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14 Russia

The Persistence of the Socialist Legacy?

Alexandr Puzanov

INTRODUCTION

This chapter sets out to describe the current situation in the social housing sector in Russia. Notwithstanding twenty years of market reforms, social and 'nonsocial' housing have yet to form to full distinct sectors, as will be shown in the following. There are some 'traces' of social housing in all segments of the housing stock. For example, although homeowners are legally responsible for all expenses related to the 'burden of ownership', in practice the state and the municipalities continue to finance capital repairs of multifamily buildings, irrespective of the tenure status of the housing units they contain. The Fund for the Promotion of Housing and Utility Sector Reform, set up in the Russian Federation in 2007,¹ cofinances regional and municipal budgetary expenditures for capital repairs. Currently, the fund requires 5 percent of the total cost of regional capital repairs be paid by the owners of housing units.

Under the existing legislation, owners are not required to insure their housing property. As a result, when people lose their housing to natural disasters, the government will usually finance the provision of housing for displaced people out of the state or municipal budget. As a result, there is still no big difference between the housing expenditures of people who own their housing and those who rent public housing. At present, owners pay a 'housing unit tax', which is very small, whereas renters pay a 'pure rent' component (see the following), which is also a small share of the total payment. Other expenditures on maintenance and utilities are currently almost the same for owners and renters.

In this chapter, we shall work with the definition of social housing as housing that is rented out on terms that differ from market conditions using a certain administrative procedure that regulates access to such housing.² Only two exceptions will be made to this general approach. Firstly, we shall also examine the housing allowances program as a pivotal component of social housing policy, but that is applied to all types of housing stock. Secondly, in the final section we describe the future of social housing policy, the key element of which is to expand the narrow perception of social housing.

The first section presents the historical background of social housing in Russia, its development and its current condition in the context of the transition from a centrally planned housing sector to one governed primarily by market relations. The second section is devoted to an analysis of the key structural elements of the social housing sector. Subsequent sections contain an expert evaluation of how well social housing works as a mechanism for improving the housing conditions of the poor and vulnerable groups of the population, the legal status of tenants of social housing, rent-setting policies of setting rent rates, and the problems of social housing finance. The final sections focus on an analysis of the main development opportunities, and the main challenges, for housing policy with regard to the social housing sector.

THE GENERAL CONTEXT: ROOTS OF SOCIAL HOUSING

At the beginning of the transition period Russia's housing stock was characterized by an overwhelming state presence. Nationally, 67 percent of the stock was state owned, managed by either the municipalities or state enterprises and by government agencies. In urban areas, 79 percent and in larger cities as much as 90 percent of housing was owned by the state. The importance of state ownership in Russia's housing sector dwarfed the corresponding role of the state in Eastern European countries at the start of the economic reform period (Kosareva and Struyk 1997, 1–5). And about 6 percent of the housing stock (and up to 10 percent in larger cities) was made up of housing cooperatives,³ which received considerable state support, including access to cheap bank loans.

The key attributes of the system that developed and maintained the state dominance, which affected the development of the social housing system in the transition period, are:

- There is centralized distribution of all resources and strictly formalized planning of the volume and distribution of new housing construction.
- There is heavy subsidization of activities by state housing maintenance and management organizations; rent on state units covers only a fraction of total operating costs and none of the capital costs; rent controls result in the poor targeting of subsidies; in the early 1990s only a third of costs was covered by residents' payments and the sector was heavily subsidized (Puzanov 1997, 57–75).
- Tenants enjoy extremely strong occupancy rights, which can be bequeathed to other residents registered at the same address; this special status has been conceptualized as termed 'quasi ownership' (Lux 2003).
- Distribution of housing through waiting lists maintained by municipal authorities and state enterprises was the predominant means of

acquiring housing; by 1990, 9,456,000 households were put on waiting lists (26 percent of all households), and 1,158,000 were given free housing (12 percent of those on the waiting list). At the same time only fifty thousand units were acquired through housing cooperatives and seventy-two thousand were built by individuals as private housing.

- Enterprises were important providers of state housing; a separate system for the production, allocation, and maintenance of housing existed parallel to the municipal housing system.

Two main processes were launched at the beginning of the economic transition: housing 'municipalization'—the transfer of the state-owned housing stock to municipalities under enterprise housing divestiture schemes⁴—and housing privatization, enabling tenants to acquire their unit (initially at little cost and since 1992 for free) simply by requesting transfer of ownership to them.

Several aspects of the decision on privatization offer significantly shaped development in the social housing sector. Firstly, tenants were able to decide themselves whether they wanted to privatize their flat, and this resulted in the current situation where almost every apartment building in Russia contains units in both private and public ownership. This is compounded by the use of the condominium model (Lujanen 2010) for apartment building management, which has considerably complicated management of the social housing sector (see the following). Secondly, the decision to launch the privatization process was not accompanied by a discussion of what part of the housing stock should remain in public ownership and be used as social housing, thus leaving open the possibility that all state and municipal housing stock could be privatized during the transition period.⁵ Also the government decided that housing units that had been privatized but not involved in any subsequent transactions (about one-half of the privatized stock) could be deprivatized at any moment until 2013 and thus end up in the social rental housing stock. The amount deprivatization is currently rare at the moment, but the situation could change significantly if certain changes are made to real estate taxation, insurance, and so on. There are no restrictions for deprivatization in practice.

The highest rates of privatization occurred during the first three years: by the end of 1995, 12.5 million units or 36 percent of the housing stock eligible for privatization had been privatized. The privatization of state and municipal housing has occurred in waves, occasionally surging in response to rumors of a possible privatization deadline, which has been shifted several times. For example, in 2002 68 million square meters of housing was privatized, in 2003 42 million square meters, in 2004 again 69 million square meters, in 2005 89 million square meters, and so on. By the end of 2008, 26.4 million housing units (1,306 million square meters) or 70 percent of the housing stock eligible for privatization had been privatized.

No explicit concept or policy for developing social housing was formulated in Russia. One may conclude that social housing in modern Russia

emerged out of the leftovers from nonprivatized state or municipal housing stock.

Current legislation extends the regime of free and 'conditionless' privatization until 2013. Therefore, up to 2013 the parameters of the social housing stock will depend, to a great extent, on the rate of the housing privatization (and deprivatization) process. This in turn will be influenced by various housing market incentives, the structure of state subsidies, the tax regime, and so on. Until 2013 municipalities will not have clear incentives for increasing the volume of housing construction for subsequent social rental. The current status quo also means that municipalities are unable to construct and maintain social rental housing as 'buildings', and instead social housing is represented by individual flats in mixed ownership property condominiums.

Access to waiting lists to acquire state or municipal housing was unrestricted for (the first) fifteen years of the market economy development: every household whose housing consumption was below a certain level could join a waiting list. Since the new Housing Code was enacted in 2005, only low-income households and several other categories⁶ could be put on a waiting list for state or municipal housing.⁷ However, the state was still obliged to provide housing to anyone whose name went on a waiting list before 2005, regardless of the person's income level or financial status (data from the State Committee for Statistics 2009).⁸

THE KEY CHARACTERISTICS OF SOCIAL HOUSING

Definitions and Structural Elements

When describing the current Russian social housing system it is important to distinguish social housing (as rental housing provided under nonmarket terms through an administrative procedure) in its narrow and broad senses. The 'narrow concept' of social housing is the one defined in Russian housing legislation. In Russian law *social housing* means housing provided under a social rental agreement. At present, it accounts for almost 85 percent of the total state and municipal housing stock (see Table 14.1). The remaining 15 percent is special purpose housing, such as boardinghouses (dormitories), and recently housing provided under 'for-profit rental' agreements or gratuitous use agreements. Obviously, special purpose housing performs a social function and can therefore be categorized as 'social housing' in the broad sense of the term and the same is true of housing provided under a gratuitous use agreement.

The situation with 'for-profit rentals' is even more complicated. Currently, Russian legislation does not recognize nonprofit housing rentals as a special type of agreement, so from the legal point of view all housing (including the

Table 14.1 Structure of Russia's Rental Stock (Public Housing and Housing Owned by Legal Entities)

	2006		2007		2008		2009	
Housing stock, total (mln m2)	3,003		3,058		3,116		3,177	
1. Public housing stock (mln m2)	605		575		549		492	
% of total housing stock	20%		19%		18%		16%	
Including:	mln. m2	% of public housing stock	mln. m2	% of public housing stock	mln. m2	% of public housing stock	mln. m2	% of public housing stock
1.1. Housing stock under social rental agreement	252.6	41.8%	242.8	42.2%	233.7	42.6%	224.7	45.6%
1.2. Special purpose housing stock	48.0	7.9%	50.2	8.7%	50.4	9.2%	48.0	9.8%
Including:								
Tied accommodation	1.4	0.2%	1.8	0.3%	2.5	0.5%	2.8	0.6%
Dormitories and other special purpose housing stock	46.7	7.7%	48.4	8.4%	47.9	8.7%	45.3	9.2%
1.3. Housing, provided under 'commercial' (non-subsidized) agreements	6.7	1.1%	6.4	1.1%	9.6	1.8%	6.4	1.3%
1.4. Other public housing stock (unclassified)	297.3	49.2%	275.4	47.9%	254.8	46.5%	213.2	43.3%
2. Rental housing owned by legal entities	95		94		100		102	
% of total housing stock	3.2%		3.1%		3.2%		3.2%	

Note: Calculated using data from the Federal Statistical Survey, Form 1-Housing.

portion of state and municipal housing that is neither social—in the narrow sense—nor special) is provided under commercial (or ‘for profit’) agreements. However, one could argue that all this housing is allocated under nonmarket principles and for rents below the market level.

So, in the broad sense, social housing comprises almost all public (state and municipal) housing stock and most of the housing stock rented out by private entities.⁹ For the purposes of this article, we shall refer to social housing in the narrow sense (as defined in Russian legislation) as ‘housing provided under a social rental agreement’ or ‘social rental housing’.

Table 14.1 illustrates the structure of and recent dynamics in the housing stock in Russia.

Table 14.1 shows the continuous decrease in the size of the public housing sector, including housing provided under social rental agreements. The large amount of public housing with an ‘unclassified’ type of use reflects the fact that the inventory of public housing covered under the current legal framework is far from exhaustive. Although one would expect the distribution of ‘unclassified’ types of housing to be similar to that of the already classified housing, we estimate the amount of social rental housing in 2009 at 418 million square meters or 85 percent of the total public housing stock. The total social housing may be estimated at 594 million square meters or 19.2 percent of the total housing stock.¹⁰

Problems of Housing Stock Management

Currently nearly all social rental housing consists of flats in condominium buildings. The situation is more or less the same in special purpose housing and rental housing owned by legal entities. This causes numerous problems resulting from the municipality’s conflicting interests, as the municipality may at the same time be (a) the co-owner of the common property in the condominium building, (b) the owner or quasi owner of the housing management and utility companies, and (c) a public entity (regulation, budget support allocation).

Housing legislation contains some incentives for ‘consolidating’ the existing municipal stock in the future: if the owners of the units in a condominium decide to increase maintenance or repair fees the decision does not apply to housing with social rental agreements, then the municipality either has to pay the difference for these units out of its own funds or it must sell the unit and provide the tenants with a social rental housing unit in a different building with lower fees.

Targeting

The targeting of social rental housing has largely been determined by the fact that it emerged out of the leftover housing from the nonprivatized state or municipal stock. The factors that drove housing privatization in Russia

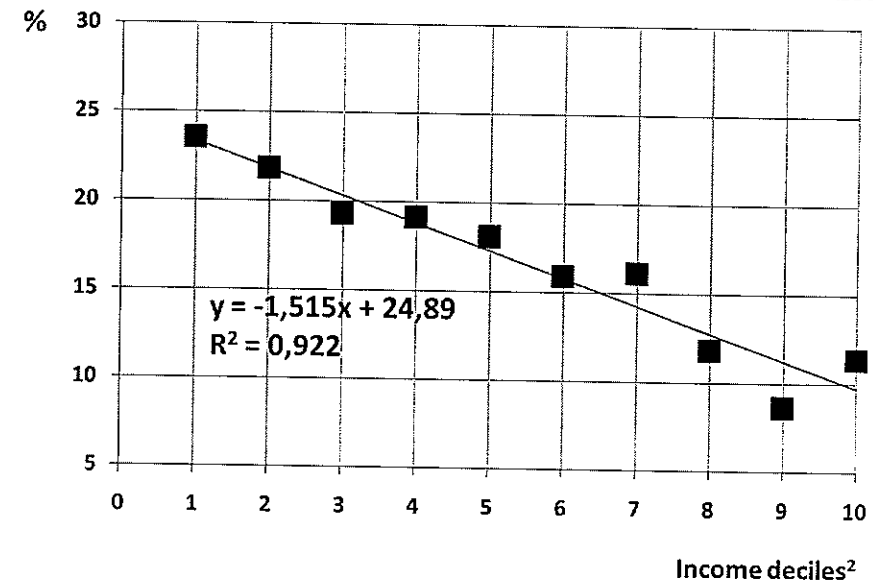


Figure 14.1 Share of tenants in public housing by income deciles, 2007.

were examined by Daniel and Struyk (1994), who found that certain low-income categories (lone pensioners) had a higher incentive to privatize. As a result, in the mid-1990s the average income of renters was 1.06 times higher than that of owners.¹¹ Recently the situation has changed and the concentration of low-income households in public housing is much higher, but a considerable portion of higher-income households nonetheless remain in public housing (Figure 14.1).

So the targeting of social housing is moderate at best. There are also no big differences in housing consumption between the ‘social’ and ‘private’ segments of the housing stock.

The average crowding rate in the state and municipal housing stock is 22.1 square meters per person compared to the national average of 22.5 square meter³ (data for 2009). In the housing stock provided under social rental agreements, the occupancy rate is higher, and it matches the national average.

THE DEMAND FOR SOCIAL HOUSING AND THE DYNAMICS OF WAITING LIST ADMISSION AND ALLOCATION

A general idea of the real demand for social rental housing may be provided by the national household survey of 2003 (Kosareva et al. 2004).¹² Of those not satisfied with their housing conditions (61 percent of households), one-fifth of respondents said that they saw no alternative to waiting for social housing

after being put on a waiting list. Thus, almost three million households currently are currently relying on social housing allocation instruments.

As described in the preceding, until 2005 any citizen with less housing space than he or she was entitled to had a 'no-cost' opportunity to apply for social housing. Obviously, the status of an applicant did not automatically grant him or her a real chance of getting social rental housing: annually only 4–5 percent of households on a waiting list improved their housing conditions. Therefore, there are many people who do not expect to obtain social housing by waiting on a list, evidence of which is proved by the fact that between 1995 and 2005 the waiting lists for social housing considerably 'shrank', mainly due to natural changes in the size of some applicants' households so that they were no longer eligible for assistance with housing allocation. Moreover, some households on the waiting list managed to improve their housing conditions without state or municipal assistance. Finally, the estimated total number of households that have to rely on social housing allocation instruments (three million households) exceeds the number of households currently on a waiting list (2.8 million households), and many of the latter may have other means of improving their housing conditions but prefer instead to take the no-cost opportunity to be on the waiting list.

The owners of the housing stock have full authority to set the rules for 'intake' to their waiting list, so the system is decentralized. Since 2005, public authorities have been able to regulate admission to waiting lists by setting certain 'low-income' criteria for household eligibility.¹³ As a result, in 2009 the number of new admissions and the number applicants that

Table 14.2 Waiting List Dynamics

	1995	2000	2001	2006	2008	2009
Number of households on the waiting list (as of the end of the year), million households	7.0	5.42	4.86	3.12	2.86	2.83
Number of households that got housing and improved their housing conditions (per year), million households	0.65	0.25	0.24	0.14	0.14	0.15
Households that got housing and improved their housing conditions as a proportion of the total number of households on the waiting list (%)	8.4%	4.6%	4.9%	4.5%	5.0%	5.2%
Households on the waiting list as a proportion of the total number of households (%)	15	11	10	6	6	6

Source: Fankhauser and Tepic (2005).

dropped off the waiting lists were almost equal—263,000 households. Of those who dropped off the waiting list, only 56 percent received housing assistance from the public authorities, whereas others quit for various reasons described in the preceding.

A few categories (orphans graduating from state institutions, people who had lost their previous social rental housing units, etc.) had priority access to social rental housing without having to join a waiting list.

Nationally, only 31 percent of those who joined a waiting list in 2009 belonged to a 'low-income' category. This means that the assumption in the Housing Code that the waiting list system would be used primarily to provide housing to low-income citizens is not supported by current practices. The structure of housing allocation (Table 14.3) explains this phenomenon. Up to

Table 14.3 Structure of Publicly Supported Housing Allocation, 2009

	Households that got housing in newly constructed buildings		As % of households that got housing and improved their housing conditions
	In total	In total	
	Thousands	Thousands	Percentage
1. Households that got housing and improved their housing conditions	146	51.7	35.4
Of which			
1.1. From "Off" the waiting list (orphans and other special categories)	27	8.0	29.6
1.1.1. Under social rental agreement	20.7	7.3	35.3
1.2. From the waiting list	119	43.7	36.7
1.2.1. Under housing ownership support schemes	67.8	23.4	34.5
1.2.1.1. With federal subventions	35.4	6.2	17.5
1.2.1.2. Through subsidized mortgages	10.6	6.7	63.2
1.2.1.3. Via other schemes	21.8	10.5	
1.2.2. Under social rental agreements	46.9	16.5	35.2
1.2.3. Under other schemes	4.3	3.8	88.3

Note: Calculated using data from the Federal Statistical Survey, Form 4-Housing.

60 percent of households on a waiting list acquire housing in ownership under various schemes that offer substantial deductions compared to market rates. There are several categories of households that are entitled to federal and/or regional subsidies (the most common one is 'young families') or subventions (war veterans). Therefore, one can assume that the municipalities admit to the waiting lists households that are able to 'attract' federal subventions or subsidies or have the funds to cover at least part of the housing price when purchasing housing. In the latter case housing is offered to them either at special prices or under heavily subsidized mortgage schemes—so-called social mortgages. Both schemes are nontransparent and potentially prone to corruption. There are, of course, also households that joined a waiting list before 2005 (before the income criterion was set), and they are offered a trade-off: they can either wait for an indefinite period for free-of-charge social rental housing or purchase housing at a below-market price. The local authorities thus still seem to 'favor' households that are able to cofinance their housing purchase.

Table 14.3 shows that only 35 percent of households on the waiting lists obtained social rental housing in a newly constructed building. Others improved their housing conditions through housing chain mechanisms or when public flats were vacated and were available for other reasons. In practice, only Moscow and several other jurisdictions continue to finance public housing construction from their budgets.

THE LEGAL STATUS OF TENANTS IN SOCIAL RENTAL HOUSING

Eligibility

In 2005–2007, most of the constituent entities of the Russian Federation approved regulatory legal documents defining the criteria for categorizing citizens as 'low income' and the procedure for registering citizens for housing and evaluating their financial status. The authority sets exact income limits (adjusted to the value of the property owned by a household) and the threshold of housing space per person for eligibility to join the waiting list lie with the owner of the housing stock. If the state or regional authority does not impose any special requirements for eligible categories defined in federal or regional laws or presidential decrees, the rules established by the municipality in which the housing unit is provided are the rules that apply. Thus, the municipalities have some opportunity to regulate the number of 'low-income' people on their waiting lists. However, households that do not belong to the low-income category continue to be eligible (see the following).

The Social Rental Agreement

Tenants with a social rental agreement have a pretty wide range of rights, which transforms their status to 'quasi ownership'. First of all, the social

rental agreement is signed for an indefinite term. Second, since Soviet times, a tenant has been able to use the mechanism of a "replacement of the tenant" under an agreement to engage in 'tenant exchange' practices, where two tenants with social agreements exchange flats or one subleases to another, and so on. Consequently, tenants essentially used to possess surrogate tools enabling them to effectively dispose of the housing that they occupied—by passing it on to heirs, renting it out, and so on.

The new Housing Code imposed only minor restrictions on these powers. Combined with the absence of conditions that would allow owners of housing to fully exercise their rights (i.e., make decisions on how to manage their housing, e.g., when they make a decision on multifamily building capital repairs) and meet their obligations (in practice owners cover only a negligible share of the capital repairs in multifamily buildings), this makes the legal status of participants in the residential real estate market vague, and that undermines the efficient functioning of the market. Thus, the differences between social and nonsocial housing segments are still not very clear.

RENT IN THE SOCIAL RENTAL SECTOR

Public housing rent was one of a few household expenditures that were not subjected to the price liberalization introduced in January 1992. As a result, by the end of that year households were covering only 2–4 percent of housing maintenance costs. In December 1992, a rent reform program was developed as part of the housing reform framework law passed by the national legislature. The law declared that the full costs of maintenance and repair of housing and utility services must be covered by the residents who occupy residential premises in state and municipal housing under social rental agreements. The transition to this new system of housing and utility payments required the simultaneous introduction of housing allowances to all eligible families.

Rent in public housing is set annually by a municipal regulatory act and applies to both state and municipal stock in a particular jurisdiction. Rent consists of two components: (a) the pure rent, payment for renovations, and (b) a fee for maintenance and current repair services. The amount of both components is determined based on the number of square meters of the flat. The half-dozen utility charges that exist are calculated and paid separately.

The municipalities usually individually determine the amount of 'pure rent' and the fee for maintenance and repair services by type of buildings depending on the building's physical condition, amenities and location. As a result, an enormous gap (by an order of magnitude) persists between rents paid by tenants of social rental housing and market-level rents.

There are no legal limits on the amount of the pure rent, except for the legal provision that tenants that have 'low-income' status do not pay the pure rent component. In practice the pure rent is symbolic and covers only a

small fraction of renovation costs. It is usually a much smaller amount than the second component. The fee for maintenance and current repair services should not exceed the actual cost of such services. Municipalities could set maintenance fees at a lower level and subsidize the difference from their budgets. Currently, statistics report rates averaging 95 percent of expenditures. Expenditures on capital repairs are not included in the calculation of fees. There are caps on annual rent and utility tariff increases. The Federal Tariff Service sets individual caps for the regions, whereas regional regulatory bodies set them for the municipalities. But the cap applies to the whole housing and utility bill, and there is always a trade-off between increases in maintenance rates and tariffs. As a rule, utilities account for 66–85 percent of the total bill.

In 1993 housing allowances were introduced to help low-income households pay their housing and utility fees. This was particularly important during the period of transition, because service providers had difficulties in collecting the fees and covering the expenditures on housing and utility services. Both tenants in public housing and owners of housing units were eligible for the housing allowance. However, the allowance does not cover pure rent. Prior to the recently adopted legislative changes, there was no uniform housing allowance scheme in Russia. The current housing allowance formula was introduced by the new Housing Code in 2004:

$$S = MSR - a * t * Y,$$

where

$a = 1$, if per capita income of the recipient household is not less than the officially set subsistence level;

$a = PCI/SL$, if per capita income of the recipient household (PCI) is less than the officially set subsistence level (SL).

Since the new Housing Code was adopted in 2004 the key parameters of the housing allowance program are set by the regions, which are also responsible for financing the allowance payments through grants to the municipalities. The municipalities can, however, change the parameters to make the program more generous. Under the new Housing Code tenants in the private rental sector are also eligible for the housing allowance, but the formula used to determine the amount of the allowance is based on rates and tariffs in the municipal sector, which are several times lower than in the private rental sector.

Housing allowances were most important during the period of transition to the point where the public/people were financially able to afford to pay their own housing and utility services (1993–2005). In 2003, 15.2 percent of all households were receiving the housing allowance. Since then

the program has gradually been downsized, and by 2009 the figure had fallen to 8.3 percent. However, housing allowances in Russia still considerably differ from similar programs in Western European countries: (a) they do very little to improve the affordability of private rental housing, and (b) Russian housing allowances make it easier to pay only current costs related to the delivery of housing and utility services, but, for example no outstanding payments or arrears can be covered.

FINANCING SOCIAL HOUSING

Financing social rental housing construction and capital repairs is the legal responsibility of the municipalities from their municipal budgets (or state authorities from corresponding state budgets, if the state decides to build such housing, but the obligation to provide social rental housing to those on the waiting list lies with the municipalities). In practice, they more often use an alternative option and acquire housing units for use as social housing by entering into an 'investment contract' with a private developer (this usually involves some kind of reciprocal agreement where the municipality provides the developer with land and access to infrastructure under nonmarket terms in exchange of housing units). However, the physical parameters of these housing units make them often unsuitable for social housing purposes.

The obligation to provide housing to households on the local waiting list clearly exceeds the budgetary resources of the municipalities. Providing social rental housing to the 2.8 million households in the country that are currently on a local waiting list would require a total of 140 billion U.S. dollars (assuming that the average unit size is 50 square meters, and the cost of one square meter is approximately 1,000 U.S. dollars¹⁴). This is equal to 171 percent of the total consolidated budget of all the municipalities in 2009. In fact, in 2009 the municipalities spent less than 10 billion U.S. dollars on the development of new social rental units (this estimate includes hidden budgetary subsidies provided under investment contracts with private developers).

Until 1999, housing allowances were funded from local government resources, although the regions provided fungible grants to municipalities that could be used for this purpose. In fact, an increase in fees for housing and utility services nearly always generated more revenue than necessary for the payment of housing allowance benefits, providing extra revenue to the city budget. Consequently, the 1999 legislation recognized a federal responsibility and led to the creation of federal grants to partially compensate for local allowance payments. The grant amount is based on program parameters for calculating household subsidies established by the federal government. Communities in which the established cost recovery rates and

household contribution rates (t) meet or exceed the federal parameters get their full grant allocations, whereas others receive less. In 2009, federal subsidies for regional housing allowance programs amounted to 3.9 billion U.S. dollars. Total (state) budget expenditures on housing allowances reached 1.9 billion U.S. dollars in 2009, and expenditures for further benefits to selected categories of households equaled an additional 5 billion U.S. dollars (data for 2008).

Total socially targeted budgetary expenditures on housing in 2009 can thus be estimated to be in the range of 7–8 billion U.S. dollars. This amount consists of expenditures on the provision of new social rental housing units, housing allowances, and some budgetary expenditures on covering some further privileged subsidies. The latter component relates to the system of granting privileges to certain categories of the population, not all of whom could be considered vulnerable, which was inherited from the Soviet period (usually in the form of a 50 percent discount to housing and utility bills). One might also consider adding to this estimate the approximately 0.8 billion U.S. dollars of budgetary subsidies to support housing acquisition for certain categories of population (e.g., young families, military personnel, civil servants). This policy measure is oriented more towards the promotion of homeownership. However, recently incentives were created to stimulate affordable (rental) housing provision to meet this budget-supported demand.

If we compare this with socially nontargeted budgetary expenditures in the housing and utility sectors (about 20 billion U.S. dollars in 2009) we can conclude that the efficiency of budgetary expenditures is rather low.

THE SOCIAL HOUSING STRATEGY

So far, housing policy in Russia has been based on the concept of a maintaining a moderate volume of social rental housing used to supply housing only to the neediest households. The expectation is that after the transition period most households would be able to satisfy their housing needs with the help of market tools. However, it has become obvious that this view needs to be revised. Firstly, only a minority of households are able to make real use of the advantages offered by the housing market to improve their housing conditions. Large parts of the population have no prospects for improving their housing conditions with the help of state subsidies or in the social housing sector.

In 2010 only about 20 percent of households could afford to buy standard housing without state assistance. It is expected that by 2020, assuming that economic growth and the growth of real household income continue, as much as 50 percent of the total population will be able to purchase housing using their own means and credit resources and without any other assistance. However, even with this optimistic forecast (for future homeownership) it is obvious that the current volume of social rental housing

far from sufficient, and development of more social housing is limited by budget constraints and a lack of motivation of the major actors.

Secondly, the existing social rental housing, which accounts for less than 20 percent of the housing stock and has been shrinking every year as a result of the ongoing privatization, is not used efficiently enough from the point of view of meeting the housing needs of the poorest households. The average waiting period for such housing is more than twenty years, which clearly demonstrates that the institute of social rental housing in its current form is not serving its purpose. At the same time, the housing rights of those who do obtain social rental housing are excessively broad in some cases and resemble quasi ownership.

Thirdly, many households that became owners through privatization discovered that they are unable to afford the full financial burden of homeownership. This has especially created problems for the rehabilitation of apartment buildings.

By the end of the first decade of the twenty-first century, all of the aforementioned issues began to be seen as political issues. Voices began calling for a more differentiated approach to the assessment of the housing needs of different population groups and for a shift towards a broader concept of social housing. At present a revision of the current social housing policy is being discussed by experts and policymakers.

State and Municipal Social Rental Housing Stock

The state and municipal social rental housing stock should be developed to the extent where it is able to provide housing supply to low-income households and other citizens who are on the 'waiting list' to improve their housing conditions. Obviously, in the foreseeable future, the budget capacity of the municipalities will not allow them to considerably increase the volume of construction of new social rental housing. Nevertheless, it is important to create incentives for increasing budget spending in this area (currently no such incentives exist). There should also be a continued search for ways in which to encourage households that are on a waiting list but are not in the category of low-income households to use alternative means to improve their housing conditions. This would help to reduce the volume of public obligations with regard to social rental housing allocation. This would help to cut the waiting period for social housing from the current level of more than twenty years to just four to five years. Only once the waiting period is reduced to a reasonable length of time will we be able to talk about the effectiveness of the institute of social rental housing in Russia.

Rental of State and Municipal Housing, Nonprofit Rental

There is a clear need for rental housing that can be offered at below-market rates but is not as heavily subsidized as social rental housing. The demand

for such housing comes from moderate-income households, which are unable to purchase or rent housing at free market prices but at the same time could not be classified as 'low-income' households. In some cities (e.g., in Moscow and Chuvash Republic) attempts have already been made to create a nonprofit (unsubsidized) socially oriented rental sector, which will target a wider circle of citizens (e.g., young families, public sector employees). These attempts are still of an experimental nature (6 apartment buildings in Moscow by the end of 2010). As it was described earlier, such housing is legally distinguished as 'for-profit' or 'commercial use' housing. Special regulations are thus needed to give a real start to nonprofit housing development. At least two things need to be legally addressed: (a) creating the special legal status of a nonprofit housing developer, owner, and manager, and (b) creating the special status of a long-term nonprofit rental agreement. This kind of nonprofit/unsubsidized rental housing should not be aimed at making a profit. However, unlike social rental housing, it must ensure that the owner is able to recover not only the maintenance expenses of the housing, but also capital expenditures on construction.

Today, civic legislation deems the term of a rental contract (other than social rentals) to be one of its material provisions and that it should not exceed five years. In spite of regulatory norms on the preemptive right to sign an agreement for a new term, this legal framework is fraught with serious risks for tenants of nonprofit housing.

The practices of similar nonprofit housing organizations in Europe may be fully applied in Russia. However, we should take into account the fact that European nonprofit housing associations have a long history and in their work they are able to rely on public institutions well established in the past two centuries. Because Russia lacks all this, we can assume that the process of creating such organizations will be very painful and prolonged.

Enterprises are now aware of the growing role of housing as a means of attracting and keeping skilled personnel in their employ. Nevertheless, so far their actions have not been supportive in terms of creating incentives for the development of noncommercial rental housing. Some enterprises in Russia do currently provide housing to their employees, including those who would otherwise be eligible to apply for social rental housing, on terms similar to those of social rental or special purpose housing rental. In the light of this fact, the practice of signing trilateral agreements between enterprises and local government bodies/entities of the Russian Federation should be encouraged. In the foreseeable future such enterprises could become the founders of nonprofit housing organizations.

Expanding the Housing Allowances Program

As discussed in the preceding, housing allowances granted to citizens to cover housing and utility payments are calculated according to the level

of such payments in the sector of social rental housing. When a nonprofit housing rental sector develops, there may be a problem with the affordability of such housing for citizens with moderate income. In addition, it is expected that an increasing number of citizens will try to address their housing problems by renting housing at free market prices. To maintain and enhance the sustainability of this foreseeable process, it is recommended that a new housing allowance model be introduced that reflects the expansion of rental housing into the market and nonprofit sectors.

Housing Construction Cooperatives

We expect that housing cooperatives that have some characteristics of social housing providers will enjoy considerable state support in the nearest future. Because the main goal of such associations is to provide housing to citizens/members of the cooperative rather than to make profits, there are motivations for reducing housing costs by excluding the developer's monopolistic profit aim and guaranteeing a demand for such housing. Currently consideration is being given to how to amend the legislation currently in effect in order to restore the legal framework of 'full-fledged' cooperatives (we use the word *restore* because a similar institution function in the 1960s–1980s in the form of Soviet era housing construction cooperatives).¹⁵ These 'full-fledged' cooperatives will be less attractive to both speculators and to investors. Such would be the necessary prerequisites for state support for housing cooperatives. One suggested approach to creating cooperative housing is that a 'full-fledged' cooperative would be set up by people in a local waiting list for housing who are not 'low-income' households, and they would obtain for free a plot of land for the construction of housing and would receive subsidies and other forms of organization support from the public authorities.

CONCLUSION

After twenty years of economic transition social housing in Russia is still in a transitory phase. Neither the internal structure of social housing nor the difference between the social and market segments of the housing stock is well defined. A state policy has been formulated only for state and municipal housing provided under social rental agreements, but even in that area adequate instruments for policy implementation are lacking. Recently, the need for a comprehensive concept of social housing development has emerged as an issue of housing policy debate. However, visible changes can only be expected after the housing privatization regime expires in 2013 and once legislation to regulate nonprofit and cooperative housing is finally adopted.

NOTES

1. Federal Act No.185-FZ on the Fund for the Promotion of Housing and Utility Sector Reform, dated July 21, 2007.
2. It will be shown in the next section that this interpretation of social housing in Russia in turn comprises both a narrow and a wider definition.
3. Meanwhile, access to cooperatives was regulated by the state authorities. In practice, this opportunity was available only to residents of large cities. The right to use a housing unit in a cooperative was granted only on the basis of membership in the cooperative. Soviet era cooperatives were not rental cooperatives, which made them different from cooperatives in a number of other countries.
4. The privatization legislation required that state housing stock possessed by state enterprises should be excluded from 'privatization en masse' and transferred to a municipality where an enterprise is located.
5. In some post-Soviet republics, 'voluntary-compulsory' privatization ultimately resulted in the near disappearance of all state and municipal housing.
6. Such categories could be determined by federal or regional laws and decrees of the RF president.
7. Waiting list procedures are further discussed in the section "The Demand for Social Housing and the Dynamics of Waiting List Admission and Allocation".
8. We estimate that out of the 2.8 million households currently on a waiting list about two million were put on it before 2005. Nearly 48 percent households have been on a waiting list for more than ten years.
9. For-profit private rental as a commercial enterprise under current conditions is not economically viable in Russia.
10. Approximately twelve million housing units or more than 20 percent of all housing units. Unfortunately, Russian statistics do not provide a breakdown of housing units by tenure.
11. Calculated using data from the Russian Longitudinal Monitoring Survey (RLMS) (1994).
12. The project was implemented by the workgroup on the development of an affordable housing market set by the Center for Strategic Research. Vneshtorgbank (VTB) was the customer under the project, and the Institute for Urban Economics (IUE) was the main contractor working in partnership with the Research Centre of the Russian Marketing Association (RMA Research Centre), the Centre for Information and Economic Research in the Construction Industry, the Development Centre of the Economic Research Foundation, the Agency for Housing Mortgage Lending (AHML), and the AN SAVA Joint-Stock Company.
13. Public authorities (mostly municipalities) can also set the 'intake norms' for housing provision.
14. Based on official estimates of the RF Ministry for Regional Development for the second half of the year 2010.
15. According to current Russian legislation, once a member of a housing cooperative repays his or her stake in the cooperative, the member automatically becomes the owner of the housing premises he or she occupies. This makes housing cooperatives an interim (rather than a permanent) organizational form, because after the repayment of the first installment by their members, the operations of such cooperatives should be regulated by the laws on the associations of owners.

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