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**REFORMING KIEV'S
HOUSING SECTOR**

**Options for the Ownership and Management
of the Municipal Stock**

prepared by

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Preface

Mary Lawler, a student at the John F. Kennedy School of Government at Harvard University, prepared this paper as a Policy Analysis Exercise for the Urban Institute, as surrogate client for the Kiev City Council's Committee on Economic Reform.

Lawler spent the summer of 1991 in Kiev undertaking the original research for this project, and has sought to recommend policies that are politically and practically viable as well as desirable in economic terms. Because Lawler's analysis and recommendations fit in well with and are informed by Urban Institute work in Russia and Eastern European countries, this paper is a useful companion piece to other Urban Institute reports on Eastern Europe.

EXECUTIVE SUMMARY

The Kiev City Council is currently considering reforms of the city's housing system. This paper recommends that the City Council (in cooperation with the Ukrainian Parliament,) strengthen property rights and privatize a portion of the municipal stock through controlled market sales to residents. Additionally, the Council should gradually raise municipal rents, provide targeted rent subsidies to the poor, and introduce competition to the management of municipal housing.

The goal of these reforms is to establish a well-functioning housing sector. A well-functioning housing sector is simply one in which the people are well-housed, which means that housing is well-managed and well-maintained, and there is an adequate supply of housing to meet the demand.

In socialist housing systems such as Ukraine's, the government historically determined housing investment and allocation centrally, and it had a virtual monopoly over housing construction, management and maintenance. Kiev's current housing system is dominated by state ownership and is characterized by high state subsidies, low rents, poor quality, a misallocation of housing, and an inadequate supply. The socialist system failed to achieve a well-functioning housing sector because of poor and inefficient state construction, management and maintenance systems, and a low level of housing investment.

The obvious alternative to the socialist system is a market-oriented housing system such as exists in western countries. In a market system, individual consumers may pay as much as they are willing and able to obtain the quantity and quality of housing they desire, and producers are permitted to earn profits by responding to consumer wishes. Thus, housing developers and owners have monetary incentives to build and care for housing as long as they can profit by renting or selling units. Profit-seeking owners can hire profit-seeking managers and maintenance companies, who have a monetary incentive to perform good services in order to increase their business.

In a market housing system, rents and purchase prices are determined by gross levels of supply and demand as well as individual negotiations between consumers and owners. Thus, the market mechanism provides information (helping consumers and producers to

make decisions about consumption and production on the basis of prices) and serves an allocation function (as housing is allocated to consumers with the highest willingness and ability to pay.) If the housing market is perfectly competitive (no monopolies or other distorting forces constrict housing supply or demand) the independent decisions of housing consumers and producers can be expected to result in an "optimal" outcome, that is, where there is an efficient allocation of housing, level of housing production, and use of inputs for housing. (Because those of low income may not be able to afford adequate housing under a pure market system, the government should assist poor households to meet their housing needs.)

This paper focuses on the market-oriented reforms that should improve the functioning of Kiev's housing system by creating incentives for the development and maintenance of housing by the private sector. These reforms fall into two interdependent areas: reforms of housing ownership, and reforms of the rental sector. The proposed reforms are evaluated on a criteria of efficiency, equity, feasibility, and the protection of low-income families and individuals. Some of the recommended reforms will be absolutely necessary to create a market housing system, while others are recommended in order to ease or speed the transition to a market system.

Ownership Reforms

Among the reforms absolutely crucial to the long-term development of a well-functioning market housing system is the establishment of property laws that permit housing owners to freely exchange, sell, or rent their property. In the absence of such laws, investors will be unwilling to develop, buy, or maintain housing, since they will not be guaranteed control over their property. As part of this reform, the rights and responsibilities of owners must be clearly delineated from those of tenants, and the respective rights and responsibilities of both groups must be enforced.

Other ownership reforms may not be strictly necessary to allow a market-oriented housing system to develop, but they will facilitate the establishment of such a system in the

short term. Among these reforms are the privatization of a portion of the state-owned stock. Privatization is intended to improve the maintenance of housing, since private owners have a monetary incentive to keep housing in good repair. Additionally, privatization may have macroeconomic benefits for countries undergoing a transition to a market economy.

After assessing various privatization options, this paper recommends that the City Council privatize a portion of the state stock through controlled market sales to residents. This recommendation differs from the main privatization proposal currently under consideration by city and republic officials, which calls for immediately giving the housing stock away to residents. Recently, political and practical problems associated with this plan appear to have stalled its implementation, and it is unclear whether it will be pursued. This paper suggests alternatives for improving the "give-away" process. However, giving the stock away en masse is still not the preferred solution. Giving the stock away would be expensive for the government, and a giveaway program would fail to promote an efficient allocation of housing in the short term, since it would encourage residents to remain in their current apartments rather than moving to more appropriate housing. Further, the speedy, massive transfer of ownership envisioned in the give-away program could complicate housing management, lead to reduced maintenance and a deterioration of the stock, or possibly eliminate the rental sector altogether.

Therefore, this paper recommends a controlled privatization process under which residents could purchase their apartments at market prices as long as some percentage of building occupants demonstrate an interest in assuming ownership. Current residents already have some implicit property rights to their apartments; to recognize these rights (while being fair to other citizens) the city should give each citizen a coupon worth some fraction of the per capita value of the city's housing stock. This coupon could be used toward the purchase of a state flat, for rent payments, or for repairs of a private dwelling. Even with the discount provided by the coupon, many residents will not have sufficient savings to purchase their units at market prices outright, therefore the city should provide seller financing in the form of long-term, market-rate mortgage loans.

Privatizing the municipal stock through controlled market sales will save the government money and may raise revenues that can be used for housing development or other public purposes. Further, market value sales will encourage an efficient reallocation of housing as people move from apartments that are too big or expensive for their needs and desires. Additionally, this plan will avoid the disruptive side-effects of the giveaway proposal, since the controlled privatization process will not complicate the management of state-owned buildings or allow the rental sector to disappear altogether.

Reforms of the Rental Sector

Dramatic changes to the state rental sector will be necessary to ensure the success of the privatization program as well as the overall transition to a market-oriented housing system. A well-functioning housing market requires that people recognize the true costs of housing (by paying market rents) in order to choose housing that best meets their needs and preferences. Market rents will be those which cover construction, management and maintenance costs, and provide adequate returns to investors. To allow a private housing sector to develop, it will be necessary to gradually raise municipal rents to market levels, (otherwise citizens will be reluctant to leave their subsidized state apartments for private units.) To shield those of low income who cannot afford market rents, reforms must include the provision of targeted rent subsidies to the poor. Finally, to encourage improvements in the management and maintenance of housing, the City Council should facilitate the development of private management and maintenance firms that may compete for management contracts for municipal (and private) buildings.

Summary of Recommendations:

The following summary indicates the strength of each recommendation: whether it is absolutely necessary to market reform, or whether it is simply recommended to ease or speed the transition to a market system.

Recommendation	Necessary/Recommended
<ul style="list-style-type: none"> • Establish clear property rights for housing. Delineate and enforce the rights and obligations of both owners and tenants. 	Necessary
<ul style="list-style-type: none"> • Privatize a portion of municipal housing through controlled sales at market prices. 	Recommended
<ul style="list-style-type: none"> • Gradually raise municipal rents to market levels. 	Necessary
<ul style="list-style-type: none"> • Provide targeted rent subsidies to needy tenants. 	Necessary
<ul style="list-style-type: none"> • Foster competition in the housing management and maintenance industries. 	Recommended

The above list is not exhaustive; this paper does not directly address other actions necessary to create a market-oriented housing system, including comprehensive wage and price reforms. Further, this report does not present a detailed discussion of implementation issues, such as the development of institutions that can assess housing values, approximate market prices, originate and administer mortgage loans, etc. The primary client for this Policy Analysis Exercise is the Kiev City Council. However, the City Council is unlikely to implement all of these reforms unilaterally; indeed, some of the recommended reforms may fall outside of City Council jurisdiction. Because City Council officials are working with members of the Ukrainian Parliament to craft reform proposals, this paper has included such recommendations in order to present a relatively complete package of reforms.

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I. INTRODUCTION

The Kiev City Council is currently considering reforms of the city's housing system. The current system is dominated by state ownership and is characterized by high state subsidies, low rents, poor quality, a misallocation of housing, and an inadequate supply.

This paper examines the reasons for the poor performance of the existing housing system. Next, the advantages of a market-oriented system are discussed. Specific reforms aimed at transforming Kiev's housing sector into a market-oriented system are assessed on a criteria of efficiency, equity, feasibility, and the protection of low-income families and individuals. Evidence from countries in Eastern Europe, where similar reforms have been implemented, support predictions on the likely results of various reforms.

II. THE CURRENT HOUSING SYSTEM

Kiev's housing system is dominated by state ownership—over 80 percent of the stock is owned by the City Council or state firms and organizations. The system is characterized by extremely low rents and high state subsidies, an inefficient, administrative allocation of units, shortages, underinvestment, and poor maintenance and management.

Under the socialist system, the Ukrainian people have received low wages but highly subsidized rents. In effect, the government withheld the portion of people's wages that would have been spent on housing in order to centrally determine the level and style of housing investment. The government completely controlled housing construction, maintenance, management, and allocation.

Kiev is a city of 2.6 million people; the housing stock consists of over 800,000 apartments.¹ The breakdown of the ownership of the stock is represented in Figure 1, below. The municipal sector includes housing owned and operated by the City Council. The departmental sector includes housing owned and operated by firms and organizations of state ministries and departments. The cooperative sector includes cooperative buildings built and often managed under City Council supervision. The private sector consists mainly of owner-occupied single-family homes. This section of the paper focuses on the municipal sector, over which the City Council has the greatest jurisdiction. Appendix B describes

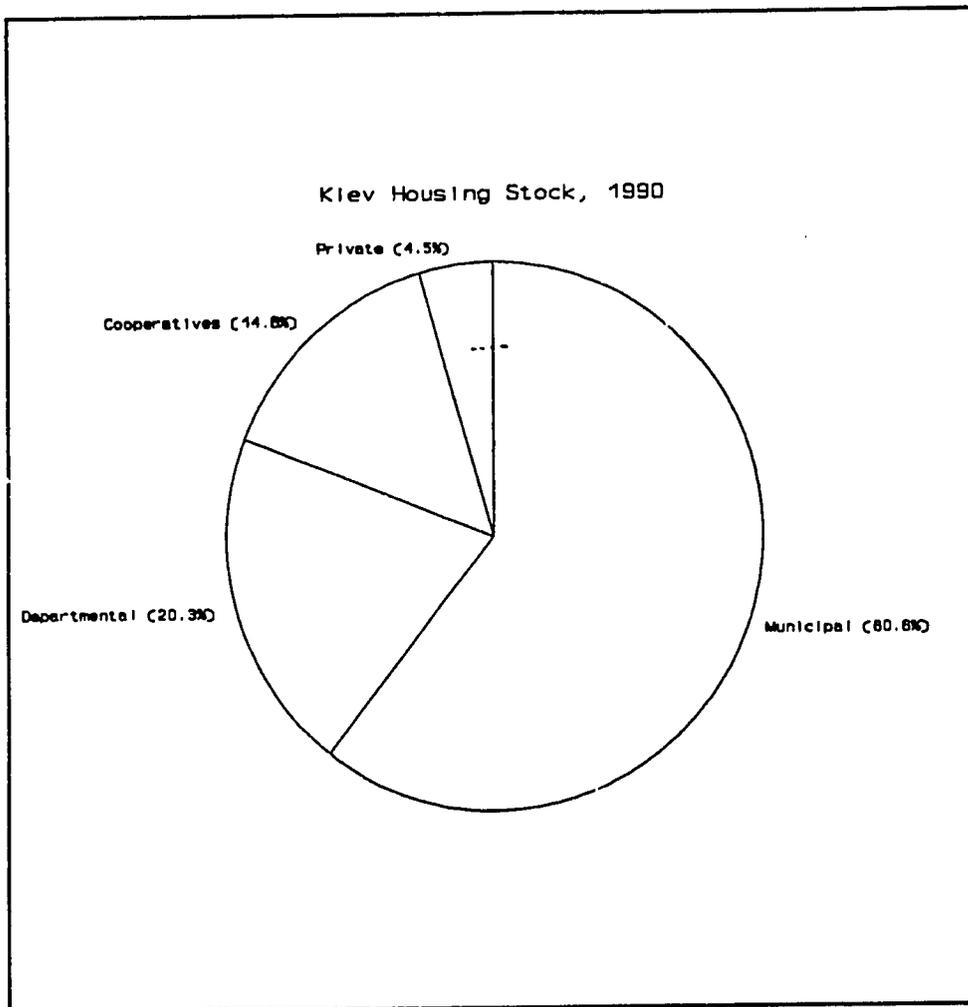


Figure 1

the municipal and other sectors in greater detail.

Rents in the former Soviet Union have been extremely low, averaging about one percent of family income (or three percent including utilities charges.)² In other industrialized countries as well as developing nations, middle income households typically spend 15 to 30 percent of family income on rent.³ On the other hand, households in the former Soviet Union may spend as much as 80 percent of their income on food,⁴ whereas food expenditures typically account for 20 to 30 percent of the household budget in other industrialized and developing nations.⁵

Rents are differentiated by apartment size, but not by apartment quality or location. Because municipal rents are uniformly low (even with size differentials,) all municipal tenants essentially receive housing for free, except that those with the best apartments receive

far more for free than the less privileged. Soviet rents have been estimated to cover less than one-third of the cost of operating and maintaining the housing stock; the deficit is made up with on- and off-budget state subsidies.⁶

Officially, municipal housing is allocated administratively through a system of waiting lists. Families are eligible to join waiting lists if they have "inadequate" housing (less than 7 sq. m. per person.) Preference is given to veterans, invalids, and other special groups.

In practice, top government officials and other well-connected groups (members of favored professions, etc.) have been given preference in housing allocation; members of these groups have received the largest and best apartments. Because these groups form the wealthiest strata of society, and because the housing sector is generously subsidized by the state, this system has resulted in the inequitable situation where the richest members of society receive the highest subsidies.

Current housing allocation may also be inefficient. Because the price of housing does not reflect its true cost or scarcity, those who have access to the supply of housing tend to consume as much as possible. Thus, some people may remain in apartments that are too large for their needs and preferences, while others are overcrowded in small apartments because they cannot obtain a larger unit, even though they would be willing to pay a high price.

Current housing shortages are indicated by the long waiting lists for apartments; as of January 1, 1991, 155,662 families were on waiting lists for municipal housing. It is unclear how much of this "shortage" is actually due to misallocation or excess demand caused by the current low prices.

Housing maintenance and management are poor. Building halls and stairways are dark and filthy, and tenants complain of having to perform most repairs themselves. Some 3,800 families are currently living in housing needing "emergency repairs."

The City Council Executive Committee Housing Department is responsible for the management of the entire municipal stock as well as 65 percent of the cooperative stock; this includes 7,073 buildings with 602,972 apartments. The Department is divided into 14

regional offices which are further divided into 114 neighborhood offices; the neighborhood office are actually responsible for carrying out maintenance and repair activities. The cooperative stock not under the jurisdiction of the Department is self-managed, as is the private stock. Buildings in the departmental stock are managed by the firms and organizations that own them.

Tenants in municipal housing have strong implicit property rights to their apartments. Tenants are currently allowed to pass their apartments on to their children, as long as the children's names appear on the lease. Other relatives may not inherit apartments. City Council officials report that failure to pay rent is rarely prosecuted.

Municipal tenants are permitted to trade apartments, with some restrictions. Trades must be registered with the City Council Executive Committee. The registration office must certify that the flats to be traded meet the minimum space requirements (13 sq. m./person) for those to be moving into them. Apparently there are no maximum size restrictions. No monetary compensation is permitted for trades, (although such compensation is widely acknowledged to occur.) Municipal apartments may be traded for cooperative units (and possibly for departmental flats) and vice versa.

In 1989, the City Council passed a law permitting state tenants to purchase their apartments⁷. Prices are determined by the original construction cost of the building; adjustments are made to reflect apartment size, condition and location. A downpayment of 30-50 percent is required at the time of sale; the balance is paid over 10-15 years with no interest.⁸ As of January 1, 1991, approximately 1,000 apartments had been sold under the city law. The slow rate of sales is apparently due to bureaucratic resistance and disinterest among tenants, who have little desire to purchase their apartments while they enjoy permanent tenancy rights at heavily subsidized rents. Currently, residents who purchase their apartments are permitted to re-sell or rent out these units. However, the City Council is currently debating a law that would require that in the future such apartments could only be sold to the City Council.

III. RATIONALE FOR RECOMMENDED MARKET REFORMS

The main rationale for market-oriented reform is to create an incentive system that will encourage people to take care of the existing housing stock and to build new housing. In a market system, individual consumers may pay as much as they are willing and able to obtain the quantity and quality housing they desire, and producers are permitted to earn profits by responding to consumer wishes. Thus, housing developers and owners have monetary incentives to build and care for housing as long as they can profit by renting or selling units. Profit-seeking owners can hire profit-seeking managers and maintenance companies, who have a monetary incentive to perform good services in order to increase their business.

In a market housing system, rents and purchase prices are determined by gross levels of supply and demand as well as individual negotiations between consumers and owners. Thus, the market mechanism provides information (helping consumers and producers to make decisions about consumption and production on the basis of prices) and serves an allocation function (as housing is allocated to consumers with the highest willingness and ability to pay.) If the housing market is perfectly competitive (no monopolies or other distorting forces constrict housing supply or demand) the independent decisions of housing consumers and producers can be expected to result in an "optimal" outcome, that is, where there is an efficient allocation of housing, level of housing production, and use of inputs for housing.

The reforms recommended in this paper will allow consumers and producers to freely respond to market signals and incentives. To succeed, housing reforms must take place in the context of comprehensive wage and price reforms. Instead of providing general subsidies to the housing sector to keep rents low, the government should allow wages to rise so that workers may make individual decisions about how much housing they wish to consume and how much they are willing to pay for it. (Of course, poor people may require individual rent subsidies in order to meet their housing needs.) Housing rents and sales prices must be allowed to rise to market levels so that consumers and producers have the information to

make efficient decisions, and so that producers can make profits through the provision of housing. At the same time, prices for construction and maintenance materials must be decontrolled so that producers can make efficient decisions about housing development and repair.

A crucial reform will be to clearly define and enforce property rights allowing owners to exchange, rent or sell their property. Only when such rights are established will investors be willing to buy, maintain, or develop housing. Market reforms may also include the privatization of part of the state stock, since privatization will immediately establish the market incentives for the improved management and maintenance of these units.

Because the government currently owns such a large portion of the housing stock, market-oriented reforms must include increases in state rents to market levels. Without such increases, few tenants will be willing to move to private housing, which will stunt the development of a private housing sector. Likewise, few residents will be willing to purchase their apartments while they enjoy highly subsidized rents.

Ideally, market reform should also encourage a competitive environment in housing construction, management and maintenance, because competition encourages producers to act efficiently and meet consumer desires.

If the above reforms are accomplished, the market should theoretically produce an efficient allocation and appropriate quantity and quality of housing. Individuals and organizations will have an incentive to use the available space efficiently: individuals will trade large, underused apartments for smaller, cheaper ones; organizations will rent or sell empty units. The overall supply of housing will increase as developers build new housing to meet the pent-up demand. Well-built and well-managed apartment buildings will command higher rents; this will provide incentives for construction and management improvements.

Housing reforms may also have beneficial effects on labor mobility, since workers will be able to move to those areas where their labor is in highest demand. Additionally, reforms of the housing system may have macroeconomic benefits, as households will be encouraged to save for homeownership, which will increase the funds available for investment in the

economy.⁹

IV. THE FUTURE CONFIGURATION OF KIEV'S HOUSING SYSTEM

Before implementing reforms that will transform Kiev's housing system, the city's leaders should consider the ultimate goal: the desired shape of the future housing system in terms of the types of housing ownership that will dominate. Common housing ownership forms for multi-family buildings in market housing systems are of two types: the "owner-occupant" models, which include condominiums and cooperatives, and the "landlord" models, which include private, non-profit, and municipal ownership. These ownership forms are described in detail in Appendix A. The relative advantages of the various forms are discussed below, followed by a discussion of the configurations of existing market systems, and then recommendations on which forms Kiev should adopt.

A. COMPARISON OF THE VARIOUS OWNERSHIP FORMS

Each of the various ownership forms has its advantages for different people and circumstances. For example, owner-occupied housing may have a number of advantages over rental housing, both for the residents and for the economy as a whole. Residents often prefer owner-occupied housing because it gives them control over their homes; they cannot be forced out by a landlord. Residents of owner-occupied housing are believed to take better care of their apartments, since they have a stake in maintaining or increasing the value of their homes. Owner-occupied housing may also have several macro-economic advantages, especially for economies undergoing transition to market systems. Allowing residents to invest their savings in their homes can help to increase savings and restrain the inflation of transforming economies. The related decrease in government subsidies can also lessen inflationary pressure.¹⁰

Each of the owner-occupied forms has its own advantages. For example, the advantage of the condominium is first of all its simplicity; the concept is easily understood. Another advantage of the condominium from the point of view of the owner is that it

provides the owner with maximum control over the unit; unlike a cooperative board, a condominium board cannot generally veto an agreement to sell a unit.

The cooperative form, on the other hand, has certain financing advantages. The cooperative association generally takes out a mortgage for the entire building, which reduces financing risk to lenders and is consequently cheaper for borrowers than the individual financing of condominiums. This feature gives the cooperative association an incentive to carefully screen new members, since existing members want to ensure that new members will meet payment obligations. Consequently, the cooperative form may promote homogeneity among building occupants.

Limited equity cooperatives preserve housing affordability, but they are likely to reduce mobility, since people tend to get "locked in" to this inexpensive housing.

Some argue that the private landlord models may be more efficient than the owner-occupied forms, since it is generally less time-consuming for one landlord to make a management decision than for a group of tenants to do so.¹¹ Another advantage to rental housing is that it permits greater mobility among residents, since it is cheaper and easier to change a rental apartment than to sell one unit and buy another.

B. HOUSING MARKET CONFIGURATION IN WESTERN COUNTRIES

There is no one model for what a market-oriented housing system "should" look like. The mix of landlord vs. owner-occupied, condominium vs. cooperative, and public vs. private ownership varies widely among western countries.

In Chicago, Illinois, 14 percent of the multi-family housing stock is owner-occupied, while the remainder is rental. Of the owner-occupied multi-family stock, 90 percent consists of condominiums and 10 percent consists of cooperatives. In New York City, the rate of owner-occupancy in multi-family housing is also 14 percent. However, of the owner-occupied multi-family stock, 30 percent are condominium 70 percent are cooperatives.¹² These differences may be due to state or local tax policies or other factors, since some states and localities provide preferential tax treatment for various housing ownership forms.¹³

The amount of rental stock that is publicly owned also varies widely in western countries. In the U.S. only two percent of the housing stock is owned by federal, state and local governments,¹⁴ while in the Netherlands over 30 percent is government-owned.¹⁵ This contrast is due to different decisions by the governments of these countries regarding the state's role in the housing sector. The U.S. tends toward a philosophical belief that the state should have a very limited role in housing provision, while other countries favor greater government involvement.

C. RECOMMENDED OWNERSHIP FORMS

As a long-term strategy, the City Council should promote homeownership through the sales of apartments to occupants, as well as a diverse rental sector through sales of buildings to for-profit and not-for-profit landlords. This strategy will promote the advantages of owner-occupancy for those residents who are willing and able to take on ownership responsibility for their units, while preserving a rental sector for young families, transient workers, and others who wish to remain as renters. While pursuing this strategy, the members of the Kiev City Council and the Ukrainian Parliament should carefully consider how much of the housing stock they wish to leave in the public domain. As was described above, in western countries this decision is made according to philosophical beliefs about the role of government in the provision of housing.

In the short term, it is unclear whether the City Council would be able to sell municipal buildings to for-profit landlords. However, even if such sales were possible, they may not be politically advisable. In the early stages of reform, while municipal rent levels remain very low, the demand for expensive private rental housing would probably be very limited, and thus the city might have difficulty selling buildings to private landlords, who would doubt their ability to make a profit. On the other hand, the fact that there is only a very limited supply of private rental housing might enable private landlords to charge high rents, thus it might be possible to sell some municipal buildings to the private sector. However, selling occupied municipal buildings could have adverse political consequences if

private landlords are permitted to raise rents above municipal levels, since this will be perceived as unfair to the tenants who happen to live in these buildings. Thus, it is probably not desirable to sell municipal buildings to private landlords until municipal rents are raised to market levels.

In the immediate future, the City Council should guard against greatly reducing or eliminating the state rental stock through sales to occupants, since young families and transient workers depend on rental housing to meet their shelter needs. Additionally, as will be discussed further in Section VI.B.1.c., a sudden reduction in the size of the state stock could result in an undesirable concentration of the poorest citizens in the worst of the remaining stock. Thus, the city should continue to own and manage some portion of the municipal stock (or transfer this stock to non-profit organizations) until it is possible to sell some of these buildings to for-profit landlords, or until the private rental sector expands enough so that people at all income levels have a variety of housing choices.

Of the owner-occupied forms, condominiums are probably most appropriate for an infant market housing system. Condominiums are preferable because of their simplicity and because the current income mixing in buildings will make individual mortgages preferable to group financing.

V. CRITERIA FOR EVALUATING REFORMS

This paper evaluates proposed reforms on the following criteria:

Efficiency (totals of all costs and benefits)

- allocation of units
- promoting labor mobility
- management (reducing waste while ensuring upkeep)
- targeting of subsidies to those in need

Equity (distribution of benefits and costs)

- fair allocation of units

- Feasibility of implementation
 - political
 - administrative
 - financial impact on government
- Protection of low-income families and individuals

VI. RECOMMENDED REFORMS

A. DEFINE AND ENFORCE PROPERTY RIGHTS

To facilitate the development of a market system, it is absolutely essential to establish a system of property laws that give housing owners control over their property. Unless owners are guaranteed the right to rent, exchange, or sell their property, they will be unwilling to care for existing housing or invest in new housing. As part of this reform, the rights of owners must be clearly delineated from those of tenants. A system of enforcing the rights and obligations of owners and tenants must be developed.

1. RIGHTS AND RESPONSIBILITIES OF OWNERS

The first step in the development of a system of property laws should be to remove from the books any remaining laws that unreasonably restrict housing ownership. People should be permitted to own as many houses and apartments as they wish, and they should be allowed to rent or sell these units at whatever prices the market will bear. Governmental involvement in property sales should be limited to the registration of the title change and possibly the imposition of a sales tax. (See end note 21, below, for a discussion of the sales tax.)

On the other hand, the government may restrict property uses and conditions. For example, zoning laws typically regulate the use (commercial, residential, industrial) and the density of development in urban districts. Building codes define the acceptable construction and maintenance of buildings for safety purposes. For example, building codes set light,

ventilation, and fire safety standards, and these codes require that buildings be kept in adequate repair.

The city government must establish institutions (or adapt existing institutions) that can develop and enforce zoning laws and building codes. Further, as will be discussed below, the court system must be empowered to enforce the rights and responsibilities of owners as well as tenants.

2. RIGHTS AND RESPONSIBILITIES OF TENANTS

The rights of tenants must be clarified. Instead of the existing permanent and guaranteed tenancy rights, tenants should have fixed-term, renewable rights. Under a fixed-term lease, the tenant has the right to live in an apartment while the lease is in effect, but the landlord may decide to rent the apartment to someone else at the end of the term of the lease.

In the U.S., tenants and owners generally sign one- or two- year leases, which are essentially contracts that define the rights and responsibilities of each party. The lease defines the amount of rent to be paid, who is responsible for paying utilities, the landlord's responsibilities for making repairs, etc. If the tenant violates the terms of the lease (by misusing the apartment or failing to pay rent) the landlord may go to court to get a legal order to evict the tenant. If the landlord violates the terms of the lease (by failing to provide agreed-upon utilities or repairs) the tenant may go to court to force the landlord to comply. In addition to the terms of the lease, a landlord's obligations are defined by local laws and regulations such as building codes, which were described above.

Establishing a system of fixed-term, renewable tenancy rights in Ukraine's emerging private sector should not be problematical. However, imposing fixed-term leases on existing state tenants is bound to be politically difficult. Existing tenants may have held their apartments for generations, or they may have "purchased" their implicit property rights through years on a waiting list or through bribes or other illegal payments. Of course, because of the inequities of the old system, not every family had the connections or financial

means to obtain such property rights. However, it may be advisable for the government to recognize and deal with tenants' implicit property rights when implementing a reform program. An equitable method of dealing with this problem will be described in detail in Section VI.B.2.c., below, which describes a privatization program that would provide each citizen with a voucher to be used for housing purposes, including payment for apartment purchase, rent or repair expenses. Through the use of the voucher, tenants would be compensated for their implicit property rights when their lifetime property rights are converted into fixed-term, renewable rights.

B. PRIVATIZATION

There are many possible strategies for privatizing the state stock. The options include giving the stock away en masse to the residents, (as is being done in Moscow) and controlled sales at market prices (as is recommended in this paper.) The options differ according to the following variables:

- the price - whether housing is free, sold at a discount, or sold at market prices;
- choice - the degree of choice residents have about assuming ownership of their units--whether they are given the unconditional right to privatize, or the government controls this process;
- eligible purchasers - who is permitted to buy units--only residents, or anyone interested.

The results of any privatization effort, (in terms of the amount of housing privatized and the speed of the process,) will depend on the decisions that are made about the above variables, as well as the reforms that occur in the state rental sector. For example, the higher the sales price, the fewer residents will wish to purchase their units. On the other hand, the higher rent levels, the more residents will wish to own. Similarly, the weaker tenant rights, the more incentive to purchase.¹⁶

In Hungary, sales of state-owned units have been slow despite below-market prices and extremely advantageous mortgage terms, because state rents have remained very low.

The government has a standing offer to sell individual units to occupants at discounts ranging from 60-85 percent of current market value. Despite generous financing terms--downpayments as low as 10 percent annually--only about 20 percent of the state-owned rental stock had been sold as of mid-1991. Most of these sales took place in 1991 as fears of rent hikes increased. At that time, it was still much cheaper for the household to remain as a tenant with low rents and no responsibility for maintenance and repairs.¹⁷ More recently, apartment sales in Budapest have increased as property values have appreciated and fears of rent hikes have grown.

The following sections will examine the privatization plan currently under consideration in Ukraine, discuss some modifications, and then describe the recommended alternative. This analysis focuses on variations in the price units are sold at, and the choice residents have in deciding whether to assume control over their units. The analysis does not consider variations in eligible purchasers, because the government does not seem inclined to consider options that might immediately force long-time residents to vacate their units, such as the auction of occupied apartments. However, the government may well decide to sell entire buildings to non-profit or for-profit landlords in the future.

1. THE CONCEPT: Giving Away the State Housing Stock

Past and currently proposed reforms of Kiev's housing system have focused on privatizing the state stock. Republic and city officials believe that privatization will reduce state housing subsidies by transferring these costs to the people. Further, it is hoped that privatization will improve upkeep, since private owners are expected to take better care of their property.

The most recent reform proposal is the "Concept of Denationalization and Privatization of Enterprises, Land and Houses," passed by the Supreme Soviet of Ukraine on October 29, 1991. This Concept outlines a privatization process by which each citizen would receive a "housing coupon." The value of a coupon is equivalent to an apartment of average size. Coupons could be used for the purchase of state flats, for rental payments, or for

housing repairs.

Specifically, the Concept proposes that a tenant could use the coupon to purchase his/her flat (an extra payment would be required if the flat was larger than average, the tenant is to be reimbursed if the flat is smaller than average.) If a tenant refuses to purchase his/her apartment, leases are to be imposed. According to Republic officials, current tenants would receive lifetime leases, but the inheritance of such leases would not be guaranteed. Citizens who are in private housing or are on waiting lists for public housing could use their coupons for "improvement of their living conditions," repairs or lease payments.¹⁸

Because tenants are given the unconditional right to purchase their units, and because the housing is to be essentially given away, the Concept implies a sudden, massive transfer of housing ownership to the people.

The Supreme Soviet had intended to develop the Concept into a more detailed law by December, 1991, but recently it has become unclear whether the leadership will pursue the plan outlined in the Concept. A law (based on the Concept) introduced in the Supreme Soviet in December was sent back to committee for revisions, reportedly because the Parliament felt the proposal was too favorable to the nomenclature, who tend to have the best apartments. More recently, a top-level official stated that immediate privatization is impossible on a wide scale because of the shortage of housing and the existence of communal apartments, which house more than one family.

a. Coupon Value Under the Concept

The Concept defines the value of a housing coupon in terms of size, since a coupon gives a citizen the right to receive for free an apartment of average floor space. (However, as is discussed further below, a monetary value will have to be placed on the coupons in order to compensate those on waiting lists or in private housing.) Valuing coupons in terms of size ignores other apartment qualities, such as building condition and location. Since the Concept implies that residents are to use the coupons to privatize the apartments they already live in, this plan is inequitable, since some people will redeem their coupons for nice

apartments in the center of Kiev, while others will be stuck with run-down units far outside of town.

Another difficulty with the proposal is that although it states that each citizen will receive a coupon, it actually seems to imply that each family will receive one—otherwise there will be far more coupons than apartments. However, since extended families of many generations are often doubled-up in single apartments, it is unclear how coupon distribution would be determined. Even using a "nuclear family" definition would seem difficult in a nation with fairly high divorce rates.

The supposed advantages of the valuation method of the Concept proposal are the apparent ease of implementation and potential speed of the privatization process. However, the Concept's attempt to be fair to those without apartments and those in private housing will complicate the administration of the proposal, as well as raise its expense. The Concept would allow homeowners and those without their own apartments to use their coupons for repairs or rental payments. This will require that a monetary value be placed on the coupons. To be truly fair, the monetary value should be equal to the market value of an average apartment, and calculating this value will complicate the implementation of the Concept. Further, as will be discussed below, it will be expensive for the government to compensate all of those who will be eligible.

b. Alternative Coupon Valuation Methods

The following valuation methods would make the coupon proposal more equitable, while retaining the basic function of giving away the housing stock for free. These proposals would be somewhat more complicated than the Concept to administer, and thus would slow the privatization process.

An average value method would define the value of a coupon as equal to the value of an "average" apartment in terms of size, condition and location. Each local government would then assess its housing stock, define an average size, condition and location, and establish a scale of prices for the degree that apartments fall above or below those averages.

(Ideally, these prices should be determined by market values, as will be discussed below.)

Thus, a person with a better than average apartment would pay an additional amount, while someone with a worse apartment would get a refund. This alternative is more equitable than the Concept proposal, but it shares the difficulty of the Concept in defining "family."

A total value method would estimate the total market value of the city's housing stock (x), then divide that amount by the number of citizens (y) then give each citizen a coupon worth x/y hryvnas.¹⁹ (Again, a method of determining market value will be described below.) When a resident wished to privatize his/her unit, the unit would be appraised for a hryvna value based on many factors of apartment quality, including size, condition and location. Since every citizen would receive a coupon, a single coupon would not be sufficient to purchase most apartments; the three or four family members who share an "average" apartment could pool their coupons in order to purchase their unit. Alternatively, one or two family members could use their coupons and then pay the difference in cash.

c. Assessment of the Concept and Alternative Give-Away Proposals

There are three problems with the Concept and the proposed alternatives. The first relates to the fact that the stock would be given away as opposed to sold; as is explained below, this feature makes the plan expensive as well as inefficient in the short term. The second relates to the fact that people would be given the unconditional right to assume ownership of their homes; this threatens to complicate the city's housing management activities. The third relates to the Concept goal of speedy privatization; a massive transfer of ownership could lead to reduced maintenance, or it could completely eliminate the rental sector or otherwise distort the housing system. However, as is explained in Section VI.B.2., below, aspects of the Concept and alternative strategies may be usefully employed in the recommended Controlled Market Sales alternative.

Regarding the first problem, giving the stock away as proposed will be expensive for the government, because it may fail to reduce state housing subsidies, and in fact it could

actually cost the government money. Recent experience in Budapest showed that a privatization program that sold units at large discounts failed to reduce housing subsidies because only the better units were sold while the worst remained in city ownership; thus the city was left with the stock that was most expensive to manage and yielded the lowest rents.²⁰

In fact, giving the stock away as proposed may actually cost the government money because of the compensation provided to non-buyers and private housing owners. If the coupon value approximates the value of an average apartment, and tenants and private housing owners are permitted to use the coupons toward rent and housing repairs, the privatization program will be costly to implement. Consider the simple case of a city of 100 citizens, 70 of whom live in state-owned apartments, 10 of whom live in dormitory rooms, and 20 of whom live in private houses. Under the Concept proposal, each household would get a coupon worth an apartment of average size. If each of the 70 citizens living in state-owned housing decide to assume ownership of their units, they would simply trade in their coupons for an apartment, and there would be no net financial effect on the city. However, each of the 10 people living in dormitory rooms and the 20 people living in private housing would be entitled to a monetary payment in order to pay rent or make repairs to their dwelling, thus the privatization program would cost the city money.

An additional problem with the giveaway option is that it would fail to promote efficiency in housing allocation in the short term, since the fact that tenants could receive their current units for free or at huge discounts would encourage residents to stay put rather than moving to more appropriate housing. This tendency will also retard labor mobility, as workers may be unwilling to undergo the expenses of moving to a new job when they can purchase their current unit at a highly subsidized price. However, allocative efficiency (and labor mobility) can be expected to improve over time as residents re-sell their units.

Regarding the second problem, the "as-of-right" privatization offer may complicate the city's housing ownership responsibilities and management activities as many buildings become "mixed-ownership." If the Concept is implemented, the city will have to make

special arrangements for the management of the many buildings that are likely to have just a few owner-occupied units. At the same time, the city will be completely relieved of ownership responsibilities in very few buildings, since in most buildings a few residents will probably elect to continue renting.

Regarding the third problem, the speedy privatization of the entire municipal stock may lead to reduced maintenance and ultimately endanger the stock. Kiev's tenants simply lack the experience to instantly take on management responsibility for their homes, and there are currently no support services in place to help them with this effort. In developed market housing systems, condominium and cooperative boards rely on a whole network of independent management companies, plumbers, electricians, and other service providers to help them carry out their management responsibilities. Further, owner-occupants are a self-selected group who have made the decision to take on management responsibility for their homes, unlike the tenants of Kiev, who would have this responsibility virtually forced upon them under the Concept. In the short run, the City Council Executive Committee Housing Department could continue to provide management services to the newly privatized buildings. (And in the long term, residents may contract for services from private management companies.) However, a tremendous short-term danger remains that inexperienced residents will defer needed repairs and thereby contribute to the further deterioration of the stock.

An additional problem with a massive privatization program is the potential for a sudden, dramatic reduction in the size of the state rental sector. This reduction would be problematic for three reasons. First, the state sector currently dominates the rental market, and if most of the state stock is privatized, there will be no rental housing for young families or transient workers. Second, a dramatic reduction in the rental sector will adversely effect labor mobility. Third, if most of the stock is privatized, the government is likely to be left with the worst stock, and the poorest citizens are likely to be concentrated in this stock. This concentrated poverty is an undesirable situation for those of low income, as well as for the government, since it is often difficult to manage housing that is populated exclusively by the

very poor.

2. THE RECOMMENDED ALTERNATIVE: Controlled Market Sales

This paper recommends that state housing be privatized through sales to residents at market prices when more than 50 percent of a building's tenants demonstrate an interest in assuming ownership. Resident ownership should be structured under the condominium form for the reasons described in Section IV.C., above. In order to recognize the implicit property rights of existing tenants while being fair to those who were not able to obtain housing under the old allocation system, each citizen should receive a housing coupon that could be used toward the purchase of a state apartment or for rent or housing repairs. The coupons should have a monetary value equal to some fraction of the per capita value of the housing stock.

a. Rationale for Controlled Market Sales

Controlled market sales of municipal apartments are superior to the massive give-away option for a number of reasons. As is explained below, selling apartments at market prices should reduce government housing subsidies and may actually raise money that the city government could spend on public purposes such as further housing development. Further, a strategy of market value sales will result in a more efficient allocation of housing in the short term. Finally, this solution avoids the massive, uncontrolled transfer of ownership that could disrupt the management of the city's housing stock and decimate the supply of rental housing.

Market sales will reduce state housing subsidies and possibly raise money both by encouraging the privatization of apartments of varying qualities, and by allowing the city to raise money through the sale of the better units. Market prices will encourage more balanced sales of the housing stock because the residents of less desirable units will be encouraged, by the comparatively low prices, to assume ownership of their units; thus the city will be relieved of the expense of operating some of the less desirable stock. At the same time, the

sale of the better units will raise funds that can be used to compensate those in inadequate or private housing, and perhaps for further housing development or other public purposes.

Sales at market prices will encourage the most efficient allocation of the housing stock in the short term, since people faced with market prices will purchase only as much housing as they really want to consume. In other words, people will not purchase an apartment that is too large for them simply because it is heavily subsidized and/or they already happen to live there. The corollary argument is that market value sales will improve labor mobility, since workers faced with market prices will be more inclined to move to where jobs are available if they are not provided with large housing discounts for staying put.

b. Estimating Market Prices

In the beginning of the privatization process, the government will only be able to make rough estimates of market prices. Over time, the government's ability to approximate market prices will improve. One possible method for estimating prices is to establish a price for an average unit in terms of size, location and condition. For example, the average unit might be 50 sq. m., located .5 kilometers from the city center, etc. Next, the government should establish scales of price adjustments for the variables that determine apartment quality: size, location and condition. The estimated price of the average unit, as well as the scales of price adjustments, should be based on data that reflects how much people would be willing to pay for various types of apartments on the open market. Methods for gathering such information include:

- surveys and/or interviews in which people are asked how much they would be willing to pay for various types of apartments;
- monitoring of the monetary payments that are made in apartment exchanges;
- monitoring of sales prices on the private market.²¹

Every apartment that is to be privatized should be appraised; that is, visited by a city inspector who assesses its size, condition, and location. The average apartment price would

then be adjusted to reflect the qualities of the particular apartment. For example, if the average apartment is located .5 kilometers from the city center, and the apartment in question is located .3 miles from the city center, the price would be increased by the appropriate increment.

c. Housing Coupons: Discounts to Tenant Buyers, Compensation to Non-Buyers

In order to recognize the implicit property rights of sitting tenants, while compensating those who will not be immediately able to purchase an apartment or who live in private housing, the government should issue each citizen a housing coupon that could be used either toward the purchase of a state flat, or for rent or repair expenses. These coupons will essentially give all buyers a flat discount on the purchase of their unit; this discount is meant to compensate buyers for their implicit property rights.²² At the same time, the plan will be fair to those who do not have an opportunity to purchase a flat in the short term by allowing them to use their coupons toward rent, repairs, or other housing expenses. This second group will include both state tenants and households in private housing. State tenants who are not willing or able to purchase their apartments will be compensated for the loss of their permanent and guaranteed tenancy rights; these rights will be converted to fixed-term, renewable rights when tenants use their coupons toward rent payments. Finally, the coupon will also compensate those on waiting lists or in private housing who have not benefitted from the government's past deep housing subsidies; these groups could use their coupons for rent, repairs, or other housing expenses.

The coupons should have a monetary value equal to some fraction of the per capita value of the housing stock. To calculate this monetary value, the government should set the coupon value at some percentage of the monetary value reached using the total value method (described in Section VI.B.1.b., above.) Specifically, the government should estimate the total market value of the city's housing stock (x), then divide that amount by the number of citizens (y) and then give each citizen a coupon worth some percentage of x/y hryvnas. To avoid a government subsidy of the privatization program, the chosen percentage should

be at most that which is projected to be the break-even point—that is, the amount where government income (from revenues through apartment sales) will equal expenditures (through foregone rent, rent payments, and repair expenses.) The coupons should be non-transferable and non-negotiable to avoid any inflationary effects.²³

The value of the coupons should be indexed to inflation to avoid penalizing those who are not able to use their coupons right away. However, a time limit should be placed on the use of the coupons in order to speed the rationalization of the housing system and avoid prolonging the uncertainty of the privatization program for those citizens who want to purchase their apartments but are unable to because an insufficient number of the residents in their building are interested in purchasing.

d. Seller Financing

Many families will not have enough savings to purchase their apartments outright at market prices, even with the discount provided through the coupons. Further, the Ukrainian banking system is not yet equipped to provide individual mortgage loans. Therefore, in the short term the government should provide seller financing in the form of market rate mortgage loans in order to enable people to purchase their apartments.²⁴ Over the longer term, the government should facilitate the development of an efficient banking system operating on market principles. Private banks can then purchase and take over the servicing of municipally-provided loans, as well as originate mortgage loans for the purchase of apartments.

Mortgage loans should be provided at market interest rates (rather than low, subsidized rates) for three reasons: to avoid an expensive and unwarranted subsidizing of purchasers, to avoid biasing state tenants toward purchasing a current unit instead of seeking a more appropriate unit, and to facilitate the resale of loans to private banks in the future.

The standard loan instrument used in the U.S. is a fixed nominal interest rate, fixed term mortgage which requires the borrower to make constant nominal payments until the loan is fully amortized.²⁵ This type of loan is probably not suitable for Ukraine because of

the current macroeconomic uncertainty and probable high inflation rates. In an inflationary environment, the nominal interest rate on a fixed rate, fixed term loan would be set extremely high to enable lenders to earn a positive real rate of return on their investment. As a result of the high nominal rate, the real value of the payments will be very high in the early years, but very low in the later years as inflation erodes the value of the constant payments. Many households would find the early payments unaffordable, or the loan amounts they could afford too small to enable them to purchase the desired home. Further, banks may be unwilling to provide fixed-rate loans in uncertain economic conditions due to the risk that they will lose money if they underestimate inflation.²⁶

Two alternative mortgage instruments may be more appropriate for the uncertain macroeconomic conditions that will prevail in Ukraine during the period of economic reform. The price-level adjusted mortgage (PLAM) and the Dual-Indexed Mortgage (DIM) rearrange loan payments so that the real value of these payments constitute a more constant fraction of real income over the course of the loan. This enables the household to take on a much larger loan than would be possible under a fixed-rate, fixed-term mortgage.²⁷

The PLAM is a fixed term loan with a fixed real interest rate; the nominal monthly payments and the outstanding loan balance are adjusted according to a price index. The effect of this adjustment is that the real value of payments remains constant over the life of the loan. If wages change in tandem with the price index, the household will devote a constant fraction of income to the loan payments, otherwise the proportion of income spent on loan payments will vary. If real wages fall, borrowers may find monthly payments unaffordable and default.

The dual-index mortgage (DIM) also utilizes a fixed real interest rate. The DIM adjusts nominal payments according to a wage index and adjusts the outstanding balance according to a price index. This protects the borrower by ensuring that the payments are maintained as a constant fraction of income, while protecting the lender by ensuring that the value of the loan balance is not eroded by inflation. (However, the lender may have liquidity problems if real wages drop for long periods, since there will be negative loan

amortization.)²⁶ A target amortization period is established at the outset of the loan, but the amortization period is adjusted according to the real value of the payments that are made. The loan term would be extended when real wages are falling (since real payments would be low) and it would be shortened when real wages are rising. Table A outlines the main features and consequences of the three mortgage instruments.

TYPE	TERMS	COMMENTS
FRM	Fixed nominal interest rate. Fixed term.	Constant nominal payments. High real payments in early years, low real payments in later years. May be unaffordable to borrowers in early years, or affordable only at very low loan amounts. Uncertainty about future interest rates may make lenders unwilling to provide these loans.
PLAM	Fixed real interest rate. Fixed term. Nominal payments and balance adjusted to price index.	Borrowers eligible for larger loan amount than under the FRM. Constant real payments. If wages change in tandem with the price index, payments maintained as a constant fraction of income. If real wages fall, borrowers may default. The lender bears the risk of changes in the real interest rate.
DIM	Fixed real interest rate. Payments adjusted according to a wage index. Balance adjusted according to a price index. Term adjusted to accomplish amortization.	Like PLAM, borrowers eligible for a larger loan amount than under FRM. Payments a constant fraction of income (as long as the borrower's income moves with the wage index.) Lender's real rate of return is guaranteed. On the other hand, the lender may have liquidity problems if wages do not keep pace with inflation for long periods.

TABLE A

The PLAM may be the best mortgage instrument for Kiev because it is straightforward to administer, easily understood by borrowers, and provides protection to both borrowers and lenders in inflationary environments.²⁹ The DIM may be difficult to implement due to the difficulty of developing an accurate and up-to-date wage index, as well as the liquidity risk to lenders when there is large negative amortization due to falling real wages.

Regardless of which mortgage instrument is chosen, the terms of the mortgage agreement must explicitly provide for foreclosure and eviction if the resident fails to make the agreed-upon payments.³⁰ The city government may decide to help low income residents make loan payments if illness or unemployment prevent the household from keeping up with its obligations, but such assistance should be separate from the loan agreement so that the loan may be sold on the private market (since private banks cannot be expected to take on this social welfare responsibility.)

To avoid foreclosures, when originating mortgage loans the government should attempt to ensure that a household has sufficient income to meet loan payments. If the payments on a given loan exceed some stated percentage of income (perhaps 30 percent) the government should require co-signers to guarantee payments. The government could consider garnishing the wages of borrowers or co-signers if payments are not met, but this ability could not easily be transferred to the private sector if loans are sold.

The city government may administer loans (calculating changes in payments and terms, monitoring and collecting payments,) until the loans can be sold to private banks and this responsibility can be shifted to the private sector.

e. The Sales Process

Residents should be permitted to purchase their units only if a majority of tenants in the building wish to assume ownership of their apartments. This strategy will avoid complicating the City Council's housing ownership and management responsibilities as

would occur under the "as-of-right" sales offer outlined in the Concept.

In the short term, the City should retain ownership of those units where the resident does not wish to purchase, since it would be politically difficult to immediately sell units out from under long-term tenants. However, in the long run it will be desirable to end the city's involvement with owner-occupied buildings, since this will facilitate resident management as well as relieve the city of its management responsibilities. Therefore, the city should consider extending non-buying tenants some grace period (perhaps five years) after which they would have to purchase their unit or move from an owner-occupied building. If this alternative is politically unfeasible, the City Council should adopt the Concept proposal to provide lifetime, but not inheritable, leases to non-buying tenants. (However, it should be recognized that the political problems will not cease with the death of the lease-holder, since that person will undoubtedly have relatives living in the apartment.)

f. The Management of Owner-Occupied Buildings

As is described in Appendix A, management responsibility for a condominium building rests with the elected Board of Directors of the Condominium Association, of which every apartment owner is a member. While the city maintains ownership of some units of a building undergoing privatization, the city government will act as a voting member of the Condominium Association, with a number of votes proportional to its ownership share. Initially, the Condominium Association will have to provide for its own management and maintenance services, or continue to obtain such services from the City Council Executive Committee Housing Department. As is described in Section VI.C.4., below, as a private management and maintenance sector develops, the Condominium Association may contract for management services from private management and maintenance firms.

g. The Financial Impact of Privatization on the City Government

The financial impact of privatization on the city government will depend on the discounts provided to purchasers through the housing coupons, the number of units purchased (which will depend on the discounts, rent levels, tenants rights, etc.) and many other variables. In general, it can be expected that as apartments are privatized the city's subsidy burden will be reduced, and depending on the level of the discounts provided through the coupons, the city may generate income through the privatization program. This income could be used to fund housing development or for other public expenditures.

C. THE RENTAL SECTOR

The success of a privatization program, as well as the smooth functioning of the housing system as a whole, will depend on reforms in the state rental sector. Necessary reforms include gradually raising rents to market levels, targeting subsidies to those in need, and improving management.

Although the financial impact of these reforms on the Kiev City budget will depend on local conditions, it is likely that government housing subsidies will be reduced. In an analysis of a combination of rent increases and targeted housing subsidies in Hungary, the Urban Institute predicted a decrease in total government expenditures on housing.³¹

1. PUBLIC RENT LEVELS

Municipal rents should be gradually increased to market levels and differentiated by apartment quality in order to induce people to choose apartments that best meet their needs and incomes, spur private housing development, and encourage privatization.³²

Raising rents will encourage an efficient allocation of housing, since those who have larger apartments than they need or are willing or able to pay for will be encouraged to

move to more suitable quarters. (Of course, many poor tenants may not be able to afford the rent required for an adequate unit, and as is described below, the government should implement a targeted subsidy program to help these tenants to pay for rent increases.) Differentiating rents by apartment quality will be equitable, since those who have the best apartments will have to pay for this quality.

Ultimately, municipal rents must be at the same level as private market rents for similar units in order to encourage private investment in housing and to avoid social segregation. If municipal rents are not at market levels, few tenants will wish to leave their subsidized state apartments in order to move to new private units. And if there is no demand for the new private units, the prices (rents) for those units will not be high enough to cover the costs of private developers, who will therefore not wish to invest in housing. Further, as was described above, if the government maintains a small amount of poor-quality, subsidized housing, the lowest income citizens will tend to be concentrated in these units.

Raising municipal rents will also encourage privatization, since tenants will be more inclined to purchase their apartments once the deep rental subsidies are withdrawn.

As was discussed above, rent increases must be coordinated with the comprehensive price and wage adjustments associated with the economic restructuring process. Ultimately, rents must increase in real terms, and housing expenses will consume a larger share of average real household income. However, gradual rent increases should be coordinated with increases in real income to avoid placing an unreasonable rent burden on households while food costs and other expenses remain extremely high. A possible course of action would be to raise rents 100 percent during the first year of reform, and then to raise rents 125 to 150 percent of a consumer price index in subsequent years until market levels are reached.

The outline of the entire program of rent increases should be announced at the outset

of reforms, since this will allow the population to make informed decisions about housing consumption and investment. However, the details and dates of expected rent increases should not be announced in advance, because it will be necessary for the government to maintain the flexibility to adapt to unforeseen events and conditions.

2. PRIVATE RENT LEVELS

Private rent levels should not be controlled by the government. In order to encourage private investment in housing, private housing developers must be allowed to charge rents that are high enough to cover the costs of building and operating housing and to provide an adequate return--otherwise the investors will put their resources into other sectors of the economy.

3. TARGETED RENT SUBSIDIES

Many low income households will be unable to afford market rents; therefore the government should provide rent subsidies to help needy families meet their housing needs. Such subsidies are common in market housing systems: every country in western Europe uses targeted subsidies to protect the poor from having to spend an excessive share of their income on rent.

In Hungary, the Urban Institute has recommended targeted rent subsidies that employ a "housing gap" formula, under which each household whose income is low enough to qualify for these benefits receives a subsidy payment equal to the difference between the cost of a good quality unit of a reasonable number of rooms for a family of a certain size, and the share of the household's income that can reasonably be expected to be spent on housing (fractions of 10 to 20 percent have been discussed in Hungary.)³³ The subsidy is computed independently of the actual rent of the unit. Therefore, households who occupy

smaller or lower-quality units than the program standards get the same grant as those in opposite circumstances; those with substandard apartments in effect pay a lower share of their incomes for housing.

To ensure that the voucher program does not limit the options or mobility of low-income renters, eligible households should be able to use the vouchers in either public or private units.

As was stated above, the financial impact of this program on the Kiev government budget will depend on variables such as the level of rent increases, the amount of household income to be devoted to rent, etc. However, in the Hungarian analysis, the Urban Institute found that total government housing subsidies would decrease under such a program, because the allowance costs were far outweighed by the increase in rental income.³⁴

4. HOUSING MANAGEMENT

To improve housing quality, it may be desirable for the government to encourage competition in the housing management business. Under the present system, where the management of the municipal housing stock is dominated by the City Council Executive Committee Housing Department, tenants have no power to force management improvements, and the monopolistic Department has little incentive to respond to tenant desires. If, on the other hand, rent increases make housing management a profitable business, and there were competition for building management contracts, private management companies would have monetary incentives to provide improved management services.

In a developed market housing system, tenants can "choose" a quality of management services by moving to a building that provides the level of services that they desire. Because the current housing shortage will provide Kiev's residents with little opportunities for

mobility in the short term, the Urban Institute recommends that tenants be provided with the ability to change management companies if they become dissatisfied with the services provided. The following plan for reforming the management of state housing is based in part on Struyk, et.al. (1991).

- Facilitate the establishment of private for-profit and/or non-profit management companies through publicity, training and assistance.
- Consider breaking up the City Council Executive Committee Housing Department into smaller, for-profit and/or non-profit management companies. (However, this step should not be taken immediately if it might disrupt management activities before the private sector is able to assume a greater role.)
- Allow the new management companies to bid against the state firms for contracts to manage state buildings. Prospective management companies would present plans based on a fixed management fee and estimated operating budget. The city government would ensure that firms meet threshold eligibility requirements; building residents could choose a management company (from among those that pass the eligibility test) based on the services and fees they desire.
 - In the early years, winning firms should be awarded renewable one-year contracts (subject to tenant reselection); later, as the most capable firms are identified, longer contracts could be awarded.

VII. CONCLUSION

This paper has described the market-oriented reforms that can be expected to improve the functioning of Kiev's housing system by creating incentives for the maintenance and development of housing. These reforms include the strengthening of property rights and the privatization of a portion of the municipal housing stock through controlled market sales to residents. Additionally, municipal rents should be increased, while low income tenants should be protected through targeted subsidies. Finally, competition should be introduced to the management of municipal housing. If these reforms are implemented, the private sector can be expected to increase the quantity and improve the quality of housing available to the citizens of Kiev.

NOTES

1. The information in this section is based on various reports from the Kiev City Council (dated 1/1/91) and interviews conducted during the summer of 1991.
2. Gregory Andrusz, "Housing Policy in the Soviet Union," in J.A.A. Sillince, ed., Housing Policies in Eastern Europe and the Soviet Union, (Routledge: London, 1990) p. 257.
3. Jozsef Hegedus, Raymond J. Struyk, and Ivan Tosics, Integrating State Rental Housing With The Private Market, (The Urban Institute Press: Washington, D.C., 1991) cites Malpezzi, Mayo, and Gross, 1985, on p. 34.
4. Anthony Robinson, Financial Times, 1/1/91.
5. This is a rough estimate based on figures in the World Development Report, (Oxford University Press: Oxford, 1991.)
6. Andrusz, 1990, op. cit., p. 257.
7. The 1989 law also permitted those on waiting lists to purchase vacant apartments; a small number of such sales seem to have taken place.
8. The more generous sales terms are for the poor, those with many children, and other special groups.
9. Jeffrey P. Telgarsky and Raymond J. Struyk, Toward a Market-Oriented Housing Sector in Eastern Europe, (The Urban Institute Press: Washington D.C., 1990) pp. 8-13.
10. Telgarsky, 1990, op. cit., pp. 8-13.
11. Henry Hansmann, "Condominium and Cooperative Housing: Transactional Efficiency, Tax Subsidies, and Tenure Choice," (The Journal of Legal Studies, Vol. 20, No. 1, January, 1991) pp. 34-5.
12. American Housing Survey, 1987.
13. Hansmann, op. cit.
14. John C. Musgrave, "Fixed Reproducible Tangible Wealth in the U.S., 1986-1989" in U.S. Government Publications, Commerce Department Economic Analysis, Survey of Current Business, August, 1990, p. 101, Table 9.
15. Statistical Yearbook of the Netherlands: 1988, (SDU Publishers: The Hague, 1989.)
16. Other variables that may affect the results of a privatization program are expected maintenance expenses and property taxes (if either or both are expected to be higher than rents, few will wish to purchase.)
17. Raymond J. Struyk and Jeffrey P. Telgarsky, "The Puzzle of Housing Privatization in Eastern Europe," (The Urban Institute: Washington D.C., 1991), p. 8.

18. The Concept does not indicate whether those on waiting lists could use coupons to purchase vacant units. The Concept implies that residents are to use coupons to purchase their current apartments (although it does not explicitly prohibit the purchase of another unit.)

19. The hryvna is the proposed Ukrainian currency, which is scheduled to be issued shortly.

20. Telgarsky, 1990, op. cit. pp. 92, 235.

21. The monitoring of exchange and sales prices could take place when the transfer of property is recorded at the city office that tracks property ownership. However, in order to get accurate information the city must be careful not to encourage the under-reporting of sales prices. Thus, if any taxes are to be placed on property transfers, those taxes should not be directly related to the sales price. Instead, sales taxes could be based on a rough scale of value which takes into account apartment.

22. The Urban Institute notes in "Sales of Public Rental Units by Budapest District Governments," (draft manuscript, 1991) that flat discounts are more equitable than proportional discounts, which provide a larger subsidy to those who purchase the best units, who are presumably those of higher income.

23. If coupons were transferable or negotiable, those who did not want to use them for housing purposes could sell them on the open market, which would effectively increase the money supply and thereby have an inflationary effect.

24. In U.S. property law, a mortgage is a written instrument that pledges real property as security for a loan. In some states the title of the property is actually transferred to the lender until the loan is repaid; in other states the lender merely has a claim against the property in the event of a default. The mortgage process includes both the mortgage and a promissory note, or the written promise of the borrower to repay a sum of money according to certain terms and conditions. Once the note is repaid, a release is sought from the lender in order to free the property that was held as security.

25. The discussion of loan instruments is based on the following sources: Denise DiPasquale and Franco Modigliani, "Mortgage design and Affordable Homeownership," (draft, 1992).

Jeffrey Telgarsky and Katharine Mark, "Alternative Mortgage Instruments in High-Inflation Economies," (The Urban Institute: Washington D.C., 1991).

Susan E. Woodward and David A. Crowe, "A Power-Packed Mortgage," (Secondary Mortgage Markets, Fall 1988) pp. 2-6.

26. Nominal means in current dollars. Real means adjusted for inflation. The term of a mortgage is the number of years over which the loan is to be paid back. Amortization is the paying off of the principal of the loan. Real rate of return is the inflation-adjusted profit a lender earns on a given loan (if the lender is a bank, some portion of this amount will be used to pay interest to the depositors who have made the funds for the loan available.)

27. Telgarsky, 1991, op. cit., notes that a third alternative mortgage instrument, the Adjustable Rate Mortgage (ARM), is not suitable for situations where interest rates are highly volatile. Under the ARM the borrower is charged an interest rate indexed to the floating short-term nominal interest rate; wide variations in this rate would result in huge fluctuations in mortgage payments.

28. Negative amortization means that the loan balance actually grows rather than being paid off. Liquidity problems means a lender has difficulty meeting current obligations; this would occur if negative amortization made loan balances grow while deposits remained steady or dropped.

29. In an analysis of these instruments for Budapest District Governments, the Urban Institute recommended the PLAM for these reasons. ("Sales of Public Rental Units by Budapest District Governments: Terms, Conditions, Contractual Issues and Financing" draft, 1991.)

30. In the event that a resident fails to make agreed-upon payments, the ownership of the apartment is transferred to the lender, and the borrower is not compensated for previous payments and is required to vacate the apartment (unless the lender agrees to let the borrower stay on as a renter.)

31. Hegedus, 1991, op. cit., p. 4.

32. This section relies on Puzzle, pp. 6-9.

33. Hegedus, 1991, op. cit., pp. 2-34.

34. Hegedus, 1991, op. cit., p. 2.

APPENDIX A - POSSIBLE OWNERSHIP FORMS

There are two main types of ownership models, the "owner-occupant" models, which include condominiums and cooperatives, and the "landlord" models, which include private, non-profit, and municipal ownership.

Owner-Occupant Models

Condominiums

In a condominium building, each resident owns the apartment that s/he occupies, and all of the residents collectively own the common elements of the property such as the hallways, elevators, exterior shell, roof, and grounds.¹ Each apartment owner in a condominium is a member of the Condominium Association, which is responsible for creating and enforcing rules and regulations, collecting monthly fees from each owner to pay for maintenance and repairs, and overseeing building management. The Association is responsible for the maintenance, repair, and replacement of the common elements, and each unit owner is responsible for the maintenance, repair and replacement of his or her unit. Most of the responsibilities of the Association are actually carried out by an elected Board of Directors. The Board of Directors generally contracts with professional private management and maintenance firms which perform these activities. Residents generally obtain individual mortgages to purchase their units.

Cooperatives

In a cooperative building, each resident leases the apartment s/he occupies, but the residents collectively own the entire building by holding shares in a corporation that holds title to the property. Thus, the residents are collectively their own landlord. The lease in a typical cooperative is a "proprietary lease," entitling the lessee to perpetual occupancy of a unit. The lease, and the associated shares of stock in the cooperative corporation, can be sold by the lessee at whatever price the market will bring. Thus, a cooperative member effectively has a perpetual, exclusive, and freely transferable property right in his or her apartment.

However, the elected Board of Directors of a cooperative has the power to reject a potential buyer, thus a lessee's right to sell his or her property may be constrained. The Board of Directors of a cooperative has many of the same management responsibilities as the condominium Board of Directors described above. Cooperatives are generally financed by joint mortgage loans taken out by Cooperative Associations to purchase these buildings. Since each owner is in a sense responsible for the debt of his or her neighbors, this gives the owners an incentive to carefully choose prospective tenants who are likely to be able to meet mortgage payments.

Limited Equity Cooperatives

Same as cooperative, except that if shareholders decide to move, they may sell their shares for no more than they paid for them (adjusted for inflation and building condition.) This restriction is usually imposed by the government or non-profit agency which provided the funding to create the cooperative. The restriction of resale profits keeps the housing affordable to low and middle-income families.

Landlord Models

Private Landlords

Private landlords are individuals (or corporations) who own entire buildings and rent the units in order to make profits. Private rental housing is the most common type of rental housing in the U.S. Private landlords tend to provide the highest quality housing in market systems, since it is in their interest to provide good quality in order to attract tenants willing to pay high rents.

Non-Profit Owners

Non-profit landlords are motivated not by the desire to make profits, but simply for the purpose of developing and/or managing housing for poor and middle-income families; thus, rents in buildings owned and operated by such organizations are generally lower than rents in comparable privately-owned buildings. These organizations receive tax exemptions

in return for their commitment not to make profits, this allows them to charge lower rents for comparable housing.

Public Ownership

The amount of housing owned by government varies widely in western countries, as does the quality of such housing. In the U.S., only two percent of the housing stock is publicly-owned, whereas in the Netherlands over 30 percent of the housing stock is owned by public entities.

In the U.S., most public housing tenants are poor, and public housing generally has a bad reputation, (although New York and some other cities have done a pretty good job in managing the public stock.) Currently, the Federal government is experimenting with "tenant management" and other initiatives in an attempt to improve the management of the public stock.

1. The descriptions of condominiums and cooperatives are based on: Henry Hansmann, "Condominium and Cooperative Housing: Transactional Efficiency, Tax Subsidies, and Tenure Choice," (The Journal of Legal Studies, Vol. 20, No. 1, January 1991) pp. 26-7.

APPENDIX B - THE CURRENT HOUSING SYSTEM OF KIEV

EXISTING HOUSING STOCK

Kiev's housing stock consists of over 800,000 apartments.¹ The "communal" housing stock, (which includes municipal, departmental, and cooperative housing,) accounts for some 95.5 percent of the housing stock and includes some 769,600 apartments. The municipal sector alone accounts for 63.2 percent of the total stock and includes some 518,877 apartments. The departmental sector accounts for 21.3 percent of the total stock. Cooperatives make up 15.3 percent of the total stock, while private housing accounts for only 4.5 percent of the total stock. [See Figure 1, Table #1.]

The breakdown of the stock among the different sectors has remained fairly stable over the past five years. The percentage of municipal stock grew slightly due to a transfer of some of the departmental stock to the municipal sector.² Additionally, the amount (although not the percentage) of private stock grew slightly following a 1989 City Council resolution permitting the privatization of housing; as of 1/1/91, 63,500 sq. m. of housing had been privatized under this law. [See Table #2.]

The total floor space of Kiev's housing stock is 43.6 million square meters. The average apartment has approximately 50 sq. m. of floor space. Each inhabitant has an average of 16.7 square meters of floor space (and 10.3 sq. m. of "living space"). (Living space excludes kitchens, bathrooms, and other auxiliary areas.) These figures compare to an average of 18.9 sq. m. of floor space in countries of Eastern Europe,³ and an average of 15.1 sq. m. of floor space in urban areas across the former Soviet Union.⁴ The average amount of floor space has increased over the past five years as new construction has added to the total stock. [See Table #3]

Average floor space is somewhat lower in Kiev's communal apartments, in which two or more families share the kitchen and bathroom facilities. The floor space in communal flats averages 14.7 sq. m. per person. In an effort to phase out communal flats, residents of such units have been given preference for new housing. About 7,000 families remained in communal flats in early 1991, down from 18,300 in 1986. Currently, only 21 percent of

communal flat residents have chosen to register on waiting lists for new housing.

Residents of Kiev's hostels tend to live at much closer quarters: floor space in hostels averages only 12 square meters per inhabitant. About five percent of the city's housing stock is comprised of hostels, which offer shared bedrooms, kitchen, and bath facilities. Some 195,400 people are housed in such facilities, which are operated by enterprises, organizations, and educational institutions.

The city's non-private housing stock has a relatively high level of amenities: 99.8 percent of the non-private stock is supplied with water and 99.3 percent of the stock is equipped with central heating. In contrast, the private stock is rather poorly equipped with amenities: only 54.5 percent of the private stock is supplied with water, and 77.6 percent of the private stock is equipped with central heating. [See Table #4]

Despite the relatively high level of amenities, the housing stock in Kiev is widely acknowledged to be poorly maintained. Building halls and stairways are dark and filthy, and tenants complain of having to perform most repairs themselves. Some 3,800 families are currently living in housing needing "emergency repairs." The quality of the housing stock is not thought to differ much between the different sectors, although a part of the enterprise stock is thought to be superior than the municipal or cooperative stock.

HOUSING CONSTRUCTION

Housing construction has been primarily administered by the City Council Executive Committee, which contracts with state construction firms for the construction of municipal and cooperative buildings. Other construction projects are initiated by state enterprises and organizations, which supply housing to their employees and members by either contracting out to state construction firms, or building the housing themselves with in-house construction units.

During the past five years, the housing construction industry has suffered from the economic upheavals that have disrupted the entire economy. The 1990 volume of housing construction was 10.5 percent lower than the 1985 level, despite the fact that 15.5 percent

more resources were devoted to housing construction in 1990. 18,100 new apartments were built in Kiev in 1990, whereas 21,200 were built in 1985. A 1991 report by the Kiev statistical department blames the construction slowdown on shortages of building materials, equipment and labor, a decline in "labor discipline," and poor management of the state construction companies.⁵ [See Table #5]

HOUSING REHABILITATION

The City's capital repairs program reconstructed approximately 2,928 apartments (146,400 sq. m. of floor space) between 1986 and 1990. Disappointingly low volumes of repair in 1986 and 1987 (approximately 384 and 324 apartments respectively) were blamed on inefficiencies of the Kiev Housing Rehabilitation Firm. In 1987, the city began contracting out much of its rehabilitation work to the repair divisions of various enterprises and organizations, and the volumes of completed rehabilitation work increased dramatically. In 1988, approximately 906 apartments were completed; approximately 798 apartments were completed in 1989. The volume of completed repairs fell to approximately 516 apartments in 1990, probably due to materials shortages.

Currently, 120 apartment buildings are under rehabilitation for the city. Fifteen are under reconstruction by the Kiev Housing Rehabilitation Firm ("Kievrembood"). Thirty are under construction by sweat equity groups, which are groups of young families who are permitted to repair buildings for their own use. The remainder are under construction by various enterprises and organizations, which will receive a percentage of the repaired apartments in return for performing the rehabilitation work.

HOUSING MANAGEMENT

Municipal housing is managed by the City Council Executive Committee Housing Department, as is 67 percent of the cooperative housing stock. The remainder of the cooperative stock is self-managed. Ministerial and departmental housing is managed by the enterprises and organizations to which it belongs.

The City Council Executive Committee Housing Department is responsible for the management of 70 percent of the city's residential stock. Specifically, the department is responsible for the maintenance and repair of 6,480 municipal buildings with 518,877 apartments, as well as 593 cooperative buildings with 84,095 apartments, for a grand total of 7,073 buildings with 602,972 apartments. Some 1,770,200 people live in this stock, which has a total floor area of 30,831,800 square meters... -

The Department is divided into 14 regional offices which are further divided into 114 neighborhood offices. The local offices are actually responsible for carrying out maintenance and repair activities.

The services provided by the department include: janitorial services, trash pick-up, elevator maintenance and repair, general repairs, and heating supply. Additionally, the Department produces a variety of materials required for housing maintenance and repair. Materials such as joiners wares, metal wares, bolt fittings and plumbing parts are manufactured at 11 production bases. According to an April, 1991 report, however, a shortage of machine tools and other resources have prevented the department from producing all needed materials.

The April 1991 report blames price and tariff increases (imposed January 1, 1991) for leaving the Department without the financial means to adequately carry out its repair and maintenance activities. According to this account, materials shortages have also damaged the Department's recent performance. Further, shortages of skilled workers, including janitors, locksmiths, plumbers and electricians, have resulted from an inability to provide worker housing, low salaries, and the inability to employ workers from outside of Kiev (due to a requirement that citizens obtain government permission to relocate.)

INCOME AND EXPENSES OF HOUSING MANAGEMENT

Rents in the former Soviet Union have been extremely low, averaging about one percent of family income (or three percent if utilities charges are included.) Rents are nominally differentiated by apartment size, but this is a purely symbolic measure since the

payments involved are negligible. Soviet rents are estimated to cover less than one-third the cost of operating and maintaining the housing stock; the deficit is made up with on- and off-budget state subsidies.⁶

HOUSING ALLOCATION

Any citizen with "inadequate" housing (less than 7 sq. m. per person) is permitted to sign up on a waiting list for municipal or cooperative housing. At the end of 1990, 230,224 families were on waiting lists. Nearly 70 percent of these families were on waiting lists for municipal apartments, while the remaining 30 percent were on waiting lists for cooperatives. City Council officials report that the average wait for an apartment is 15 years. The waiting time may vary considerably, since various groups receive different preferences for housing. Most housing goes to those in "privilege" categories, which includes veterans, invalids, families with many children, and residents of communal apartments. Twenty-one percent of those awaiting housing in 1990 were in preferred categories.

Enterprises and organizations may allocate housing to their employees or members according to seniority, position, etc.

MUNICIPAL SECTOR

Tenant Rights

Municipal tenants have substantial implicit property rights in their apartments. Tenants are currently allowed to pass their apartments on to their children, as long as the children's names appear on the lease. Other relatives may not inherit apartments.

Eviction Procedures

According to City Council officials, families who fail to pay rent may be taken to court. However, these officials note that penalties are rarely applied to such families; the City budget covers these losses.

Apartment Exchanges

See text, page 4.

COOPERATIVE HOUSING

Cooperative housing in Kiev is in some ways just a more expensive form of state housing. The development of cooperative housing is overseen by the City Council Executive Committee, and 65 percent the cooperative stock receives management services from the Executive Committee Housing Department.

Allocation

The City Council Executive Committee maintains a waiting list for those interested in cooperative housing; in 1990, 74,562 families awaited cooperative apartments. Families are drawn from the waiting list (in order of preference) as the Executive Committee builds cooperative buildings or as cooperative units become available.

Financing and Construction

In the past, coop members were required to pay 1/3 of the cost of their flat immediately to finance construction. The coop members would take out a joint loan to cover the other 2/3 of the construction costs: loan terms were generally given at 0.5 - 2.0 percent for 20 - 25 years. Construction is done by state construction firms. According to an interview with a Kiev banker, coop members are now required to pay the full cost of their flat up front, or apply for a loan to the state savings bank. Cooperative members pay substantially more for housing than municipal tenants, although cooperatives do receive substantial state subsidies in the form of subsidized construction, financing, and utilities payments.

Management

Coop members elect a full-time director, and a part-time governing committee to

oversee management. 65 percent of Kiev's cooperative buildings receive management services from the Executive Committee Housing Department; the other 35 percent are self-managed.

Resident Rights and Responsibilities

Coop members pay off construction costs for the term of the loan, afterwards they pay only for utilities and maintenance. Members are permitted to trade their apartment under the same restrictions as apply to trades in the municipal sector. Members are permitted to rent their apartments; technically, rentals should be registered. Members may pass their flats on to their children.

Members are permitted to sell their apartment after the construction loan has been repaid. Apartments may only be sold to those on waiting lists for state or cooperative housing. In theory, the sales price is determined by the Executive Committee officials, but in fact prices are negotiated between buyers and sellers. For example, the state price for the sale of a cooperative might be 6,000 R., while the unit will actually be sold for 50,000 R.

PRIVATE HOUSING

As is described above, the private housing stock offers a lower level of amenities than the communal stock. No laws have been written to govern the sale or rental of private housing, although such activities do not appear to be prohibited.

1. The information in this section is based on various reports dated 1991 and interviews conducted during the summer of 1991.

2. Departmental stock has been transferred to the municipalities since a 1957 to consolidate the stock under the local councils, however the ministries and enterprises (which wish to maintain control of their stock in order to attract workers) have successfully resisted this effort.

3. Jeffrey Telgarsky & Raymond J. Struyk, Toward a Market-Oriented Housing Sector in Eastern Europe (The Urban Institute: Washington D.C., 1990) Table 3.1

4. Michael Alexeev, Lee Baker, and Matthew Westfall, "Overview of the Soviet Housing Sector," (PADCO, Final Draft, December 1991) Table 1.

5. These figures appear to represent all construction, including that accomplished by enterprises and organizations.

6. Andrusz, 1990, op. cit., p. 257.

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TABLE #1

KIEV HOUSING STOCK, 1990

	1,000's sq. m. floor space	% (of total floor space)	# apts	# people
TOTAL STOCK	43629.8	100.0	>800,000	*
COMMUNAL STOCK, Including:	41668.1	95.5	769,600	*
- LOCAL SOVIET	26440.0	63.2	518,877	1,540,000
- DEPARTMENTAL Including:	8866.7	21.3	*	*
- HOSTELS	2345.6	N/A	*	195,400
- COOPERATIVES	6361.4	15.3	*	*
PRIVATE STOCK	1961.7	4.5	*	*

* Figures not available

TABLE #2

KIEV HOUSING STOCK, 1985 & 1990

	1985 %	1990 %	CHANGE IN %
TOTAL STOCK	100.0	100.0	N/A
COMMUNAL STOCK, Including:	95.4	95.5	0.1
- LOCAL SOVIET	58.0	63.2	5.2
- DEPARTMENTAL	24.6	21.3	-3.3
- COOPERATIVES	12.8	15.3	2.5
PRIVATE STOCK	4.6	4.5	-0.1

TABLE #3**AVERAGE FLOOR SPACE PER PERSON, 1985 - 1990
(in square meters)**

	1985	1986	1987	1988	1989	1990
AVERAGE FLOOR SPACE/PERSON	15.4	15.5	15.5	16.1	16.4	16.7

TABLE #4**LEVEL OF AMENITIES IN KIEV'S HOUSING STOCK, 1990**

	% with central heating	% with water	% with hot water
TOTAL HOUSING STOCK (EXCLUDING PRIVATE)	99.3	99.8	97.8
PRIVATE HOUSING STOCK	77.6	54.5	16.9

TABLE #5

HOUSING CONSTRUCTION IN KIEV, 1985 - 1990

	1985	Annual average 1986-90	1990	1990 as % of 1985
Construction (sq. m. of floor space)	1,287,000 sq. m.	1,311,000 sq. m.	1,152,000 sq. m.	89.5%
Construction (# of apartments)	21,200 apts.	22,000 apts.	18,100 apts.	85.3%
Capital investments in construction (millions of roubles)	264 R.	303 R.	305 R.	115.5%

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