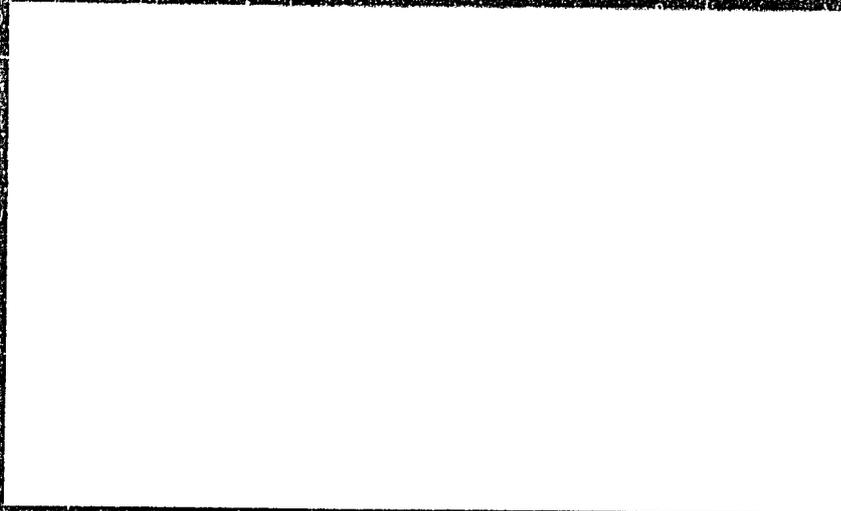


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FROM PLANNING TO MARKETS HOUSING IN EASTERN EUROPE



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

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**FOUR PAPERS ON THE
RESIDENTIAL LAND MARKET IN
ST. PETERSBURG**

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Under Contract to
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**PROPOSAL: FEASIBILITY STUDY ON THE
VOLUNTARY UPGRADING OF GARDEN HOUSES**

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Washington, D.C.**

March 1992

Since 1961 the USSR government has banned construction of single-family dwellings in the cities and started to encourage the creation of kitchen-garden cooperatives in the suburbs in an attempt to solve the problem of city dwellers' self-provision of food. Under the legal code prior to 1985, building on garden plots was limited to provisional structures without permanent heating (summer houses) whose total development area could not exceed 25 square meters. The code also stipulated the most efficient use of the plot, which usually averaged 600 square meters (or occasionally 400 sq. meters), as a garden or vegetable garden. Since 1985 unheated houses with a total development area up to 50 sq. m. and a height of 6.5 m. up to the gable have been allowed; and the regulations on the use of the plots have been relaxed.

In spite of difficulties with the building materials and machinery, the small proportion of car-owners (in the 1960s there were only about 30 cars per 1,000 city dwellers in the 1960s, now there are about 60 cars per 1,000 dwellers), and the fact that local authorities tend to allot outlying and unattractive plots to gardening cooperatives, the program has acquired considerable scope. At present, the number of garden plots in the vicinity of St. Petersburg totals 630,000/650,000 (one plot for every 3.5 families, including single persons), with most located 1.5 - 3 hours from the city center by public transport. The total area of the garden cooperatives is approximately 500 sq.km., which roughly equals the total size of developed areas in St. Petersburg and testifies to the great enthusiasm of city dwellers for construction of garden houses.

Most garden houses are provided with electricity, and some have a summer water supply system for watering plants. Medical and commercial facilities are few and are

sometimes available only in the nearest settlements, which results in extreme overcrowding of these facilities and, hence, conflict with local residents.

The plots were mainly allotted to the communities organized by enterprises and were either provided free or through mere symbolic payments -- 10 rubles for 100 sq. m. annually. The proprietor had the right to inherit and own the plot for the term of his life and, until recently, the sale of the garden, structures and the right to tenure was formally allowed only through the cooperative.

Since 1990 all limitations on the size and type of structure have been relieved and the owner now has the right to single out his property and sell it at market price. Withdrawal of the previous limitations and the apparent failure of the state housing program¹ have motivated many families to begin capital construction on their lots. Plot-holders who have obtained their plots in recent years often erect permanent dwellings² even up to 1.5 hours away from the city center, in spite of uncertain prospects of organizing trade and medical services, lack of kindergartens and schools, and increasing deficits in building materials, machinery and contractors. Thus, for example, in the new settlement of Jorkovskoye (1.5 hours by train), about 15 percent of land proprietors erected permanent dwellings, including those made of bricks, within 3 years after they had been allotted the territory in 1988.

According to the Commission in charge of land reform in St. Petersburg, there are at present 260,000 applications for plots of land from families, which can be partly attributed to the lack of stability in food supply.

At the same time, families who built their garden houses 10-20 years ago are not in a hurry to upgrade them and turn them into permanent dwellings. This is probably due to the

fact that the original elderly plot-holders have neither the means nor good health, and their children have not yet saved up enough money for this, although with current inflation, families are afraid of losing real estate whose value grows rapidly.

Under the conditions of limited supply, lack of legal brokers, and inadequate information about the great differences in physical and social environment, differences in the evaluation of plots are also considerable. In January 1992, a plot of 600 sq. m. with a temporary house located within 1-1.5 hours from the city center was estimated by the respondents/plot-holders to be worth between 20,000 to 150,000 rubles.

According to the estimates of the staff of St. Petersburg Master Plan Institute, about 10 percent of the garden plots within one-hour of the city center are inhabited in wintertime. Most of these winter residents are retired, and some of them guard the community property. But among them are also younger, more active people for whom the only alternative is a room in a dormitory in the city.

What are the prospects of increasing the volume of permanent housing through these kitchen-garden communities?

Experience from the years since abolition of the ban on constructing permanent dwellings on garden plots proves that many families are ready to build permanent dwellings, even at the current extremely high prices (at least at the 1991 level) and the unsteady supply of building materials and the undeveloped service and transport infrastructure of the garden areas. There is reason to expect that in the case of plots located within 1.5 hours of the city center and provided with water, electricity, major roads, and at least minimal amenities, the majority will be built with permanent dwellings within 3-5 years. However, with the last rise

in inflation in early 1992 and possible increases in unemployment, not everyone is likely to realize their intention to build.

The situation with the garden houses built before 1985 (when the ban on construction was still in effect) is more complex. Some of these are located too far from the city and can serve as permanent residences only for families whose jobs or connections with relatives do not require frequent trips to St. Petersburg. Some plots do not have any engineering equipment, or even electricity, and therefore only paid watchmen can live there in the winter. Some areas are vast "fields" of up to 20 sq. kms (30,000 plots) of dense, monotonous development, with room for only a single lane of car traffic and little public spaces or structures. Disadvantages listed above usually increase with distance from the city (i.e., the farther the territory is from the city, the worse its infrastructure, and the greater the number of gardening settlements) and, according to our estimates, exclude around 60 percent of territories from the number of those suitable for upgrading (see map attached). In the future, such settlements could become pensioners' settlements, places for their grandchildren's recreation in summer, or estates of professionals in intensive gardening who will buy a number of adjacent plots for commercial purposes (after G. Salikov's verbal hypothesis). At the worst, these settlements will be areas of decline and remoteness, of which rural Russia has many.

The prospects of the garden areas (about 40 percent), which are more favorably located and less extensive, seem to be quite different. About 10 percent of those already have structures that are suitable for permanent residence, and their conversion into places of permanent residence (including the necessary infrastructure, service, schools, public spaces,

etc.) seems likely in most cases. However, the speed of the process and quality of the results will depend on financial and legislative stabilization in the country and steps undertaken by the local authorities. We estimate the total number of kitchen-garden lots suitable for reconstruction to be between 60,000 and 120,000 (see map attached).

Incentives for upgrading garden houses will probably be provided by the apartment privatization process, which is likely to start in March-April 1992. Sales of apartments at market prices should become more frequent (now this applies only to cooperative apartment houses), and it is possible that there will be some price stabilization on the real estate market, and that people will decide to move to suburban houses.

With current highly unstable prices and frequent illegal real estate deals (often the official insurance value of real estate is declared as its sales value, whereas the actual value is much higher), it is hard to compare the profitability of upgrading a garden house with building a single-family cottage on a new site. The role of such factors as location of the types of houses, the degree to which garden areas are prepared for their use with permanent dwellings, and neighbors' readiness to cooperate and to coordinate their efforts makes the task even more difficult.

At the current stage it seems possible only to make a preliminary comparison between the two cases using the basic expenditure items (see Table 1).

When summing up the mean values of the approximate estimates and using the coefficients supplied for the B-variant by the experts, one finds that total expenditures are practically equal for both variants (650,000 for the A-variant and 647,000 for the B-variant). In addition, item 4 includes the possibility of long-term legal procedures concerning alienability of

property, since guarantees for their success are lacking. Hence, it follows that if the rising prices for construction work do not reduce construction activity at all, and if the housing problem is thought to be more acute than that of the food supply (as it had been before 1991), then the value of the new plots may become greater than that of the developed kitchen-garden plots, location and landscape being equal. A great deal will certainly depend upon the quality of the particular projects and programs.

In our opinion, the situation requires the local authorities to be competent and selective in supporting both new construction of single-family dwellings, and in upgrading garden houses where the latter proves profitable. The difficulties are aggravated by inflation throughout the country, very unstable prices in real estate and building materials markets, and by the fact that both the metropolitan city administration and local authorities of the surrounding areas (which will become involved in solving the housing problems of the metropolis) play a role in the process.

Based on the current preliminary case study, we recommend the following steps:

1) Introduce fixed land tax rates immediately on kitchen-garden and individual housing. This is now possible since the law was adopted by Russia in late 1991 to guarantee revenues for suburban authorities.

2) Simplify registration of purchases and sales (in particular, remove the requirement that customers submit income source declarations) in order to stimulate an open market for land and stabilize value correlation.

3) Designate land for individual housing construction that is located close to areas with permanent garden houses, where ecological and other impacts are satisfactory.

4) Provide all city dwellers who do not occupy municipal or state housing that meets the adopted standards (18 sq. m. per person plus 12 sq. m. per family in a private house or apartment)³ with a privatization check, the monetary value of which is to be decided during privatization of municipal apartments (about 3,000 rubles per person at current prices). Such measures will call for a corresponding article in the Law on Housing Reform in Russia. The funds from these checks should encourage the inhabitants of municipal or state housing to turn to the private housing sector.

5) Local authorities of suburban areas should hold auctions for the right to rent land through private or cooperative developers⁴ to enable the latter to get credits, form contingents of clients, carry out designs, and attract contractors. If the developer is absent, it will be impossible to have the proper participation process and to estimate feasible costs, values and desirable environmental conditions. One should note that either St. Petersburg or Russia will bear the responsibility for cashing privatization checks submitted by the families or developers.

6) Local authorities should determine their level of financial support for a new housing construction program and for upgrading the existing garden houses: investment in infrastructure development, its maintenance, a refusal from the auctions in favor of fixed low prices for land (???).

To summarize, the following are the issues related to upgrading garden houses where scientific and technical assistance from USAID would be most useful:

1. Measures taken by the municipal authorities to legalize real estate deals, to make them open to proper monitoring.
2. The city's and the suburban areas' support for upgrading garden houses.

3. Engineering solutions that are efficient in the economical and ecological sense, and that can be applied to single-family housing development.
4. Assistance (at least in the initial preconstruction stage) in organizing one of the pioneer neighborhoods adjoining the developed gardening areas to encourage upgrading of the nearest garden-houses.

NOTES

1. Housing program for Leningrad planned to solve housing shortage of 0.6 million dwellings by the year 2,000 by producing 44,000 dwellings a year.
2. Permanent dwellings feature more space, separate bedrooms, kitchen and pantry and heat insulation, which is indispensable for heating in the winter.
3. This also refers to residents of private houses, cooperative apartments, dormitories.
4. Under current laws, it is forbidden to sell land outside the cities for individual housing construction.

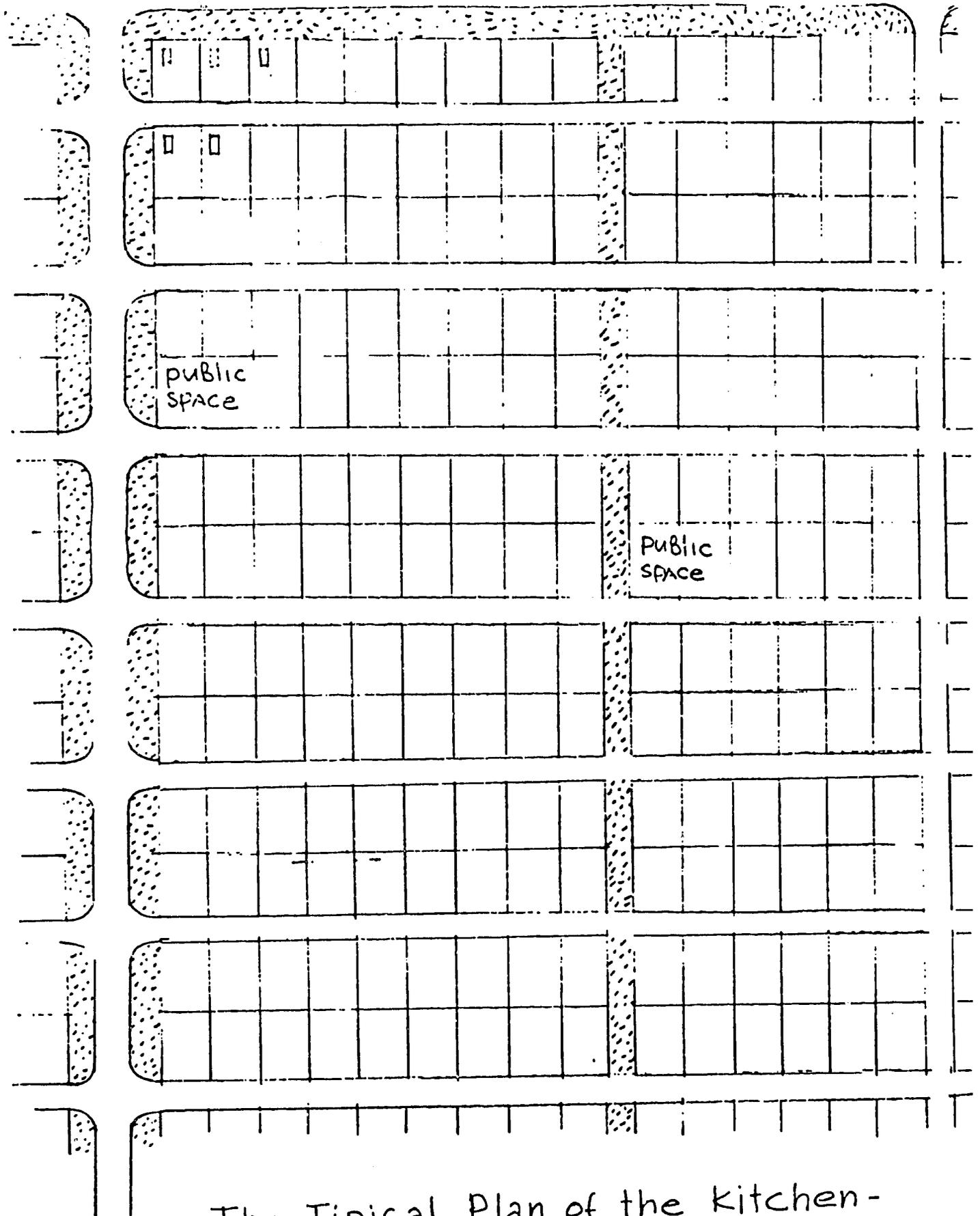
Table 1
Comparison Between Two Variants of Construction for a Single-Family House

| Main expenditure items | Approximate expenditure estimate/ 1000 rubles | <u>A variant</u> on a new plot | <u>B variant</u> with the purchase of a kitchen-garden plot |
|---|---|--------------------------------|---|
| 1. Purchase of plot | 80 +/- 60 | a | 1.2 a |
| 2. Purchase or construction of a provisional structure necessary for erecting the main house | 10 +/- 5 | b | 1.2 b |
| 3. Participation (share) in preparing the site (clearing, draining, recultivation) | 10 +/- 5 | c | 0.7 c |
| 4. Participation (share) acquiring plots and structures necessary for organizing a network of streets and public spaces and developing engineering services | 10 +/- 10 | d | 10.0 d |
| 5. Construction of transport and social infrastructure | 25 +/- 10 | e | 0.8 e |
| 6. Construction of a cottage or extension of the existing house | 500 +/- 250 | f | 0.8 f |
| 7. Landscaping, including the garden and/or kitchen-garden | 15 +/- 5 | 9 | 0.8 g |

Note: Numerical values of the expenditures and coefficients of the B variant were provided by the experts.

D W E L L E R Q U E S T I O N N A I R E

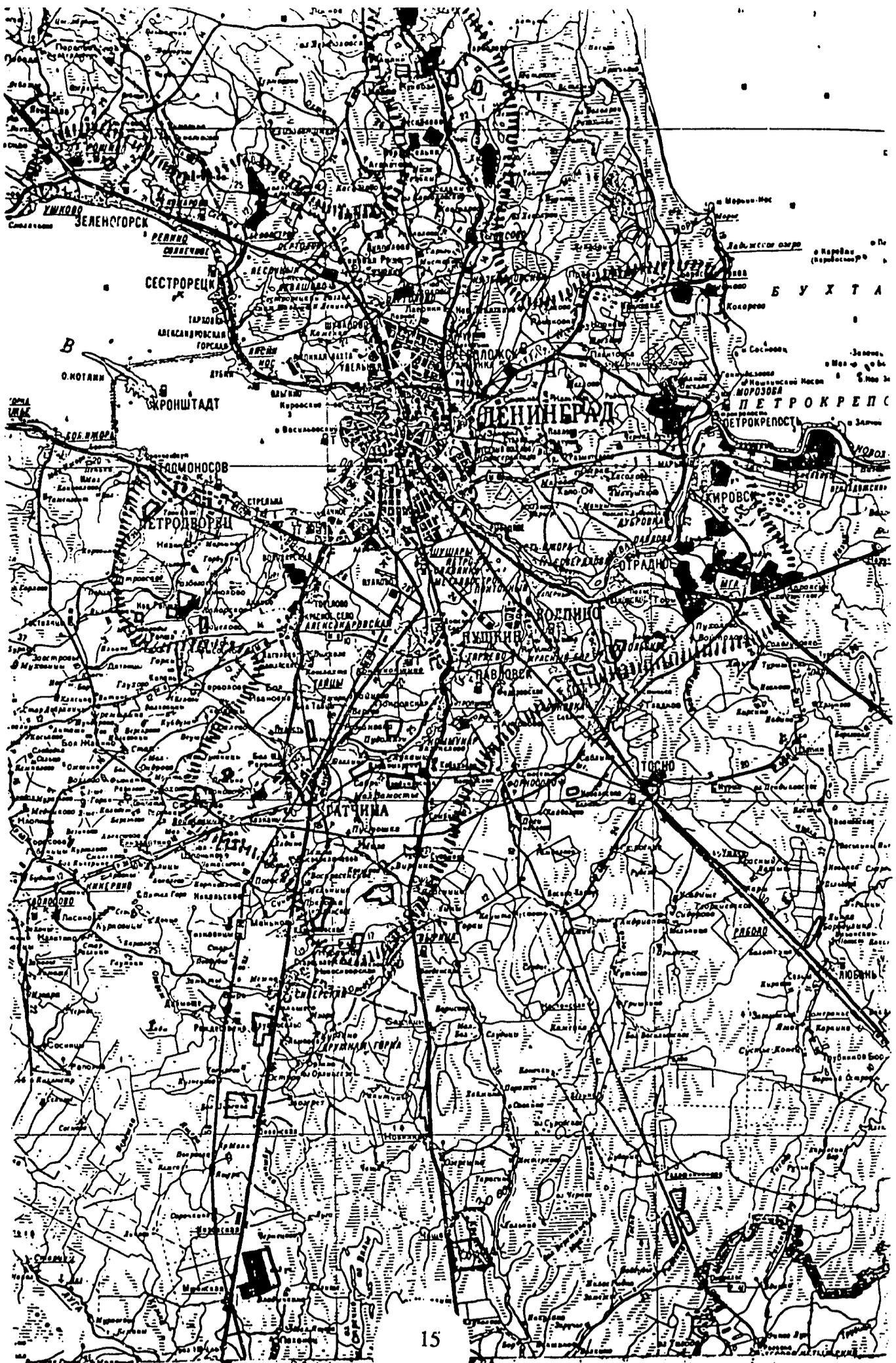
| Respondent N | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|---|-----------------|------------------------|-----------------------------|------------------------|---------------|------------------------|------------------------|------------------------|-----------------|---------------------|------------------------|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------|--------------------------|
| when the plot is got? | 1968 | 87 | 68 | 82 | 88 | 73 | 85 | 89 | 72 | 63 | 72 | 56 | 65 | 86 | 79 | 79 | 57 |
| plot size (sq. m.) | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 800 | 1200 | 600 | 600 | 400 | 600 |
| transportation time (hours) | 3.0 | 25 | 20 | 1.7 | 2.0 | 2.0 | 3.0 | 1.0 | 1.5 | 1.0 | 1.5 | 1.5 | 1.5 | 1.0 | 1.0 | 0.7 | 1.0 |
| number of users | 4 | 2 | 1 | 7 | 5 | 3 | 3 | 5 | 5 | 7 | 5 | 4 | 2 | 6 | 7 | 4 | 2 |
| Approximate value on Jan. 1992 (th. R\$) | ? | 15-20 | more than 20 | ? | 70. | 100 | 100 | 30-50 | 30 | more than 50 | more than 6 | 20 | 15-20 | 10 | 100 | 20 | 20 |
| existing infrastructure facilities. | electr wells. | electr. absent still. | electr. Summer water supply | electr wells | electr | electr. sum. wat. sup. | electr. sum. wat. sup. | electr. sum. wat. sup. | electr wells | electr water supply | electr. sum. wat. sup. | electr wells, sum. wat. s. | electr wells, sum. wat. s. | electr. sum. wat. sup. | electr wells | electr. sum. wat. supply | electr. sum. wat. supply |
| Does your family have a car? | - | - | - | - | + | - | + | - | - | - | - | - | - | + | + | - | - |
| Your housing conditions in the city? | + | - | ? | + | ? | + | ? | + | + | + | - | - | + | - | - | + | ? |
| Is it reasonable to construct primary house on your plot? | (+) | - | ? | ? | - | (+) | (+) | - | (+) | - | - | (+) | - | (+) | - | ? | - |
| Can you estimate the cost of such construction? | - | - | - | - | - | not much | 20 th. R | - | - | - | - | - | - | - | about 50th | - | - |
| How many of your neighbours already have made that? | 30% | A few | A few | 50% | No one | 1% | no one | no one | A few | no one | A few | 5% | A few | 2% | 50% | more than 10% | About 10% |
| Are they going to upgrade their plots to primary houses? | many | no one | no one | no one | ? | many | Almost All | no one | ? | no one | no one | there are | ? | there are | there are | A few | there are |
| How many years did you built house on your plot? | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 15 | 1 | 2 | 5 | 1 | 1 | 1 | 5 |
| What are main obstacles for upgrading kitchen-garden plots into primary houses? | infrastructure. | distance from the city | too late | uncertainty of rights. | not motivated | infrastructure. | credits | service | haven't the car | Bad location | infrastructure | credits | service. | credits, legal uncertainty | legal uncertainty, service | not motivated. | haven't the car. |



The Typical Plan of the Kitchen-Garden Lots. 1:2000







- Developed kitchen garden territories
- Kitchen garden terr. under developing
- Main rail-roads
- ~~~~~ Boundary of the zone, feasible for reconstruction into primary housing

- * In blue boundary there are about 40% of all kitchen garden lots, ~ 260 th.
 About two thirds of them are on the developed territories, ~ 170 th.
 One third are under developing, ~ 90 th.
- * Depending on future legal, financial and local conditions, the reconstruction may be supported by:
 - 10-30% gardeners on developed areas, ~ 15-50 th
 - 50-80% on developing areas, ~ 45-70 th lots.

The total quantity of kitchen garden lots potentially suitable to reconstruction is 60-120 th.

**SINGLE-FAMILY HOUSING ALLOTMENT:
LEGAL GUARANTEE, PRESENT STATUS IN ST. PETERSBURG
AND IN THE REGION, DRAFT OF REFORMS AND ANALYSIS**

**Prepared by
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**Under contract to
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U.S. Agency for International Development
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January - March 1992

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I. BACKGROUND¹

Single-family housing was actively developed in the Leningrad suburbs in the period 1946-1961 when about 14,000 single-family houses were built.

In 1961, single-family housing was prohibited in many cities, including Leningrad. At present, there are about 19,500 single-family houses² in the St.Petersburg area.

Since 1961, allotments for gardens (about 600 sq.miles) and, to a much lesser extent, summer cottages (about 1000 sq.miles) have been made. No legal procedure exists and the process can be outlined in the following way: 1) city enterprises and institutions apply to the executive authorities of the city or region for allotments for their workers, 2) these authorities apply to the Regional Party Committee, 3) the committee considers the request, give an order to the Department of Urban Planning to find an area and, 4) on the basis of their suggestions, makes the decision. The committee then informs the local district authorities that the area has been turned over to an enterprise to be allotted among its workers. Sites for different enterprises within the same administrative district of the city are commonly allotted within the same administrative district of the region. About 650,000 sites have been allotted to city dwellers over the past 30 years. In the 1960's, only small one-story summer cottages without heating were permitted to be built on kitchen-garden lots. During the last 10-15 years, some householders have started building houses suitable for year-round dwelling.

The pattern has radically changed since 1991. The current legal situation is described in Sections II and III.

II. PRINCIPLES OF NEW REAL ESTATE LAWS

In 1990-1991 some new laws defining legal principles concerning real estate, namely, "Property Law of the RSFSR" (PL), "Land Code of the RSFSR" (LC), "Law of Paid Land Tenure of the RSFSR" (LPLT), and several new taxation laws (TL) were adopted.

It should be noted that in Soviet Law the notion of "real estate," understood to include land and all buildings on it, was changed in 1922³. Neither of the new Russian laws makes provision for that notion of real estate⁴; land and building rights are considered separately and regulated differently.

Main Legal Status of Urban Land and Buildings

The following main legal forms (LC) exist in towns and settlements:

- (i) "ownership," "life inherited tenure" (limited ownership), "lease" for the citizens of the RSFSR for the purpose of single-family housing; the citizens may decide on one of these legal forms of their own accord. A household receiving such an allotment must make a payment for it.
- (ii) "permanent use" (with no fixed terms) - for enterprises (including joint ventures), institutions, irrespective of their sphere of activity.
- (iii) "lease" (maximal initial term of contract - 50 years) for citizens (including foreigners), enterprises, institutions, organizations - juridical persons (including foreign citizens), for any kind of activity. Land may be leased by local Soviets and the owner of the estate. The latter, however, is more restricted by law and has a term which cannot exceed 5 years.

The procedure specified in item (i) applies to garden lots outside the boundaries of towns.

Land owners, tenants and users will pay land taxes, whereas leaseholders rent (LPLT). The revenues are entered in the local budgets as separate entries on the revenue and expenditure sides; they may be spent only under the arrangements related to land management, including land valuation service, and infrastructural development of the area. Part of the tax revenue sum, 10 percent, is transferred into a specified budget account of the republic for road-building.

The following legal forms are possible for buildings (PL):

- "ownership" - for citizens, cooperative enterprises, joint-stock companies, social organizations, municipalities, and the state for any kind of use;
- "lease" - for the same subjects and kinds of use.

Tax is levied on owned buildings. The tax rate is 0.1% of the inventory value if the building is owned by an individual and 0.5% if owned by a legal entity. This tax is referred to as land tax.

Transfer of the property rights for a lot when the rights for buildings are transferred (LC).

When the property rights for buildings are transferred, the right for land tenure (limited ownership) is also transferred. In this case, a new document certifying the property rights for the land is presented.

If by way of sale or gift the proprietary right for the house or buildings on citizen-owned lot is transferred, the Soviet of People's Deputies repossesses the lot and at once transfers it into the possession of new owners of the buildings. A similar procedure applies to the garden lots.

Division of Responsibility among Different Levels of Soviets of People's Deputies in the Procedures for Withdrawal, Transfer, and Provision of Lots

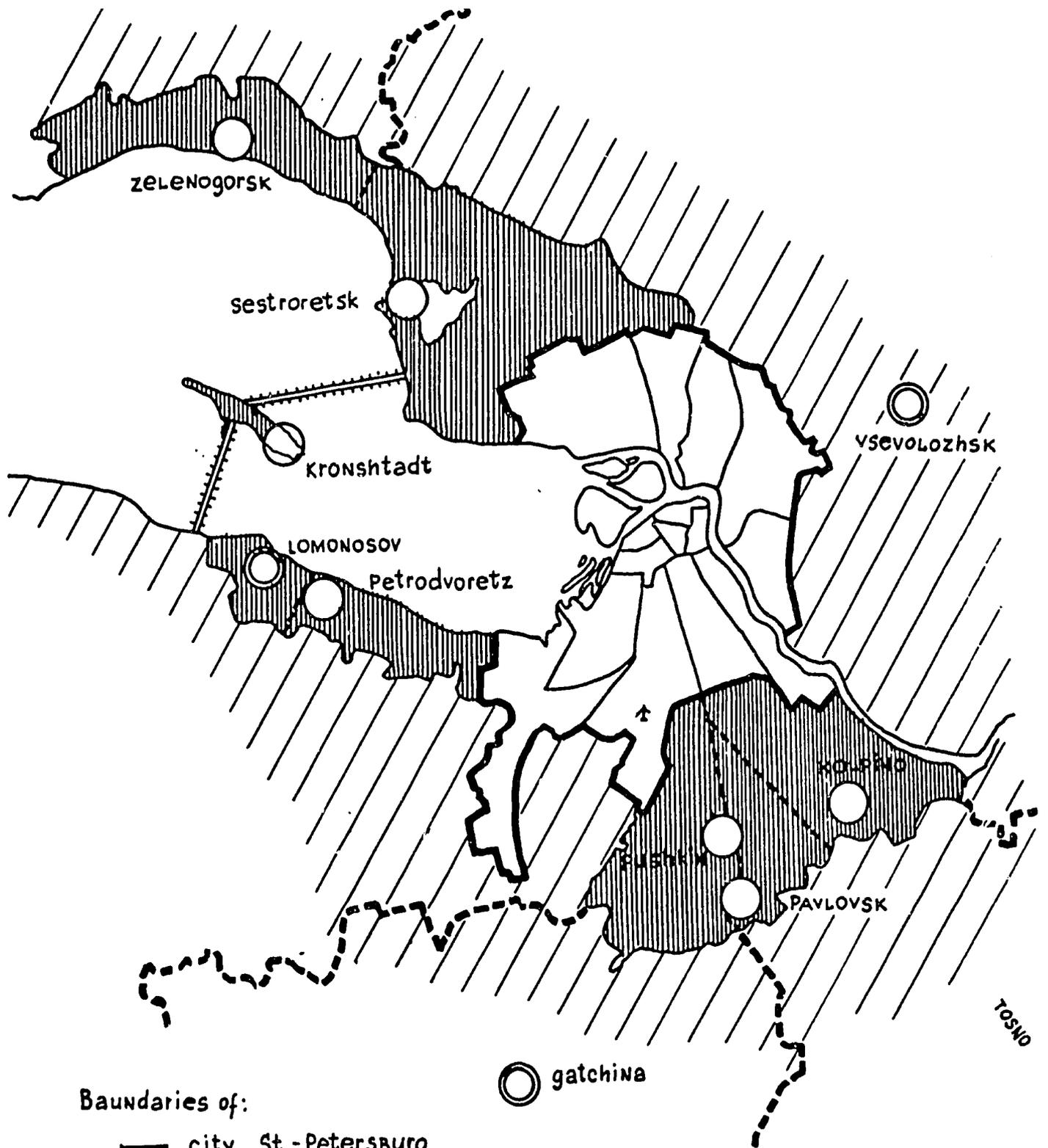
A relatively complex hierarchy of soviets of various levels exists in Russia. Figure 1 shows the structure of administrative divisions of the Leningrad region. The following levels of soviets exist in the area:

- in the St. Petersburg area -- Soviets of administrative districts; city soviets;
- outside the confines of the city -- village and settlement soviets; district (administratively subordinate to the town) soviets; and regional soviets.

There are also suburbs which are under the jurisdiction of the City Soviet, and are simultaneously, administrative centers of districts which are subordinate to the Regional Soviet.

Division of responsibility is as follows:

- The City Soviet withdraws and allocates land within the confines of the city, as well as other land, passed over to its management by the district Soviets in the area of the region (except for land under the authority of village, settlement and regional Soviets);
- The village and settlement Soviets withdraw and allot land within the confines of their areas, as well as other land, passed over to their management, except for land under the authority of the regional Soviet;
- The district Soviets under the authority of the town withdraw and allocate land in the area of their districts, except for land under the authority of village, settlement, town, and regional Soviets;
- the regional Soviet, by agreement with the Soviets with jurisdiction over the area, allocates land for regional and state enterprises, as well as kitchen-garden lots for dwellers of St. Petersburg from the land fund established and partially managed by the regional Soviet in agreement with the subordinate Soviets.



Baundaries of:

- city St.-Petersburg
- intracity districts
- - districts in Leningrad region

cities:

- subordinate to St.-Petersburg
- ⊙ centres of districts in region

⊙ gatchina

- ▨ area of districts administratively subordinate to city
- ▧ area of districts in region

Figure 1. Frame of administrative and Leningrad region subdivision of St.-Petersburg

Some Legal Requirements for the Procedure of Allotment

- In towns, allotment should be carried out on the basis of the approved general plan and the layout and building project (LC, Article 19).
- The village, settlement, district (under the authority of the district) and city Soviets are required to register the proprietary rights for land.
- The right of land ownership, life inherited tenure (limited ownership), or use with no fixed term is certified by the State document which is provided and registered by the appropriate Soviet of People's Deputies.
- The form of the State document is approved by the Council of Ministers of the RSFSR.
- The right of land lease is certified by the lease contract which is approved by the Council of Ministers of the RSFSR.
- The town Soviets of People's Deputies have the right to delegate to the district Soviets in towns the task of establishing separate commissions on regulation of land relations.
- The local Soviets of People's Deputies may resign their commissions concerning withdrawal, transfer, and provision of land to their executive and administrative organs or presidiums.

Tax Rates in Towns and Suburbs

The town's land tax is calculated in accordance with average rates approved by the Supreme Soviet of the RSFSR. The average tax rate depends on the kind of economic region, the dimension and administrative status of the town, the level of the sociocultural potential, and the historical and recreational value of the area. Average rates are differentiated across the town's area by the Soviets of People's Deputies.

The tax rate on land under housing stock (state, socially-owned, cooperative, individual) is only 3% of the land tax rate for the area.

The regional, town, and district Soviets of People's Deputies have the right to reduce rates and establish preferential duties for both categories of tax-payers and individual payers.

III. ANALYSIS OF CURRENT ALLOTMENT SITUATION (FOR JANUARY 1992)

Facts

As yet no single-family housing allotment has been started in St. Petersburg and in suburbs administratively subordinate to St. Petersburg.

Nominally speaking, the whole issue is a result of the lack of proper procedures and documents approved by the Government of Russia.

1. There is no approved procedure for allotment (Prohibition of single-family homes existed since 1961, and was abolished in April, 1991).

2. There are no plans for large-scale single-family housing and, moreover, there are no sufficient areas of land approved for allotments.

3. The Government of Russia has not yet approved official forms of titles and certificates of ownership land use and lease contracts.

4. No office has been established for registration of documents certifying property rights for land, and, in fact, no land valuation service exists. The development of urban land valuation is in the initial stages.

As a consequence of this situation, there is a rugged competition between would-be developers for a few areas which are known to be offered as single-family housing estates. For instance, a site measuring 52 ha at the settlement of Aleksandrovka, Pushkin District, is claimed by four competitors, including the "Interles" Exchange and the "Korpus" Joint-Stock Company, established by military officers. The latter is going to build housing for its stock-holders. Competition consists of pushing through the other bidders to take over the site in the absence of a conventional procedure. In this particular case, the situation is complicated by the fact that the site in question has been in the army's use. Naturally, the local headquarters do not want to

transfer land to the local Soviets, as prescribed by the law, but want to derive some benefit from renunciation of their rights of use. This leads to a bargaining process between the contending parties in which not only economic but also political arguments are put forward. The "Korpus" Joint-Stock Company has taken part in the affair since May of 1991, and an outcome is still uncertain.

It is noteworthy that today many would-be developers prefer to struggle for sites in such latent and not always legal ways, and not to enter an open-market competition. This is especially true of developers intending to construct houses for themselves and not to sell. The reason is obvious--when sites are in short supply, it is cheaper to bribe the necessary number of officials than to buy a site at an auction.

Lack of Organization of Land Allocation in the Suburbs

The number of residents of St. Petersburg wait-listed for garden sites is about 260,000. The list has not been reduced over the last two years because local authorities do not coordinate decisions on allotments, and put unrealistic demands.

However, by way of "personal arrangement" with local officials, sites (both for gardens and single-family housing) are distributed and their number is estimated at several thousand⁵ in 1991 alone. Apparent illegal allotments, for instance, in protection zones, are sometimes reported⁶. It is unknown how many residents of St. Petersburg and how many local inhabitants are among the allottees.

There have been cases of squatting on lots which were later officially registered by local authorities; however, the frequency of this occurrence is also uncertain (although it could easily be assessed).

It should be noted that in this general tense situation, the question of allotments is quite urgent and critical. This urgency is illustrated by three examples from January 1992.

1. A.A. Sobchak, mayor of St. Petersburg, prohibited the repossession of garden plots from squatters in 1992.

2. Among pre-strike demands made by metro employees is a demand for 2,000 garden lots.

3. A veteran of the war in Afghanistan who was angered by the impossibility of getting a piece of land, squatted on a lot (1600 sq. meters) with the intention of constructing a house. He informed Mayor Sobchak in a letter that he will resist if the authorities attempt to take away the lot or to interfere with construction. A group of fellow veterans is ready to support him and is going to squat on adjacent lots⁷.

Analysis of Impediments

Lack of any appreciable progress in the development of single-family housing in St. Petersburg and an intensification of the process in the suburbs by January 1992, is due largely to several serious problems.

One of the obstacles is the organization of urban planning institutions of the city, in particular, the Institute of General Plan of St. Petersburg, which does not support the idea of one-story single-family housing in the St. Petersburg area. This position is based on two principles. First, there is a traditional penchant for multi-story planning, as the historical appearance of St. Petersburg is associated with multi-story buildings. Also, there is a professional consciousness of the present generation of Leningrad urban planners, who for many decades have worked to preserve this kind of building and, unlike Moscow urban planners, have been successful with it. They cannot be quickly re-oriented to other environmental values. Second, the urban planning officials do not want to reduce their level of control over the urban planning situation. They

probably regard the introduction of private land ownership, authorized by the Land Code (LC) for single-family housing, as constituting a threat to the present-day level of control. In any case, the tendency, in defiance of LC, to bar private land ownership in the St. Petersburg area is clearly outlined in the drafts which are being circulated for discussion at the level of the Mayor and City Soviet. It is noteworthy that not only urban planning officials but many deputies of the City Soviet seem disinclined to implement private land ownership.

To support its position, the Institute of General Plan claims that there is a lack of reserves for single-story housing within the confines of the city.

A second serious obstacle is a crisis in relations between the legislative (City Soviet) and the executive (mayor's office) powers. As seen from Section II, the Land Code refers all decisions concerning land affairs to the Soviets which may delegate part of their rights to the executive power. It is quite understandable that land policy cannot be practically followed without involvement of the executive bodies. However, no such division of responsibility concerning land affairs suitable to both parties has yet occurred. On the contrary, the situation is becoming more and more adversarial. For instance, in an effort to give an impetus to land reform, B.N. Yeltsin, president of the Russian Federation, issued a decree on December 27, 1991, by which all rights to redistribute land are transferred to the executive power. Since the decree takes the control of the mayor's office of St. Petersburg away from the City Soviet and contradicts the Land Code, the tendency toward disagreement is strong in the City Soviet.

The disagreement is exacerbated by the fact that the mayor's office of St. Petersburg is pursuing its own policy trends to retain and strengthen its approval functions. This is the third serious obstacle to managing the process of allotment.

For instance, in a draft on the investment process in St. Petersburg presented by the mayor's office in autumn of 1991, five different committees of the mayor office (including the

committee of foreign affairs) were required to be included in the procedure by which applications for allotment are considered. The application requires about 35 approving signatures which requires much coordination. Moreover, the draft did not contain any mention of market mechanisms such as auction sale of lots. Furthermore, the acme of the document is a provision that the lease of a piece of land from the developer is signed only when the developer completes construction of the house on the lot and the house is recognized fit for occupancy by a special State Commission. Until this point, the developer has a lease for the period of construction only (see Summary, item 3).

Another obstacle is the extremely difficult process of agreement on the project by different services such as sanitation, monument projection, and other inspections. On the one hand, the types of requirements made by the inspections probably exceed the possibilities of the present crisis economy. On the other hand, the requirements do not allow for the possibility of new technologies. Finally, the requirements are not thoroughly formalized to rule out the arbitrary imposition of bureaucratic red-tape. For instance, in 1990-1991 when the Institute of General Plan still developed projects of single-family cottages for three different areas (Novo Peterhof, Pavlovsk, and Gorelovo), totaling about 12,000, lots none of them was completely approved. It should be noted that the cost of infrastructure in all the projects turned out to be very high, ranging from 5,000 to 35,000 rubles per cottage in 1986 prices. This accounted for almost 50% of the total cost of construction.

As for the situation outside the boundaries of St. Petersburg, two main factors can be considered as obstacles there. First, there is still a certain antagonism between "town and country," since for decades, the interests of rural population have been infringed upon for the benefit of the urban population. Hence, at present, local officials who have acquired a right to vote do not want to provide the city-dwellers with anything, especially as the residents of the city do not hope to

derive benefit from newcomers. This is associated, in particular, with the fact that, according to law, the income tax withheld from the population enters into the budget of the district in which the person works and where he/she lives. In addition, there is the same factor of bureaucratic red tape; many local officials consider the process of allotment as a means of personal material well-being and, of course, do not wish to lose it.

IV. DRAFT OF THE REFORM PROPOSED BY THE COMMITTEE FOR LAND REFORM AND LAND RESOURCES OF ST.PETERSBURG

General

The Committee for Land Reform and Land Resources is initiating a radical reorganization of the above-described situation in St. Petersburg. The Committee is subordinate to the Land Reform Committee of Russia and to the mayor's office of St. Petersburg. The Chairman of the Committee is appointed by the Committee of Russia, and not by the mayor of St. Petersburg.

The aim of the draft is to quickly distribute lots among all the persons interested before the beginning of the summer of 1992.

The following is a quotation from a report of S.M. Podobed, Chairman of the Committee for Land Reform⁸:

Experience gained in the last few years shows that current failure to put into effect all decisions concerning allotments is due to the following factors:

1. Extremely complicated procedures of land withdrawal and allotment are designed in such a way that resulted in a closed circle of collective irresponsibility.
2. Present single-family housing regulations, ecological and sanitary standards, and building codes do not fit the present situation and present serious impediments to individual housing and, ultimately, to the solution to housing problems.

Conclusions:

1. In order to break the vicious circle of collective irresponsibility and to give an impetus to land reform, the mayor of St. Petersburg and the head of administration of the Leningrad region must be given the right to establish regional regulations determining the procedure of land withdrawal and allotment without the agreement of land users and subordinate public and executive agencies.

2. In order to guarantee intensive single-family housing and efficient solutions to the various problems that occur during the reform, the mayor of St. Petersburg and the head of administration of the Leningrad region must be given the right to approve regional regulations of single-family housing, relevant ecological, sanitary standards and the building codes.

The draft of decree is applied⁹.

The draft presented by S.M. Podobed proposes the following urgent measures:

1. Issuance of the Decree of the President of the Russian Federation (see Appendix 1).

2. Issuance of the joint order of the mayor of St. Petersburg and the head of administration of the Leningrad region, which will identify the customer (and, hence, the source of financing for this project), and determine the schedule for drafting legal and regulatory documents, executive officials, and the like.

3. Designing the layout of future single-family housing estates in the territory of St. Petersburg and of the Leningrad region that are zoned as development areas (i.e., with plans to develop transportation facilities and working places, with the intention of removing many enterprises from the center, etc.).

4. Minimal ecological study of the areas of future housing estates to determine levels of radioactive, chemical and other contamination and the condition of the water supply.

5. Simplified designs of the layout of the areas chosen to be housing estates, with sites reserved for future social infrastructure (schools, shops) and service lines.

The drafting of necessary legal and regulatory documents should likely be done simultaneously with the implementation of Items 3 through 5.

When distributing lots, it should be specified that the lots are intended for housing, and not for garden or kitchen-garden sites; however, the construction should not be specified.

Building materials, transport, credits are some of minor problems enumerated in the draft.

Status of the Draft as of the End of January 1992

1. When B.N. Yeltsyn, President of the RSFSR, visited St. Petersburg on January 15, 1992, A.A. Sobchak, mayor of St. Petersburg, handed him the draft in question.

The draft was approved by the Land Reform Committee of the RSFSR which promised to support it, regardless of whether or not the decree is signed.

2. The source of financing was found, and an agreement was reached with the Institute of General Plan, St. Petersburg. In the agreement, the Institute of General Plan promised to find within 2-3 weeks about 100 future single-family housing estates, totalling 300,000 lots, 1000 sq. meters each, within a 30 km zone around St. Petersburg. It is anticipated that land will not be allotted within the boundaries of St. Petersburg at all; about 40 (60?) % will be allotted in the suburbs around the city, and the rest of the lots in the region. Then the Institute of General Plan will employ subcontractors to design the layout of the future individual housing estates.

V. ANALYSIS OF "WEAK POINTS" OF THE DRAFT AND THE GENERAL SITUATION

The current draft proposed by the Land Reform Committee several weak points which should be eliminated in order to fully develop the draft as a project. These points are as follows:

1. The role of elective bodies, i.e., the Soviets of People's Deputies, is not delineated in the process of implementing reforms. This requires correction as a conflict between the mayor's

office and the City Soviet has already taken place, as pointed out in Section III.2, and an attempt to carry out land reform excluding elective authorities would aggravate the situation. In addition, the proposed draft contains at least one question which, in principle, cannot be discussed without the legislative bodies, as it directly involves their sphere of activity, namely, political and budgetary decision making. This question concerns the principles of allotment.

2. The draft of reform contains no clear-cut proposals concerning the principles of allotment. The author of the draft probably assumes that mass allotment is a means of payment of numerous, including moral, debts of the State to the most deprived part of population, and thus, a means to reduce socio-political tensions. Although this is a valid point, we cannot forget that another factor, namely, that solvent demand for lots on the part of the more well-to-do population ought to be taken into account. Thus, there is the issue of to what extent land will be allotted on a social basis (for example, land will be allotted to persons waiting for their turn to get public apartments in exchange for leaving the list). The extent to which land will be allotted on a social basis is essential for the development of a program of action. It is also important to consider the question of market mechanisms for privatization of lots (auction sale or lot exchange¹⁰).

3. Neither the draft for reform nor the Land Code takes the developer into consideration. Both documents are based on the assumption that, at first, a future homeowner gets (purchases) a lot for ownership or tenure (limited ownership) and then employs a builder, if he/she wishes. The reverse procedure, in which the developer purchases a lot (or several lots at once), builds a house(s), and sells the built-up lot(s) is not currently permitted, since, in accordance with the Land Code, private persons only, not building companies may obtain lots for ownership or tenure (limited ownership) with the intention of building a house. The company may lease the land, but when it sells the house built on the lot to the customer the latter acquires the same right to the land that the seller had, i.e., the right to lease the land. In

such a case, a change from land lease to ownership for the family which purchases the house completely depends on the good will of the local Soviet which could be a source of difficulty for the population and a source of abuse of power. The fact that developers have no right to purchase land would be an obstacle in the way of single-family housing requires further consideration.

But it is clear that even at this early stage there is a contradiction with the actual situation, as demand for land is mainly determined not by individual households but by legal entities who are acting on the part of developers (see Section III.1). Therefore, it is necessary to remove the limitation of developers with regard to land rights by correcting the Land Code.

4. Conferring special rights on the mayor of St. Petersburg and the head of regional administration in order to carry out the reform (see Draft Decree of the President of the Russian Federation, Appendix 1) can provoke conflicts with inhabitants and local authorities over the question of land withdrawal and transfer. This ought to be foreseen and alleviated beforehand by including special economic and psychological measures in the reform program.

5. The draft proposed by the Committee for Land Reform shows a lack of attention to building an engineering infrastructure in order to increase the pace of future construction of single-family housing estates due to the means of the city. This position requires discussion at the conceptual level, first of all. If the provisions for infrastructure are recognized as necessary, technical aid will probably be required to appraise the technological and economic possibilities of using the present systems of local supply (sewage, heat supply). It will also be necessary to determine the required investments and their possible sources.

6. Furthermore, the project should be examined from the viewpoint of further development of St. Petersburg. First, is it true that a focus on development of new single-family housing in the suburbs represents the most efficient way to tackle the housing problem, when the city possesses

reserves for multi-story building in its area? Secondly, the question of partial conversion of garden cottages into year-round housing deserves study as well. But a well-grounded appraisal of the project can be given only after:

- consideration of the results of the study of current land use in St. Petersburg, undertaken by a World Bank mission in January-February 1992;
- consideration of the results of the contest among four institutes of St. Petersburg to develop a new concept of town planning development (The results are to be judged in the spring-summer of 1992; it would be useful to include an international expert in the judging procedure);
- study of a possible conversion of garden cottages to year-round housing.

7. If we focus our attention on the work related to housing allotment, started by the Institute of General Plan (see IV.2, No 2), some questions arise.

- Are there really no reserves of areas within the city boundaries which can be used for single-family housing? Study of this question by western experts providing technical aid reveals considerable promise.

- In designing layouts of future single-family housing estates, it appears wise to vary in dimensions of the lots. The question of distribution of lots in accordance with dimensions both within housing estates and between estates requires consideration from different viewpoints (economical in terms of provision with infrastructure, demand, etc.).

- What is the most economical method of financing the work? Is it best for one institution which is the exclusive holder of most information to receive all the funding to choose subcontractors (thus dictating what they are allowed to design)?

8. To conclude, one important element of the current situation should be noted. There is an apparent lag in legislative support of the formation of real estate market.

There are attempts to increase the pace of land reform through issuing decrees of the President of the Russian Federation, but these are not followed by timely revision of the laws. For example, as early as the autumn of 1991, more than 40 amendments to the Land Code were known to have been prepared by the Committee for Land Reform of the RSFSR. However, all attempts to find the amendments at the Committee in January 1992 were in vain, because following the latest reorganization, everyone at the Committee is concentrating on the Decree issued by the President in December.

In addition, both the Land Code and the Law of Paid Land Tenure of the RSFSR suffer from grave shortcomings, which would be obstacles in the way of single-family housing if not in the first, then in the second stage.

VI. SUMMARY: EVENTS IN JANUARY - MARCH, 1992

1. The fate of the draft of the Decree of President Yeltsin, mentioned in IV.2, is uncertain. Moreover, it is unknown whether Mayor A. Sobchak gave it to Yeltsin or not.

2. Several meetings of the Minor Soviets of both St. Petersburg and the region were devoted to discussion of the draft of the reform proposed by the Land Reform Committee. The discussions attracted widespread attention of the media. The draft was not approved by either the Minor Soviet of the region, or by most deputies of the Minor Soviet of the city.

Many deputies of the City Soviet think that the two processes, namely, individual housing allotments and garden allotments should not be confused.

The Regional Soviet agreed to allot only 8,000 ha of land, rather than the 40,000 ha specified by the draft. Some of these lots are located in remote districts of the region and therefore, cannot be used by the residents of St. Petersburg for year-round housing.

Both Minor Soviets accepted the joint decision to give the Institute of General Plan the responsibility of developing a layout for garden sites by the autumn of 1992.

In fact, the question concerning mass production of single-family housing remains open.

3. In February, A. Sobchak, Mayor of St. Petersburg, signed the Instruction which introduced reckless antimarket methods of housing allotment, mentioned in III.2. This will no doubt stir up active protest from the City Soviet. The Property Committee of the City Soviet has developed its own draft, which is somewhat more advanced compared to that signed by Sobchak. It does not, however, use all the means of movement towards a land market which are offered by the current law.

The question concerning the methods of housing allotment is likely to be one of the key issues in the political struggle among the power structures of the city.

NOTES

1. Data obtained from the Chairman of the Land Committee are used here.
2. Reference book of housing stock of Leningrad, 1990.
3. Encyclopedia of Law. Moscow, Soviet Encyclopedia, 1987.
4. It is introduced in the draft of "Land Reform Law," not yet discussed by the Parliament.
5. As appraised by S.L. Sena.
6. See, for example, the article "Big elk bone for the brave explorer" in Nevskoe Vrenya, January 9, 1992.
7. A. Bolousov. "Future landlords brake reform: they are not ready," Chas Pik, 1992, March, N 8.
8. S.M. Podobed. Report 'On the problems of allotment.'
9. For the draft of decree see Appendix 1.
10. As proposed by M.P. Berezin.

**SUMMARY OF GOALS AND METHODS OF CREATING
AN URBAN LAND MARKET IN ST. PETERSBURG**

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Discussion paper. Supplement to the report "Single-family housing allotment: legal guarantee, present status in St. Petersburg and in the region, draft of reform and analysis."

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The introduction of market forces into land use pursues three goals:

1. To enhance the efficiency of construction activities.
2. To increase the efficiency of land use.
3. To raise revenues for the municipal budget in the form of payment for land.

These goals do not coincide¹, but can be achieved through diverse flexible policies, sometimes even partially contradicting one another.

The basic factor in achieving any of the above objectives is the process of allocating and acquiring plots. Thus, the key problem concerns the means and conditions of organizing such process, in particular when acquiring plots for development. This process occurs in two ways:

- 1) in a primary market, i.e., from local authorities, since they are primary distributors of urban land, and;
- 2) in a secondary market, i.e., from the already existing user.

It should be stressed that, although market mechanisms may be highly efficient in achieving all three goals, the role of these mechanisms in the secondary market is underestimated both by the legislative bodies and in practice. Examples from the case study of urban land reform in China will be provided later.

The current land laws of this country (e.g., Land Code, Law of the Russian Federation on land payments and the Article 12 of the Constitution of the Russian Federation) are essentially anti-market, which makes fulfilling the three goals practically impossible without changing the regulations.

Table 1 provides a summary of types of land deals reflecting international experience, as well as this country's current situation both in the primary and the secondary market. It also

points out the decisions necessary on the Republic and municipal levels to legalize each of these types.

Table 2 gives a summary of the set of legislative decisions necessary for legalizing the land deals in Table 1.

MAIN PRINCIPLES OF ALLOCATION OF PLOTS TO THE DEVELOPERS BY THE MUNICIPAL COUNCIL

It is possible to achieve a greater efficiency of construction activities by implementing policies based on a number of principles, some of which are quite common² and concern the use of market techniques (e.g., clear and available regulations, open market for any applicant, free procedures and results). Other principles take into account the transitional nature of the process and require that these policies be flexible.

The following principles seem necessary for the allocation of plots for development, that is, for the primary market:

1. Several different ways of allocating plots should be effected simultaneously in order to enable analysis and comparison of their effectiveness.

a. Open auction (for any type of construction including residential). Under the current laws on land it is possible to put the following up for auction:

- 1) annual rent rate;
- 2) right to lease with a fixed rent rate (opinions of the lawyers differ on this issue);
- 3) land tax rate (under the Law on payment for land the possible tax rates are very high which makes auction to raise the rates up to this level quite feasible).

b. Plots for building country-houses should be sold only by open auctions; besides, under the Land Code ownership of land for individual development can be charged, therefore the right to getting such plots can also be put up for auction.

Note: Special anti-populist explanations are necessary due to the fact that urban and suburban land is too expensive a commodity to be allotted to certain categories of population, who wish to build country-houses, free of charge. For example, a joint stock company Corpus, wishing to provide military officers with housing, requested free land grants, specifically, plots for construction of country-houses. The company, however, intends to sell some of the cottages at market prices in order to compensate for construction expenditures, i.e., it actually requisitions the cost of land in favor of a minor population group.

c. Open competition should be introduced among developers, who are granted plots (for a minimum rent or at a minimum tax rate), for the maximum provision of the city with free accommodation (mechanism of provision of multi-story municipal construction).

In this case the city can withdraw the plot from the developer if the terms stipulated prior to the allocation of the plot are not fulfilled (conditions of withdrawal and compensation for the investment made are within the framework of a special agreement).

Note: The amount of the floor space offered to the Municipality in exchange for plots will depend upon the following: (i) monopoly of the Municipality on allocating plots (i.e., availability of the secondary market); (ii) the size of the supply offered by the Municipality.

Both of these factors will neither encourage the City Council (rather those in charge of the municipal housing construction) to strive for the increase of supply of the plots nor introduce the secondary market. Such orientation will require special counter-arguments and counter measures from those interested in the development of the housing market (and, hence, increase of the

volume of the commercial stock built within the framework of the scheme in question) and enhancing the efficiency of the land use.

d. Plots for residential construction for certain population groups entitled to free housing (e.g., officers, etc.) should be allocated by the city authorities and should be for multi-story construction, the most economical use of land.

e. Plots for organizations financed from the city budget (e.g. kindergartens, nurseries, etc.) should be allotted for lease with the minimum rent, but with the right to review when ownership of the building changes.

2. The policy of allocating plots should vary depending on the importance of the location, demand, and future prospects of land development.

a. Plots in the downtown part and industrial belt around the center should be allotted only by open market methods (see 1.a., 1.c.).

b. Plots distributed for certain purposes (1.d.) are beyond market competition and should be on a less valuable territory, such as plots in the residential areas developed in the 1960s-90s which do not belong to the most fashionable, prestigious, newly built areas and those in the undeveloped areas in the urban peripheries.

The search for the locations which can be offered for the primary market during the starting period can proceed in two ways. First, identifying land for this purpose should be the prerogative of the City Master Plan Research Institute. Applications from potential developers should then be collected (with the necessary acknowledgement that their application holds no guarantee), and a municipal market research department, dealing with analysis of demand in the land market, should be established, as it is demand that should become the basis for determining the status of land in the primary market.

Most importantly, land allocated outside open market competition should constitute only a small share from the total volume of deals in the primary market and should be dispersed without forming large zones.

In summary, we recommend that allocation of lots by the city authorities take place in the open competitive market with obligatory simultaneous active consent of the secondary market.

BASIC PRINCIPLES FOR THE INTRODUCTION OF LAND USE PAYMENTS

Regular collection of land use payments will alleviate the problem of public sector insolvency. Several measures can be introduced to achieve the following:

- raise "land solvency" of already disposed enterprises,
- increase enterprise mobility,
- increase efficiency of land use,
- provide the local budget with revenues from land use payments,
- in case of user insolvency, provide compensation to the city via strengthening its legal right to a particular site,

These measures include:

1. Reduction of payments and award of lease-holder status, rather than user-status, if the current holder of the land claims user-status under the provisions of the new Land Code, but is unable to pay the required land tax. This measure is possible within the framework of the current legislation.

2. Granting the current user, irrespective of legal form of land use, the right to sub-lease part of their land, enabling him to make land use payments from his revenues into the local budget.

3. Introduction of the practice of selling by auction plots occupied by insolvent users and use of revenues from the sales to relocate the disposed enterprise.

Measures addressed in 2 and 3 are widely used in Chinese cities (paper presented by Alain Bertaud). These measures achieve two objectives simultaneously: increased efficiency of land use and a stable influx of land payments. The introduction of these two mechanisms, however, requires change in legislation.

REFERENCES

1. Alain Bertaud. Aide memoir of the Mission of the World Bank in St. Petersburg, January 27 - February 6, 1992.
2. Summary of the American side of the results of American-Russian Seminar: Use of Market Mechanisms for Solving Housing Problem in Russia, November 1991.

Table 1

Types of Land Deals to be Legalized and the Necessary Decisions

| Level of Decision Making/ Source of Providing a Plot | Republican | Municipal |
|---|--|---|
| I. "Primary market": local authorities as primary distributors of urban land | Introduction of the right to sell land as property for any functions and subjects of ownership (into the Constitution of the Russian Federation and Land Code) | |
| I. 1. Privatization of non-residential buildings, enterprises etc., which requires granting land rights | | Working out of the following principles: which type of use (ownership, life inherited tenure or lease) should be granted; how land charges within should be estimated; procedure of making land tenure officially registered within the framework of the general privatization procedure. |
| I. 2. Allocation of plots for residential construction | Elimination from the Land Code of a restriction concerning rent rate which under the current laws should not be higher than the tax rate | Working out of the following principles: order should be granted in particular cases, free or not, to particular applicants or in general; procedure (where the applicant should apply, what he is required to do) |
| I.4 Privatization of municipal housing, transforming cooperative housing into private property | Clarification of tenure in the drafted Law on Housing Reform or Land Code | Working out of the principles (square of plots, forms of land tenure) |
| II. "Secondary market": | | |
| II.1. Transfer of land rights when selling the buildings | Introduction into the Land Code of a provision reducing | |

the role of local Councils to register only, having repealed the possibility of reviewing the terms of tenure (at least financial) while rearranging the formalities with land documents on the new owner of the building

Working out of the procedure of going through the formalities and registration

II.2. Sale and purchase of land rights of the previous tenant:

Owner

Introduce into the Constitution and the Land Code

User

Not to introduce enlargement of rights for this particular category since in general it is necessary to cancel it;

Leaseholder

Introduce into the Land Code for owners, tenants, leaseholders

Compulsory registration

II.3. Sub-lease of land

Introduce into the Land Code for owners, tenants, leaseholders

Compulsory registration

II.4. Mortgage of plots by owners, sale and purchase of mortgages

Introduce into the Land Code without any restriction as to what organizations are entitled to the right to act as mortgagees

Working out of the procedure of registering mortgages in the land cadastre

Table 2

Essential Legal Decisions on the Republican and Municipal Level

| Republican | Municipal |
|---|--|
| 1. Introduction of ownership of land for all types of subjects and use** | 1. Principles, order and procedures of allocating plots on the primary marker* |
| 2. Revocation of "use" since it is a non-market form** | 2. Registration rules for all types of deals* |
| 3. Introduction of the right to sub-lease for owners, tenants, lease-holders (and users before this type is abolished)* | 3. Rules (organizational, legal, financial) of functioning of the real estate cadastre* |
| 4. Introduction of the right of local authorities to sell rights of (a) land ownership and tenure; (b) lease, and; (c) use (before it is canceled)* | |
| 5. Permission for owners and leaseholders to sell their rights with the authorities' participation only in the registration procedure* | |
| 6. Permission for owners to mortgage plots to any institutions ready to act as mortgagees; permission of sale and purchase of mortgages* | |
| 7. Changes in the Law on Land Payment so that the tax rate should be calculated as a function of the market land price* | |
| 8. Withdrawal from the Land Code of the requirement that the rent rate should not be higher than the tax rate* | |

* Primary decisions

** Secondary decisions

The question of urban and economic consequences of the provision of the Law on Land Payment stating that the land tax on residential function constitutes 3 per cent from the average tax rate on other function requires further investigation.

**OPERATING CONDITIONS OF SMALL-SIZED CONTRACT
CONSTRUCTION ORGANIZATIONS IN ST. PETERSBURG**

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We have interviewed the managers of several contract construction organizations which have come into being in recent years, as well as presidents of the associations of construction companies. The list is attached as an appendix.

These firms represent various forms of ownership. Small-sized state enterprises, cooperatives, joint ventures with foreign capital shares, leasehold state enterprises and joint-stock companies have been selected for the present study. It should be noted that throughout the sample of organizations it is the managers' goal to move their companies closer to private ownership, e.g. state property into joint-stock, cooperative into private.

Unfortunately, none of the firms gave precise information under the pretext of the general character of the interview. Therefore, we provide mainly a qualitative characterization of their activities.

According to statistical data for 1990, the general volume of work of small companies in new housing construction amounts to only 2 per cent of the city's total construction volume (2,500 sq. meters).

However, these data are not complete, since some of the construction cooperatives created from existing state enterprises conclude contracts with larger state structures and the results of their work enter into the indices of the latter. As a rule, such cooperatives specialize in certain types of work (e.g. foundations, assembly of structures). In 1989 there were 129 such cooperatives out of a total of 1,109 (i.e., 12 percent), and their volume of business amounted to 70 thousand rubles out of the total volume of business of 430 thousand rubles (i.e., 16 per cent).

The companies considered above differ in their volumes of work, from 2-3 million rubles a year up to 50-100 million rubles a year (joint ventures 10-20 million) and also in their specialties, i.e., new construction or rehabilitation. A common feature of larger companies is

that they construct a wide range of buildings. As a rule, each company is active in construction or upgrading of residential and industrial buildings, offices, and other public buildings.

Small-sized companies must specialize in either building technology or upgrading in order to limit expenditures for production facilities. Some small companies, whether founded from on former or existing state bodies or created as new independent firm, have highly developed production facilities of their own (e.g., wall panel factories, woodworking shops, etc.). Others do not possess such facilities, and are, therefore, mainly involved in small-scale projects.

The majority of the companies do not experience any difficulties with the labor force despite the fact that they are mostly in need of highly skilled builders, as the ratio of skilled labor to unskilled being 5:1. However, this situation may prove to be only temporary, since it is due to two reasons. First, a general slump in construction has resulted in the surplus of labor. Secondly, there has been a flow of labor from large state-run enterprises to small-size companies where expenditures for the managerial staff salaries are lower and the workers' wages are higher.

However, the skilled labor rate greatly depends on the technology required for the work. There is a company which employs simplified technology, manufacturing units from the waste products of the woodworking process. There the ratio is strongly in favor of the unskilled manual labor.

The majority of the companies are encountering a deficiency in engineering and managerial staff, e.g. marketers, economists, and mechanics.

The prime cost of a project varies widely, depending on the particular construction or remodeling project, and ranged from 4,000 to 8,000 rubles per square meter of floor space in January 1992. A sharp rise in costs due to inflation and liberalization of prices was tenfold within a year. The sales prices are unpredictable when there is a huge deficit in housing. At

auctions, prices soar up to 40,000 rubles for a square meter. Prices in hard currency range from 600 to 1,400 U.S. dollars for one square meter.

All of the small construction companies have major operational difficulties. The interview made it possible to evaluate these problems in terms of their effect.

1) Building materials, certain structural units and plumbing services rank among the most deficient items. Prices for steel and lumber at the stock exchange have gone up more than twentyfold within a year and continue to rise. State commissions have a guaranteed supply of materials at lower prices, but because of failures in production processes this provision covers not more than 70-80 percent of the demand. Due to the shortage of carpentry (window and door frames), completion and commissioning of buildings often lag behind schedule from six months to a year. Construction companies are induced to urge their clients to provide building materials through barter/swap of their production and services.

According to the respondents' estimates, production of building materials and units is hindered by a number of factors. To set up production in a new place one needs a site. However, acquisition of a site is hindered by bureaucratic red tape, high fees charged by a special body under the municipal council of St. Petersburg which deals with allocation of spaces and sites, and the special conditions stipulated by the local authorities (free apartments for local residents or bribes).

Apart from the site, complementary infrastructure is essential--roads, energy, etc. However, development of infrastructure is extremely costly for the company, and attempts at partnership with the existing state-run organizations fail either because of the latter's backwardness and laziness or because they fear being superseded by a new, more active and enterprising competitor.

Respondents also point out a low quality of raw materials and equipment for manufacturing building materials in Russian factories, difficulty of acquiring certain machinery (e.g., equipment for brick-making factories is produced only by similar large-scale production complexes), and absence of certain types of equipment on the Russian market.

There is a common desire among the companies to be covered by the state centralized supply of building materials at prices of the "State Order" which are 2 to 10 times lower than the market prices, but to remain independent in their activities and charge market prices for their services or production.

2) Legislation imposes many restrictions on the activities of the companies. The system of taxation is constantly changing, making commercial planning difficult. Laws on mortgages are lacking (only their main principles are available, but there are no sub-law acts and regulations) which is a hindrance to the inflow of capital for construction.

There is a regulation still in force which indirectly limits the right of the building company to be a developer at the same time, i.e., to lease plots of land for construction and sell the dwelling in the future. Such a right can be granted by local authorities but only under special conditions, e.g., a requirement to transfer up to 50 percent of the completed housing stock to the municipality.

Construction companies are worried by the introduction of licensing of building organizations, which will evidently be a prerogative of the Board of Construction. They expect that, under the guise of promoting high efficiency, small companies will be ousted by large state-run enterprises which appear to have better facilities.

3) Small companies often experience financial difficulties in the current financing of construction. Banking loans are available only for a short term of 3-6 months and the annual interest rates charged are as high as 30-35 percent. Such credit terms are due to the lack of a

mechanism for guaranteeing banking loans and benefits for the banks. Loans are necessary for the entire term of construction, for 1-1.5 years, as a system of mortgage is lacking. Clients, both individuals and organizations, either make a minimum advance payment or pay off everything upon completion of the construction. Joint ventures are free from such difficulties because they are credited by foreign banks under the guarantees of the foreign founder. Additionally, associations with the banks, into which construction firms enter and receive benefits in crediting, seem to be quite satisfactory. For example, the RECON company entered into the association RECTSENTR established by the two banks (see the Appendix).

Profits are first distributed to the wage fund and to development of the construction company's own production base.

4) Difficulties in obtaining and developing sites for construction and production facilities (see point 1 above) are exacerbated by the unresolved questions of ownership of land and buildings between the authorities of different levels, which delays registration of documents on the lease of the plots. Sometimes agreements signed by district authorities are canceled by the city or regional authorities. In addition, local authorities generally allocate sites without any engineering and transport infrastructures. Their construction becomes the responsibility of the construction company which must employ specialized firms as sub-contractors.

According to some companies, all sites in the vicinity of St. Petersburg enjoying favorable locations with respect to public transport and potential for future development have already been purchased and are now being resold at high prices. Tenure of the remaining desirable sites is granted in exchange for special services to local authorities.

5) Companies engaged in overhauling and upgrading of buildings face specific difficulties, such as protest rallies of the various interest groups, e.g., advocates of the old architecture, against destroying old facades, and interiors, which, in their opinion, have a certain

value. In one case, such groups succeeded in initiating a legal procedure which resulted in the company's acquittal but led to the failure of credits and a year-long delay in their construction schedule.

All of the companies estimate the future prospects for their activities optimistically. There is still a high (deficit) demand for housing, offices, and quarters for the staff, although there were some cases of cancellation of original commissions after the liberalization of prices in January 1992. It should be stressed that there is a particularly stable demand on the part of the foreign investors for the rehabilitation of buildings in the downtown area for use as offices and apartments, and also for single-family dwellings in the suburbs.

Most companies are striving to set up joint ventures with foreign capital providing financial support, deliveries of equipment for the production base, building materials, and units.

The majority of the companies are reluctant to cooperate with the other firms, even on specific issues, and are satisfied with a small scope of work. This is attributed to the fact that the managers of the small firms are afraid to lose their freedom and become dependent on other firms and banks since, for many years, these people have been totally dependent on the state in their activities.

Some of the companies led by experienced engineers and inventors, who are owners of patents on new technologies, seek to expand their activities and introduce new technologies. They are motivated by interest rather than gaining profits.

This study is to be supplemented by information on several construction companies which are either private or collective enterprises, and information on firms specializing in building materials production.

APPENDIX

List of Interviewed Organizations

1. Association of Construction Cooperatives
Grivtsov Lane, 5
Managing Director: Dmitreyev Andrei Nickolaevich
Phone: 314--80-11
Deputy Managing Director: Novikov Yevgeny Denisovich
Phone: 315-07-42
2. Association "RECTSENTR"
(The association was established by the two banks, machine-building factory, construction company RECON, district executive committee and designing bureau.)
Small state enterprise "Recon"
Furshtadskaya Street (former Petr Lavrov Street), 30
Association President and Manager of the Enterprise: Kalina Victor Arkadyevich
Phone: 273-58-93, 273-38-06
3. Joint-stock company "BALTS'TROIPROYEKT"
Moika River Embankment, 20
Deputy general director for construction: Katsura Georgi Alexandrovich
Phone: 311-64-06
4. Joint-stock company "DAKS"
Pryazhka River Embankment 3/1
Director for economics and foreign connections: Gershanok Rafail Aronovich
Phone: 219-55-01
Production manager: Kilim Arkadi Josephovich
Phone: 219-55-01
5. Design and construction small state enterprise "ARBOLIT"
Lomonosovskiy district, settlement Lebyazhie, Primorskaya Street, 68
State Enterprise. Volume of business, 25,000 square meters annually, residential buildings
Commercial director: Tyan Oleg Michailovich
6. Russo-Finnish joint venture "FILKO"
Moika River Embankment, 11
General director: Vahmistrov Alexandre Ivanovich
Phone: 311-05-30

7. Youth Centre "GRAD" of the Dzerzhinsky District of St. Petersburg
Property of the work collective
Millionnaya Street (former Khalturin Street), 4
Chief engineer: Nikitin A.

8. Design and construction cooperative "AGROPROMSTROY"
Bulvar Profsoyusov, 4
Manager: Kechko Boris Minivich
Phone: 311-83-73