



ECONOMIC COMMISSION FOR EUROPE

**COUNTRY PROFILES
ON
THE HOUSING SECTOR
ARMENIA**



UNITED NATIONS

ECONOMIC COMMISSION FOR EUROPE
Geneva

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ON
THE HOUSING SECTOR
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UNECE Information Service
Palais des Nations
CH-1211 Geneva 10
Switzerland

Phone: +41 (0) 22 917 44 44
Fax: +41 (0) 22 917 05 05
E-mail: info.ece@unece.org
Web site: <http://www.unece.org>

For comments and enquiries, please contact: profiles.hs@unece.org

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FOREWORD

The country profiles on the housing sector are intended to assist the Governments of countries with economies in transition in improving the performance of their housing sector while promoting sustainable development. They analyse trends and policy developments, and make an overall assessment of the political, economic and social framework of the sector in the process of reform. This work was initiated by the UNECE Committee on Human Settlements in the early 1990s in response to requests from its member States.

The studies are carried out by international teams of experts in cooperation with governmental bodies, non-governmental organizations, local authorities and the private sector. Through a process of broad consultations, the experts carry out a comprehensive analysis of the housing sector, and draw conclusions and make recommendations to help policy makers develop strategies and programmes.

This country profile on the Housing Sector of Armenia is the eighth in the series published by the United Nations Economic Commission for Europe's Committee on Human Settlements. I hope that this country profile will prove useful to all those with an interest in Armenia's housing sector – policy makers and legislators, government officials, academics, NGOs and other national stakeholders, as well as international organizations, including lender and donor organizations, technical assistance agencies, or private sector investors.



Brigita Schmögnerová
Executive Secretary

PREFACE

The country profile on the housing sector of Armenia started with a preparatory mission by the UNECE secretariat in October 2002. The research mission by the international expert team took place in February 2003. The project's expenses were covered by extrabudgetary funds provided by the Governments of the Czech Republic and the Netherlands. The successful conclusion of the project would not have been possible without this generous support.

The previous studies in this series were on: Bulgaria, published in 1996; Poland, published in 1998 (ECE/HBP/107); Slovakia, published in 1999 (ECE/HBP/112); Lithuania, published in 2000 (ECE/HBP/117); Romania, published in 2001 (ECE/HBP/124); the Republic of Moldova, published in 2002 (ECE/HBP/125), and Albania, published in 2003 (ECE/HBP/130).

Other work carried out by the UNECE in Armenia includes a land administration review and an environmental performance review both published in 2001. Three other ongoing UNECE projects related to housing may also provide useful information to Armenia and other countries in transition: (i) the guidelines on condominium ownership of housing for countries in transition (ECE/HBP/123), (ii) the guidelines on housing finance systems for countries in transition (forthcoming), and (iii) the guidelines on social housing (forthcoming).

The country profile on Armenia as well as the other above-mentioned publications are also available on the web site of the Committee on Human Settlements at:

<http://www.unece.org/env/hs/cph/welcome.html>

INTERNATIONAL EXPERTS

| | | |
|-----------------------|----------------------|---------------------|
| Ms. Sylta Paysen | (UNECE secretariat) | Project coordinator |
| | | Chapter I |
| Mr. Alexander Puzanov | (Russian Federation) | Chapter II |
| Ms. Doris Andoni | (Albania) | Chapter III |
| Mr. Claudio Acioly | (Netherlands) | Chapter IV |
| Mr. Mark Stephens | (United Kingdom) | Chapter V |

The above experts are the principal authors of the chapters mentioned. Parts of their work have, however, been incorporated into other chapters for better cohesion and clarity. The conclusions and recommendations are a result of joint teamwork.

NATIONAL EXPERTS

| | |
|------------------------|--|
| Mr. Kamo Khachatryan | Local coordinator, Head of Housing and Municipal Policy Division, Ministry of Urban Development |
| Ms. Irina Grigoryan | Housing and Municipal Policy Division, Ministry of Urban Development |
| Ms. Armine Karapetyan | Housing and Municipal Policy Division, Ministry of Urban Development |
| Ms. Lia Sieghart | Housing and Municipal Policy Division, Ministry of Urban Development |
| Ms. Hayastan Stepanyan | Urban Institute |
| Mr. Arsen Karapetyan | Urban Institute |

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Information cut-off date: August 2003.

Chapter I

FRAMEWORK FOR THE HOUSING SECTOR TRANSITION

This chapter describes the socio-economic framework conditions of Armenia's housing sector. It presents the macroeconomic background relevant to the housing sector as well as major demographic developments and their impact on housing developments and policies. It also provides an overview of the history of transition since independence in 1991, stressing in particular housing privatization and other reforms that the Government has initiated in view of the changing framework conditions of the housing sector.

A. General information

Armenia is a landlocked mountainous country with an area of 29,743 km². It shares borders with Azerbaijan, Georgia, the Islamic Republic of Iran and Turkey. Of its territory 90% is 1000 m or more above sea level and 40% above 2000 m, with an average altitude of 1830 m.

The Republic of Armenia became independent following a referendum on 21 September 1991. A new constitution was adopted in July 1995. Armenia is a parliamentary democracy.

Figure I. Map of Armenia – administrative boundaries and major cities



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

B. Economy

1. Parameters influencing the economic development during transition

Armenia's socio-economic development in the past 15 years has been greatly affected by the break-up of the Soviet Union in 1989, which was followed by the declaration of independence of the Republic of Armenia and its adoption of an economic reform policy to establish a market economy.

The starting conditions for Armenia's economic transition were harsh. The collapse of the Soviet Union led to the dissolution of the Council of Mutual Economic Assistance (CMEA) and consequently the disruption of trade among the Soviet bloc countries. For Armenia this mainly meant the sudden loss of the main export destination for its industrial output. When it was part of the Soviet Union, Armenia was heavily industrialized, with 44.5% of its GDP in 1990 originating in the industrial sector. Its output consisted mainly of capital and intermediate goods, which were exported to other parts of the Soviet Union. With the collapse of CMEA, this pattern of trade was destroyed and with it the *raison d'être* of a large part of Armenia's industrial sector.¹

The impact of regional conflicts added to this already difficult situation. In addition to the human cost, there was the economic effect of closed borders, which left Armenia virtually isolated and led to a further deterioration in the standards of living.

Moreover, the country was still recovering from the consequences of a massive earthquake in December 1988, which affected almost 40% of the country, destroying the town of Spitak and neighbouring villages and causing major damage to the cities of Gyumri and Vanadzor. It is estimated that the earthquake caused the death of 25,000 people and left 500,000 homeless.²

2. Transition policies

Like most former Soviet countries, Armenia embarked on the transition process with a "shock therapy" aimed at introducing market-oriented reforms as rapidly as possible. The reforms included price liberalization, the transfer to the private sector of State-owned land, housing and enterprises, the introduction of tax reform and a general reduction in State involvement, the introduction of tight monetary policies to control inflation, and the adoption of free-trade policies.

Although these measures led to a certain degree to macroeconomic stability, they could not prevent a fall in income and a deep depression, from which the economy has not yet fully recovered. At the beginning of the transition, Armenia experienced five years of accelerating inflation and four years of sharply falling output, as table 1 and figures II and III demonstrate.

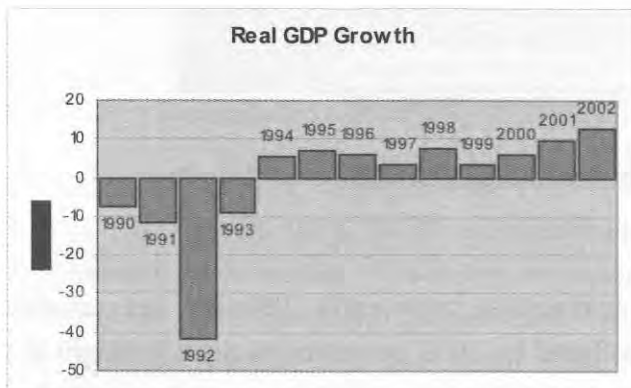
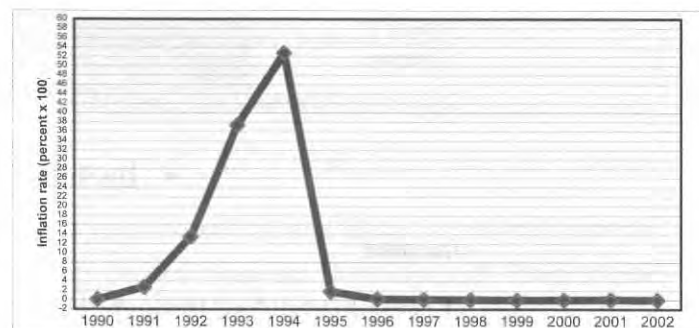
¹ United Nations Development Programme (UNDP), *Growth, inequality and poverty in Armenia* (2002), p. 1.

² UNDP, loc. cit., p. 1.

Table 1. Growth in real GDP and change in consumer prices (per cent a year)

| | Gross domestic product | Inflation |
|-------|------------------------|-----------|
| 1990 | -7.4 | 10.3 |
| 1991 | -11.7 | 274.0 |
| 1992 | -41.8 | 1346.0 |
| 1993 | -8.8 | 3732.0 |
| 1994 | 5.4 | 5273.0 |
| 1995 | 6.9 | 176.7 |
| 1996 | 5.9 | 18.8 |
| 1997 | 3.3 | 13.8 |
| 1998 | 7.3 | 8.7 |
| 1999 | 3.3 | 0.6 |
| 2000 | 6 | -0.8 |
| 2001* | 9.6 | 3.1 |
| 2002* | 12.5 | 1.1 |

Sources: UNDP, Growth, inequality and poverty in Armenia, 2002 and The Economist Intelligence Unit, Country Report Armenia: February 2003 (*).

Figure II. Real GDP growth**Figure III. Inflation rate**

3. Key economic data

The situation has stabilized in recent years. Armenia has seen strong real GDP growth during the past five years. Until 1994 the agricultural sector was the principal engine of growth, but since 1994 the construction and the service sectors have taken over this role. The restructuring of the banking sector since 1994 and the opening of the sector to foreigners have resulted in a modest increase in banking and insurance services and have contributed to the rise in the share of the overall service sector in GDP. The industrial sector has suffered from a lack of restructuring and from Armenia's restricted access to neighbouring and world markets. However, in recent years – owing to a large extent to increasing foreign investment - operations at several large chemical and metallurgical enterprises have resumed. This has increased these sectors' markets in the Commonwealth of Independent States (CIS), thereby contributing to a recovery in

output. At the same time inflation has been brought under control and has reached consistently low levels in recent years.³

Table 2. Key economic data

| | 2001 | 2002 | 2003 ¹ |
|--|------|------|-------------------|
| Real GDP (% change) | 9.6 | 12.5 | 7.0 |
| Consumer price inflation (average; %) | 3.1 | 1.1 | 5.5 |
| Consumer price inflation (year-end, %) | 2.9 | 2.0 | 6.0 |
| Exports of goods (millions of US\$) | 353 | 525 | 560 |
| Imports of goods (millions of US\$) | 773 | 800 | 860 |
| Current-account balance (millions of US\$) | -201 | -170 | -204 |
| Current account balance (% of GDP) | -9.5 | -7.3 | -8.0 |

¹ Forecasts

Source: The Economist Intelligence Unit, Country Report Armenia: February 2003.

4. Income, employment and poverty

Income

It is estimated that, through the economic recession in the early 1990s, the net cumulative loss of income that the Armenian people had suffered by 2000 amounted to the equivalent to 4.9 times the income of 1989.⁴ Many Armenians have lost their jobs. Employment already started to decline after the disastrous earthquake in 1988, but the situation worsened sharply with the transition process in the early 1990s. The decrease in industrial output was responsible for most of the decline in employment, mainly owing to the collapse of CMEA. By 1997 industrial output stood at only 44% of its 1990 level. Between 1990 and 2000, approximately 315,000 jobs were lost in industry. Employment in services also declined in the early 1990s, although less dramatically than in industry.⁵

Employment

The agricultural sector served as the main absorber of the workers made redundant elsewhere. Between 1990 and 2000, the agricultural sector absorbed over 280,000 workers, as many former industrial workers returned to their villages to establish a claim to privatized land.

³ Economist Intelligence Unit, *Country profile 2002: Armenia*.

⁴ UNDP, loc. cit., p. 3.

⁵ Loc. cit., p. 44.

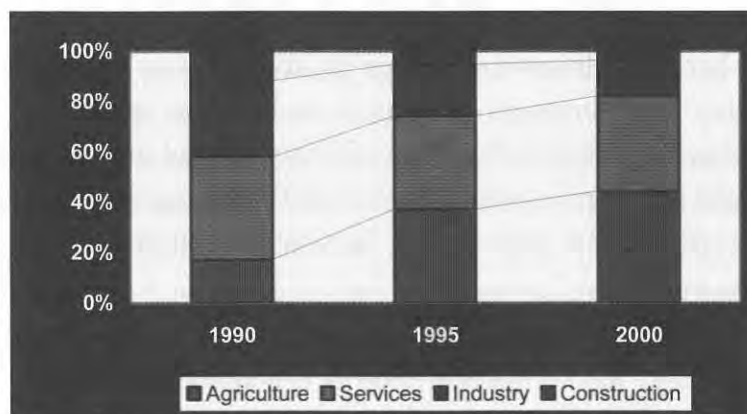
Development was thus turned around and Armenia became an increasingly agrarian economy as shown by the figures in table 3 and figure IV.⁶

Table 3. Sectoral composition of employment (in per cent)

| | 1990 | 1995 | 2000 |
|--------------|------|------|------|
| Agriculture | 17.4 | 37.4 | 44.4 |
| Services | 40.6 | 37.0 | 37.9 |
| Industry | 30.4 | 20.5 | 14.1 |
| Construction | 11.6 | 5.1 | 3.6 |

Source: National Statistical Service (from UNDP, Growth, inequality and poverty in Armenia, 2002).

Figure IV. Changes in employment patterns



Poverty and income inequality

The dramatic rise in unemployment and the decline in income have led to widespread poverty in Armenia. According to research by the United Nations Development Programme (UNDP) and household income and expenditure surveys carried out by the Government of Armenia together with the World Bank for the years 1996, 1998/99 and 2001, over half the population is “poor” and about a third of those are “extremely poor,” where “extremely poor” is defined as households not being able to afford the value of a minimum food basket and “poor” as households not being able to afford the minimum food basket plus essential non-food consumption items.⁷ Unlike in most other developing economies and economies in transition, poverty in Armenia is much worse for urban households than for rural families, as demonstrated in table 4.

⁶ Loc. cit.

⁷ Loc. cit., p. 52.

Table 4. Poverty in 2001 (in per cent)

| | Incidence of extreme poverty (head count) | Incidence of poverty (head count) |
|-------|--|--|
| Total | 15.9 | 50.9 |
| Urban | 18.2 | 51.3 |
| Rural | 11.2 | 50.1 |

Source: UNDP, Growth, inequality and poverty in Armenia.

The difference in extreme poverty between urban and rural areas is mainly to the result of the sharp decline in industrial activity described above. As most of the urban income depended on the industrial sector, its decline had an immediate effect on urban household income, while the agricultural sector was not so affected. The relatively egalitarian land reform, which provided widespread access to land, allowed rural households to grow most of their own food.

Income inequality has risen dramatically since the transition to a market economy. The increase is primarily owing to changes in the labour and capital markets. The functional distribution of income changed markedly. The share of wages in total income plunged, while the share of profits, transfers and remittances increased. In addition, wages also became increasingly differentiated: the Gini coefficient for wages more than doubled, from a remarkably low 0.20 before the transition to 0.41 in 2000.⁸

5. Economic policies and privatization

One of the most remarkable features of Armenia's transition was the privatization of land, enterprises and housing.

(a) Land reform and privatization

The scale of land privatization in Armenia surpassed that of all other former Soviet republics. Armenia has transferred nearly all land to smallholders and dismantled almost all its large-scale farms. Farmland as well as single-family houses and flats in multi-apartment blocks were rapidly privatized in the 1991-1993 period.⁹

Privatization started in the agricultural sector in 1991 with land, cattle and agricultural equipment. By late 1993, 90% of land had been transferred to private ownership. In mid-1997, 63% of arable land, 80% of orchards, 91% of vineyards and 95% of cattle and sheep herds were in private hands. By January 2003 some 453,100 hectares of arable land, allotments and land parcels around private homes had been privatized. By 1996 output from collective farms was almost negligible compared to that from private farms. The privatization programme created 324,000 farms. It is estimated that the number of farms has increased to about 370,000 as a result of fragmentation caused by inheritance, etc.¹⁰

⁸ Loc. cit., p. 91.

⁹ United Nations Economic Commission for Europe (UNECE), *Land administration review: Armenia* (October 2001).

¹⁰ Loc. cit.

The distribution of land was remarkably equitable. The size of land units to be privatized was calculated by dividing the total area of irrigated arable land, non-irrigated arable land and mown grassland by the number of individuals living in a village. A family of three people received one unit, a family of up to six people received two units, while families of more than six received three units of land. The allocation of a particular land parcel was determined by lottery. In many villages, the land was classified into poor, average and good quality, and families received parcels of each category. This process resulted in a large number of very small and fragmented farms. In total there are about 1.3 million land parcels in the country. The average farm size is only 1.3 hectares with every farm having four or five parcels in different locations. It is, for example, not uncommon for a person to own ten fruit trees in a garden or just half a row of grapevines. Even for cereal production the average farm size amounts to only 1.1 hectare.¹¹

(b) Privatization of urban land, buildings and apartments

By 1999 most residential apartments in multi-storey buildings had been privatized. Today, 96% of the total housing stock is privately owned. As with rural property, the right to privatize a flat was assigned to the resident family, not to individuals. Initially, the associated land parcels were not privatized and remained in public ownership. Only owners of private individual houses have also become owners of the land occupied by those structures and related land parcels. The Law on Multi-unit Building Management, introduced in 2002, foresees that the land under and 1 m around an apartment building is part of the common property of the privatized building. Land that is not privately owned belongs to the State and is managed by *marz* authorities if it is situated outside the administrative boundaries of a municipality and by local authorities if it lies within a municipality. Urban land in Armenia covers approximately 36,620 hectares. The urban area in private ownership totals 6,987 hectares.¹² This figure is likely to increase when buildings start to register the land belonging to them according to the above-mentioned Law.

C. Population

The overall population of Armenia – according to the preliminary 2002 census results – stands at 3.2 million. According to official statistics, 64% of the population lives in urban areas and one third in the capital Erevan. Internal and external migration are high. The search for employment is the main reason for both internal migration to the capital and for emigration mainly to the Russian Federation. It is estimated that 800,000 people left the country in 1991, and 600,000 more between 1992 and 1996.¹³ At the same time there has been a considerable amount of migration to Armenia, in particular through the influx of ethnic Armenian refugees, owing to regional conflicts.

¹¹ Loc. cit.

¹² Loc. cit.

¹³ UNECE, *Environmental performance review: Armenia* (New York and Geneva, 2000), pp. 25-26.

Table 5. Population, 1 January 2003 (in thousands)

| | Total | Urban | Rural |
|------------------|--------------|--------------|--------------|
| Armenia | 3213 | 2065.7 | 1147.3 |
| Erevan | 1103.3 | 1103.3 | |
| Aragatsotny marz | 138.4 | 32.9 | 105.5 |
| Ararat marz | 271.9 | 79.9 | 192 |
| Armavir marz | 276.4 | 98.4 | 178 |
| Gegharqunic marz | 237.8 | 79 | 158.8 |
| Lori marz | 286.2 | 169.8 | 116.4 |
| Kotayk marz | 272.6 | 154 | 118.6 |
| Shirak marz | 283.4 | 174.1 | 109.3 |
| Sjunic marz | 152.7 | 104.1 | 48.6 |
| Vaiots Dzor marz | 56 | 19.6 | 36.4 |
| Tavush marz | 134.3 | 50.6 | 83.7 |

Source: Department of Statistics.

One particularity of the Armenian population is its “diaspora,” which is estimated at nearly 5 million people, most of whom live in the United States, Australia and Europe, in particular France. Another remarkable feature is the refugee population inside Armenia, which today totals around 360,000.¹⁴ It is estimated that 70% of these refugees are settled in rural areas. In the urban areas, a number of refugees were able to settle in apartments, others are living in community centres or abandoned buildings.

D. Government housing policy

As with the overall socio-economic situation, the situation of Armenia’s housing sector was severely affected by the break-up of the Soviet Union, the ensuing transition with its privatization policies, the 1988 Spitak earthquake and the influx of a large number of refugees. Owing to the overall devastating economic situation, the annual production of housing plummeted and many dwellings were left unfinished.

The Government’s housing policy for the past 15 years has been strongly influenced by these factors and has led the Government to concentrate on those population groups that were particularly badly hit by the overall developments. This includes in particular the 500,000 people who lost their homes during the Spitak earthquake and the 360,000 ethnic Armenian refugees who came into the country between 1988 and 1992.

The Government was confronted with the need of these vulnerable groups at a time when the State budget was severely restricted. With international assistance the Government was able to start some construction to give these people shelter. However, despite international assistance, the possibilities for new construction were still very limited so the Government had to find less costly alternatives.

A step in this direction was the introduction of housing vouchers, which the recipients can use to acquire existing housing through market mechanisms. This system, which is currently

¹⁴ According to the Department of Migration and Refugees.

funded by the Government and international donor organizations, is viable owing to the existing supply of vacant dwellings as a consequence of emigration. It is predominately implemented in the earthquake recovery zone, where it helps to provide households without regular shelter with a permanent home. In addition, the system facilitates the recovery of city centres by moving families out of the temporary shelters which have been erected in public spaces.

With the help of the above-described measures the Government has, to a substantial degree, been able to address the housing needs of the most vulnerable who have lost their permanent homes. The Government, however, is now increasingly having to provide solutions to the housing sector as a whole and to address the current problems in the housing sector comprehensively. This includes, in particular, the management of the existing housing stock.

The existing housing stock is in a poor condition. There is a serious backlog of repairs across the housing stock, a legacy of both the Soviet era and the transition. As a consequence of privatization, 96% of the dwellings in multi-unit apartment blocks now belong to private citizens. The dissolution of traditional structures for maintenance and repair in the early 1990s, and the failure to replace them immediately with an adequate new system of management and maintenance, has led to a deterioration of housing services and housing conditions. The new owners were, and to a large extent still are, unaware of the obligations that come with private property, in particular with regard to the common spaces. This results in the neglect of responsibilities and the further decay of the housing stock. Assistance to owners in managing their privatized housing is therefore becoming one of the Government's main housing-related priorities.

The Government is continuing to adapt to the new framework conditions of the housing sector and to create the necessary basis for improving the management of the existing housing stock, in particular the privatized multi-unit apartment blocks. In this context, the adoption of the Law on Condominiums and the Law on Multi-unit Building Management are to be mentioned. Both aim at providing a framework for dealing with the challenges of the privatized housing stock. As a result of these laws, the first steps have been taken to establish an adequate management system for the privatized housing stock, including the creation of a system of condominium associations. However, this process has not yet gone far enough and awareness of the responsibilities associated with private property and in particular the common spaces is still very low among the new owners.

The Government has also adjusted its institutional framework to the new situation, in particular by continuous efforts to define and redefine the functions and responsibilities of the different governmental institutions and the different levels of government. This process is not yet completed and further measures to clarify the roles and responsibilities of the different actors involved in the housing sector will have to be taken. Measures have also been taken to facilitate the development of market and civil institutions. The foundations of a private housing finance system, including a system of property registration, a licensed valuation profession, as well as a mortgage law, have been put in place. However, the banking system is still weak and the volume of mortgage lending via banking intermediaries negligible. Consequently, individuals still have very few options for improving their housing conditions.

In the following chapters these and other challenges within Armenia's housing sector will be analysed, policy options discussed and conclusions and recommendations made.

Chapter II

EXISTING HOUSING STOCK AND NEW CONSTRUCTION

This chapter gives an overview of the existing housing stock as well as recent developments in new construction. Section A reviews the condition of the existing stock, including the quality and size of existing dwellings and their amenities. Section B describes the trends in tenure and the housing market. Section C focuses on the current system and organization of maintenance. Finally, section D analyses practices and trends in new construction.

A. Existing housing stock

The economic difficulties of the past decade have left their mark on the existing housing stock. More than a decade of insufficient investment in maintenance and repair as well as in housing infrastructure has resulted in a deteriorating housing stock and inadequate provision with housing utility services. The impact of the 1988 earthquake on the housing stock is still visible despite the generous assistance of the Government, with the help of international donor organizations, to the affected households. Some families in the earthquake zone are still living in inadequate temporary shelters, so-called *domics*. Throughout the country there are many buildings that need reinforcing or that are still unfinished.

Total housing stock and housing supply

The total surface of Armenia's housing stock amounts to 67,241,700 m², of which 59.9% is in urban areas and 40.1% in rural areas. Table 6 provides an overview of the distribution of the housing stock among Armenia's 11 regions (*marzes*) as well as between urban and rural areas. The table shows clearly that Erevan has the highest urban concentration followed by the Lori, the Kotayk and the Shirak *marzes*. Both the Lori and the Shirak *marzes* were severely affected by the earthquake.

Table 6. Housing stock per marz, 2002

| | Total | Total surface in thousands of square metres | | | | |
|--------------|-----------------|---|-------------------|------------------|-----------------|------------------|
| | | % of total | Urban settlements | % of urban areas | Rural areas | % of rural areas |
| Erevan | 18,787.9 | 27.9 | 18,787.9 | 46.7 | -- | -- |
| Aragatsotn | 4,195.7 | 6.2 | 1,014 | 2.5 | 3,181.7 | 11.8 |
| Ararat | 5,659.8 | 8.4 | 1,381.4 | 3.4 | 4,278.4 | 15.8 |
| Armavir | 6,607.8 | 9.8 | 2,556.8 | 6.4 | 4,051.0 | 15.0 |
| Gegharqunik | 5,762.1 | 8.6 | 2,345.0 | 5.8 | 3,417.1 | 12.7 |
| Lori | 6,334.7 | 9.4 | 4,169.5 | 10.4 | 2,165.2 | 8.0 |
| Kotayk | 6,500.6 | 9.7 | 3,742.6 | 9.3 | 2,758.0 | 10.2 |
| Shirak | 5,476.6 | 8.2 | 2,767.2 | 6.9 | 2,709.4 | 10.0 |
| Sjunik | 3,351.8 | 5.0 | 1,846.6 | 4.6 | 1,505 | 5.6 |
| Vajots Dzor | 1,387.5 | 2.1 | 458.3 | 1.1 | 929.2 | 3.5 |
| Tavush | 3,177.2 | 4.7 | 1,176.4 | 2.9 | 2,000.8 | 7.4 |
| Total | 67,241.7 | 100.0 | 40,245.7 | 100.0 | 26,996.0 | 100.0 |

Source: Ministry of Urban Development.

Single-family homes represent 45-50% of the total housing stock; most are in rural areas. Most of the multi-unit housing stock (52%) was built between 1960 and 1980. About a quarter of the multi-unit housing was built before 1960. The typical multi-unit building is therefore 30 to 50 years old – an age when serious repairs are necessary.

Table 7. Type of housing

| | Total number of housing units | | Number of units by type of housing | | | |
|-------------|-------------------------------|---------|------------------------------------|---------|----------------------|---------|
| | | | Multi-unit buildings | | Single-family houses | |
| | 1989 | 2001 | 1989 | 2001 | 1989 | 2001 |
| Total | 650,826 | 750,719 | 361,166 | 414,259 | 289,660 | 336,460 |
| Urban areas | 437,510 | 494,988 | 329,670 | 383,472 | 107,840 | 111,516 |
| Rural areas | 213,316 | 255,731 | 31,496 | 30,787 | 181,820 | 224,944 |

Source: Ministry of Urban Development.

It is interesting to note that according to the tables above the housing supply in Armenia measured in housing units has increased significantly (+15%) during the past 12 years despite the sharp decrease in new construction (see below).

The main reason is the gradual ‘legalization’ of illegal or semi-legal housing, in particular through legislation that regularizes existing housing (see chap. IV) and the low rates of removal of inadequate or damaged housing from the existing stock. In 2001 only 18,000 m² or 0.3% of housing was taken out of the stock because it was inadequate. International averages, however, suggest that a country needs to replace between 1 and 2% of the housing stock annually in order

to maintain existing standards. Given the predominance of poorly maintained high-rise prefabricated structures in Armenia, this proportion should be considerably higher.¹

Despite the sharp decrease in new construction there is unlikely to be a shortage of housing. The reason is the drop in population owing to emigration. Some sources estimate a housing surplus. However, in the absence of accurate statistics on, in particular, the condition of the available housing units, these estimates cannot be confirmed. There are in addition strong regional variations, with most of the cities in the earthquake zone reporting a housing shortage.

Size of housing

The average size of an apartment is 63.5 m². (In urban areas this figure is 62.9 m² and in rural areas 70.3 m².) In Erevan, the average size of a one-room apartment is 40 m²; for a two-room apartment it is 57 m²; for three rooms 70 m²; and for more than three rooms 85 m². The statistics show a gradual increase in the average floor space per capita.

Table 8. Average floor space per inhabitant (2002)

| | Total | Floor space (m ²) | |
|--------------|-------------|-------------------------------|-------------|
| | | Urban | Rural |
| Erevan | 15.1 | 15.1 | |
| Aragatsotn | 25.0 | 21.6 | 26.3 |
| Ararat | 18.2 | 13.9 | 20.2 |
| Armavir | 20.5 | 20.6 | 20.3 |
| Gegharqunik | 20.7 | 22.9 | 19.4 |
| Lori | 16.1 | 15.8 | 16.7 |
| Kotayk | 19.8 | 18.7 | 21.5 |
| Shirak | 15.1 | 11.4 | 22.7 |
| Sjunik | 20.4 | 16.0 | 30.8 |
| Vajots Dzor | 20.0 | 16.1 | 22.7 |
| Tavush | 20.3 | 18.8 | 21.3 |
| Total | 17.7 | 15.9 | 21.2 |

Source: Ministry of Urban Development.

Between 1995 and 2002 per capita floor space grew from 15.3 m² to 17.7 m². The increase took place mainly in rural areas. The lowest figures are in Erevan and in the earthquake zone (Shirak and Lori *marzes*). Although detailed statistics are not available, there is evidence of huge contrasts. According to the 2001 survey on household data, the situation is particularly critical for those households that have only one room (11% of all households). They have an average of 2.5 people living in one room, while the nationwide average is 1.4.

Quality of housing

The condition of Armenia's housing stock is poor. Extremely limited investment in maintenance and repair during the past decade together with the impact of severe winters and the 1988 earthquake have led to a substantial deterioration of the housing stock. Many apartment buildings have no entrance doors because the inhabitants have removed them to use them as

¹ Scott Wilson and Hai Nakhagitis, *National policy study: Republic of Armenia* (GHK International, 1999).

heating material in the winter. Windows and frames in common areas and the handrails of stairwells have been removed for the same reason.

The poor quality of housing is above all the result of a decade of almost no investment in maintenance and repairs. The annual need of investment in capital repairs for the multi-unit housing stock is estimated at US\$ 55 million (based on calculations made for other former Soviet republics, an investment need of US\$ 0.13/m² per month was assumed). This means that over the past 10 years a total of US\$ 550 million should have been invested in capital repairs for these buildings (approximately 35 million m²). Given that in fact not more than 10% of multi-family housing has been repaired, the current backlog can be estimated at US\$ 500 million. The figure is likely to be even higher when taking into account the increasing amount necessary because of continuously deferred maintenance.

Of the urban housing units 41.6% are equipped with basic housing amenities (kitchen, cold water, toilet with draining system and bathroom). For rural housing units this rate is only 14.2%.² The situation is better when looking at water supply only – 85% of households have access to it, but not regularly. The provision of heating is particularly poor as the energy crises in the first years of independence resulted in a massive breakdown of the traditional district heating systems. The unused systems have been deteriorating and in most cases cannot be restored. Consequently, today only 9% of households have access to central or individual heating. Even in urban areas this figure is only 11.6%. In the absence of central systems, the population has turned to individual heating stoves and electric heaters. Currently 50% of the urban population is reported to use wood as the main source of heating.

Unfinished structures, damaged buildings and illegal constructions

There are many unfinished residential structures in Armenia. All were started prior to 1991, and their construction was halted largely because funds dried up.

The number of unfinished buildings is 4,487, comprising almost 29,000 housing units. The majority of these units - 52% - are located in the earthquake zone, where construction began in the late 1980s and early 1990s to provide shelter to those who lost their homes in the earthquake. Another 20% are in Erevan and the remaining units are scattered throughout the country. For 97% of the units, construction is less than 60% finished, which means that it is more expensive to complete them than to buy an existing home. Completing the unfinished buildings may begin to make economic sense if the economy takes off and housing prices rise. The first signs of such a development were noticeable in 2002.

Most units within the unfinished buildings had already been allocated to households. Therefore, any policy which aims to complete these buildings must take into account the claims that those households might have on a particular unit. The nature of the claims varies. First, there are those households whose homes were demolished to make way for these new homes and who were promised units in the new buildings. If nothing else, this group can make a strong moral claim to the units. Second, some buildings were built by cooperatives, with households

² *Social snapshot and poverty in Armenia: Statistical analytical report* (Erevan, 2002).

contributing a considerable sum of money towards the construction costs. This group can make a strong case of partial ownership of these units. The third group consists of households on the waiting list who were allocated units.

There are currently 420 so-called category-III damaged buildings (16,800 apartments) in Armenia. These are buildings that are too dangerous to live in, but which could be made habitable again. Calculations show that the cost of reinforcing these buildings would amount to US\$ 100 million. Most of these buildings are situated in the earthquake zone. As reinforcing these buildings is usually cheaper than completing the unfinished structures, the Government has given priority to reinforcement in its strategy for recovering the housing stock in the earthquake zone. There are also 32 category-IV buildings (1,182 apartments), which are dangerous structures where reinforcement is not deemed possible/ economically viable.

There are, according to the State Cadastre Committee, around 325,000 illegal structures (mostly illegal extensions to existing structures). In 2002 a law was adopted to bring these into the formal housing sector (see chap. IV).

Homeless, refugees and households without permanent shelter

Of the approximately 800,000 families living in Armenia, about 40,000 or 5% are without permanent shelter. About 40% (2% of the total number of households) live in temporary structures, so-called *domics*, in the earthquake zone. *Domics* are small caravans that were often set up in public places. Dormitories and damaged unsafe housing provide shelter to 10% of the households living in temporary shelters. Others live in former hotels, schools and kindergartens which were converted to temporary housing. Of the households without permanent shelter, 5,990 live in Erevan.

The households most likely to be homeless are the victims of the 1988 earthquake or refugees. According to the Office of the United Nations High Commissioner for Refugees (UNHCR), there were, in January 2000, 13,600 refugee households living in temporary accommodation. Of those, 67% were living in substandard community centres and 33% were living with relatives, in rental or illegally occupied houses. With the help of international organizations, many of these households have been provided with shelter since then. However, this still leaves several thousand households living in community centres and in need of permanent shelter. Assistance to these households is becoming increasingly urgent owing to their deteriorating living conditions.³

However, not all households without permanent housing were displaced by the earthquake or are refugees. Others have moved out of their homes because of overcrowding. Because of the high portion of low-quality housing in the permanent housing stock, differences with temporary housing (*domics*) are not as striking as might be expected. Except for the most dilapidated ones, *domics* of an acceptable quality when vacated are often occupied by young families in great need of housing.

³ According to the Office of the United Nations High Commissioner for Refugees (UNHCR), February 2002.

Alongside those without permanent shelter are the tens of thousands of families requiring better housing conditions. Altogether it is estimated that approximately 100,000 households are either without permanent housing or need urgent assistance owing to, among other things, overcrowding. Approximately 40,000 families are on the waiting list for housing because of overcrowding (less than 5 m² per person). The waiting list dates back to the Soviet period and never seems to shorten.

A comprehensive policy to help all households in need of housing will be necessary. They include refugees, households affected by the earthquake, households currently living in cramped conditions and others without permanent shelter. Housing is an important tool to facilitate the integration of the socially vulnerable population groups into society. In regard to the refugee community, for example, a clear link has been observed between a refugee household's willingness to integrate and the provision of adequate housing.⁴

B. Tenure and markets

Tenure

Despite the dominance of State provision during the Soviet period, Armenia had one of the lowest proportions of State-owned housing of all the former Soviet republics. Privatization began already in 1989, when 40,000 apartments (8% of the 500,000 State-owned units) were transferred to the private sector. In 1993, the Law on the Privatization of State and Public Housing was passed and more than 129,000 additional apartments were privatized over a 16-month period free of charge to registered tenants. Today, 96.0% of the housing stock is in private ownership; the remaining 4% was mostly transferred to local governments. The outcome of this process is that Armenia is now largely a society of homeowners.

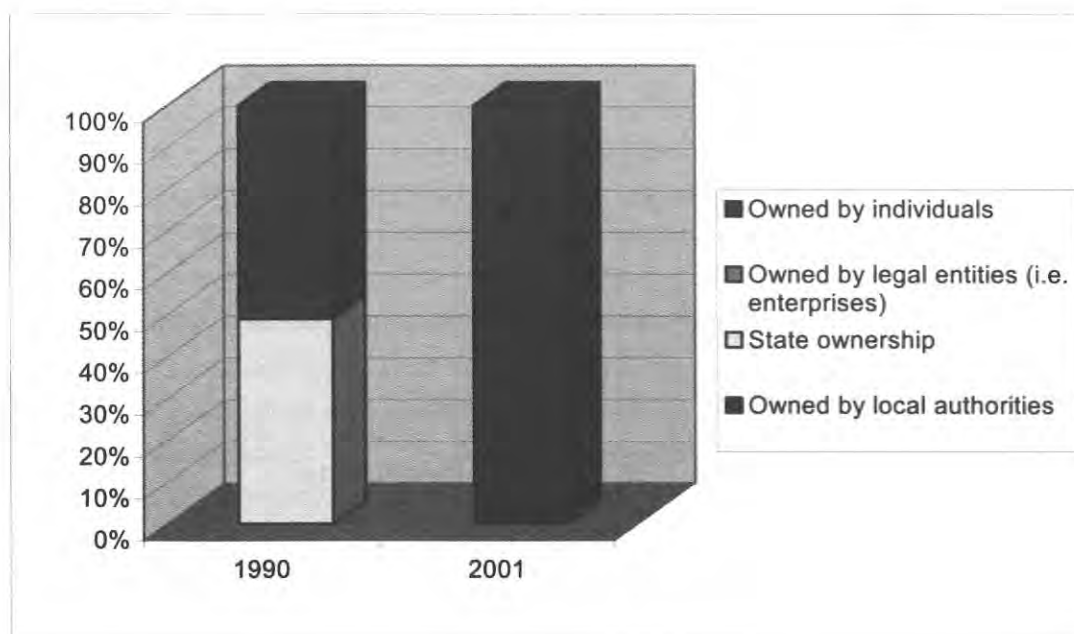
The units were privatized to their sitting tenants. The value of the apartment that a household received was therefore largely a matter of luck, as prices vary considerably across the country. The privatization process has also resulted in the mixed ownership of buildings with both private and public owners.

Table 9. Tenure of the housing stock

| | 1990 | 2001 |
|--|-------|-------|
| State ownership | 49.0% | 0.6% |
| Local authorities | | 3.3% |
| Owned by legal entities (e.g. enterprises) | | 0.1% |
| Owned by individuals | 51.0% | 96.0% |

Source: Ministry of Urban Development.

⁴ According to UNHCR, February 2002.

Figure V. Tenure of the housing stock

Housing markets

There are few market transactions. Only 2% to 3% of all apartments change hands each year. Most transactions are done informally; professional real estate agencies are involved in fewer than 30% of market transactions. The number of market transactions in the earthquake zone is relatively high, stimulated by the Government's housing voucher programme.

The programme grants eligible households a voucher to enable them to buy an apartment of a size based on the number of individuals living in the household at the time of the earthquake. The vouchers are primarily granted to those households that are living in temporary shelters in public places. The programme provides earthquake victims with a permanent home and at the same time serves as an urban planning tool, as it enables the clearing of public spaces so that they can revert to their intended use. There is no geographic limitation as to where vouchers can be used; however, they can be used only to buy permanent homes built according to current construction standards. The programme has boosted market transactions also outside the earthquake zone as households began to use their vouchers to buy homes in other parts of the country.

The price of housing in Armenia differs from region to region. While on average 1 m² of gross residential area has a market value of US\$ 80 – 90, it costs approximately US\$ 600 in Erevan. During the past two years transactions in the housing market have increased by 40%. In particular the year 2002 saw a sharp increase in market transactions and in real estate prices. In 2002, average market prices for flats in multi-unit buildings increased by 1.5% a month. The annual average increase was 20.0%. Outside Erevan, market prices for private houses have

increased by 15.0%.⁵ In 2002 the overall number of transactions was 58.3% higher than in 2001: up 23.2% in Erevan and up 79.9% in the *marzes*. The increase was to a large part due to the housing voucher programme in the earthquake zone (see above).

Armenia's housing market is characterized by a high level of supply compared to effective demand. Many housing units are available as a result of emigration. Existing housing units are approximately three times cheaper than comparable new units. Whereas the market price of 1 m² of residential area averages between US\$ 80 and US\$ 90, new construction costs US\$ 250 or more.

Table 10. Developments in the housing market (in units)

| Year | Property transfer* | | Renting | | Mortgages | |
|------|--------------------|---------------------|-----------|---------------------|-----------|---------------------|
| | Apartment | Single-family house | Apartment | Single-family house | Apartment | Single-family house |
| 2000 | 10,511 | 2,321 | 126 | 49 | 702 | 521 |
| 2001 | 11,825 | 2,455 | 183 | 60 | 815 | 366 |
| 2002 | 15,504 | 3,887 | 285 | 88 | 1,294 | 436 |

Source: State Cadastre Committee.

*Sale or other forms of property transfer (inheritance, gift, etc.).

The ratio of land costs to total development costs can be as high as 40% in the centre of Erevan. Prices on the private market for land in the centre of Erevan range from US\$ 50 to US\$ 100/m². Since most urban land is still publicly owned however, there are relatively few land transactions in urban areas. In Erevan, for example, 90% of land is owned by the State, while only 10% is in private ownership.

Rental market

The rental market is relatively small, given the large number of apartment units that were privatized. The largest category of rental units is that which is currently being transferred to local governments (approximately 3.3% of the apartment stock) (see chap. IV). The private rental market is very small and concentrated in Erevan. Rents in the private market vary from US\$ 50 per month at the low end to US\$ 250 to 400 per month at the top end. The latter are mainly flats rented out to companies or expatriates. There is no rent control. Landlords set the rents themselves and most private leases are concluded informally.

C. Maintenance

Maintenance/repairs and utilities

As in many other countries in transition, the privatization of a large part of the housing stock in Armenia was linked to the expectation that the new owners would increasingly invest in maintenance and repairs, as they would come to regard their homes not only as shelter but also as valuable assets. The State would thus be freed from this burden.

⁵ According to the State Cadastre Committee.

This expectation has not yet been met. There is a large and increasing backlog of maintenance and repairs. The current maintenance fee of 22 drams/m² typically set by local governments and condominium associations is too low to cover even current repairs, let alone make up for deferred maintenance. In addition, collection rates are very low. The result is continuously deferred maintenance and ad hoc subsidies from local governments to cover the most pressing needs.

The same is true for utility fees. Water tariffs do not include capital expenses and electricity tariffs do not account for the maintenance of electric networks inside the multi-unit buildings. Collection rates are low; they are reported to be as low as 25% sometimes. However, some progress has been achieved. For example, collection rates for water supply rose from 31% in 1999 to 40% in 2001, and they are expected to increase further after the debt restructuring and water-meter installation campaign launched in January 2003 is over. The collection rate for electricity bills is about 95%. Collection rates are considerably higher where individual meters are installed, which largely explains the comparatively high collection rates for electricity bills.

Today a total of about \$0.30-\$0.40/m² per month could be collected for maintenance and utilities if a 100% collection rate could be assured. However, evidence from other former Soviet republics suggests that US\$ 1/m² would be necessary for adequate maintenance and utility provision. The funds that are currently raised are therefore totally insufficient. This means that the condition of the housing stock is likely to continue to deteriorate, which will result in the rapid rise of financial resources needed in the future to restore the housing stock to a decent standard.

The Government is trying to address this problem. Resolution N° 2165 of 26 December 2002 introduced the concept of giving State assistance to the owners of apartment buildings on condition that they provide co-financing. This resolution is the first step towards the creation of a sustainable system of generating funds for maintenance and repairs for multi-unit buildings. However, it still needs to be determined how this system will work in practice, in particular concerning the decision-making by the owners.

Organization of maintenance and market for maintenance services

The large-scale privatization of the existing housing stock called for new management systems, in particular for the multi-unit building stock. Several legislative acts have been passed to set a framework for the efficient management of the privatized housing stock – most notably the Law on Condominiums and the Law on Multi-unit Building Management.

The adoption of the Law on Condominiums in 1996 triggered the creation of condominium associations as management tools for the multi-unit buildings. However, progress was slow. By 2002 only some 40% or 171,000 apartments in multi-unit buildings had been organized into 600 condominium associations. Moreover, a recent survey indicates that only 20% of the condominium associations are active. The reasons for this are mainly the lack of financial resources and of capacity-building measures, in particular information for the new owners on their rights and responsibilities within the condominium association.

There are few buildings where condominium associations have actually taken over the management and maintenance of the properties themselves. Most continue to depend on the zheks for these services. Zheks are the former State management companies. During the Soviet era, zheks were responsible for the maintenance of multi-unit apartment buildings. During the transition they were transferred to local governments and they are now municipally owned enterprises. Most zheks are poorly equipped and their services are low-quality. However, in the absence of any competition they have few incentives to change. There are very few private maintenance companies and the whole market for maintenance services is still in its infancy. However, the quality of the services will improve only if there is more competition.

D. New housing construction

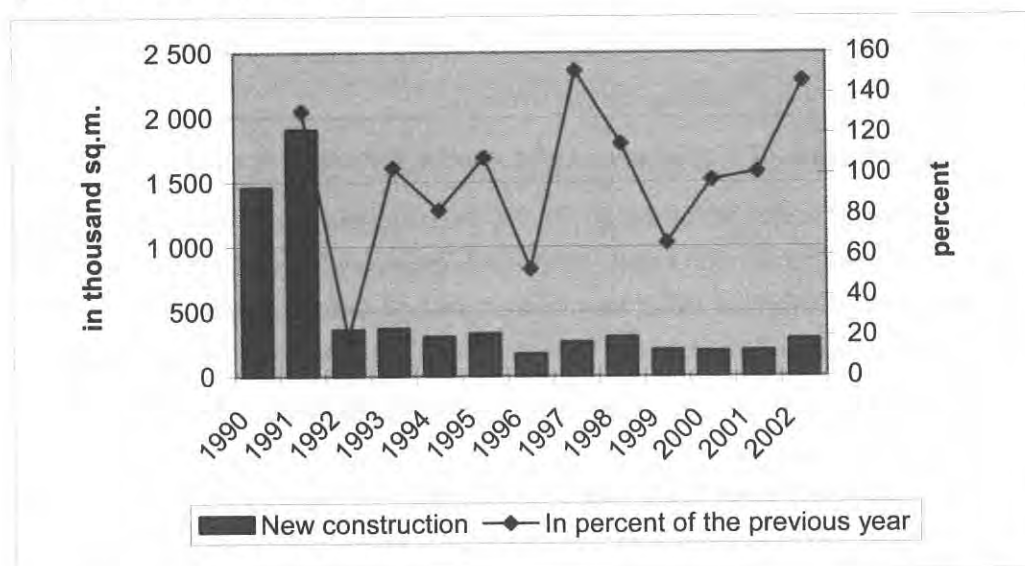
New construction has decreased sharply since the early 1990s and is still very low. New construction (measured in m²) in 2001 was merely one tenth of its level in 1991. While 17,300 new units (1,909,000 m²) were built in 1991, new construction amounted only to 1,200 units (195,000 m²) in 2001.

Table 11. New construction (in thousands of square metres)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---------------------------|-------|-------|------|------|------|------|------|------|------|------|------|------|------|
| Total | 1,460 | 1,909 | 360 | 370 | 305 | 330 | 174 | 262 | 302 | 200 | 194 | 195 | 285 |
| In % of the previous year | - | 131 | 19 | 103 | 82 | 108 | 53 | 151 | 115 | 66 | 97 | 101 | 146 |

Source: Ministry of Urban Development.

Figure VI. New construction



New construction only began to increase significantly in 2002, mainly in Erevan, with private investment, and in the earthquake zone, with financing from international donors. About 40% of new housing in that year was built in the earthquake zone, where a 93% increase was

documented. Erevan experienced an increase of 35%, whereas in the rest of the country the rapid decrease in housing construction continued. This is leading to a further concentration of the population in the main cities – Erevan as well as Gyumri and Vanadzor, which are both situated in the earthquake zone.

Armenia's recent land auctions have contributed to the revival of housing construction. As a result of the auctions, 285,200 m² of land was put on the market in 2002. This constitutes a 46% increase.

Investment in housing construction comes mainly from the private sector (71% in 2002), followed by foreign investment (some 20% in 2002) and investment from other Armenian sources (7% in 2002). Public sector investment amounted to less than 2% of total investment in 2002. Remittances from abroad seem to be driving the private property market. While officially foreign investment amounted to 20% of the total investment in housing construction in 2002, experts believe that these remittances added another 30% (see chap. V).

There are still hardly any mechanisms in place to provide construction finance through the formal banking system. The most common type of financing for the construction of multi-unit buildings is 'shared participation,' where the construction firm collects funds directly from the future owners. However, the legal status of those future owners when, for example, the construction company goes bankrupt and construction cannot be continued is not clear. This results in significant risks for the participants.

Before 1957, most buildings were made of bricks and stone. Since then, most have used Soviet precast concrete systems. Armenia does not produce its own metal frames. They are currently imported from Ukraine. This significantly raises the construction cost of multi-unit buildings. Armenia no longer has its own ceramics and glass production either. Those materials are imported from the Islamic Republic of Iran. The local building materials industry is represented by two cement factories, one asbestos factory and several producers of concrete.

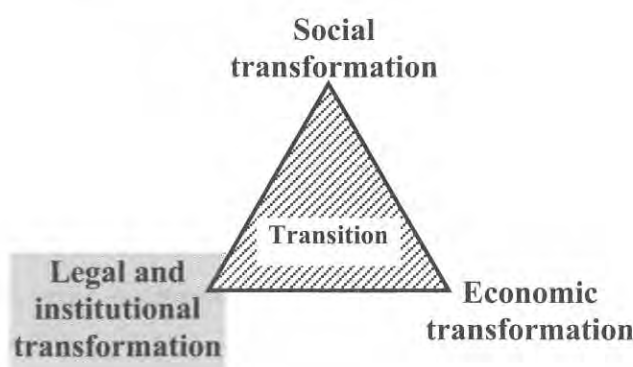
There are about 1,004 construction companies in the country. They employ 43,000 workers and 40% of them are involved in housing construction. Despite the sharp decrease in construction during the past decade, the number of companies in this sector is twice that of the Soviet period. Some of the companies are dissolved and privatized parts of former Soviet companies. However, most are newly established. The size of the companies is extremely volatile and depends on the availability of contracts. The average company builds a mere 3 to 5 housing units a year. Many companies do not even renew their building licences (\$170 per year) unless they think they have a chance of winning a tender. A positive development is that the Government has recently streamlined the procedure for obtaining building permits. As a result the waiting period has been cut to 20-30 days.

Chapter III

INSTITUTIONAL FRAMEWORK

An important development in the past decade has been the increased recognition of the role that institutions have in formulating appropriate policies, and in effectively implementing and monitoring them. At the same time the institutional framework of Armenia's housing sector has undergone substantial changes. The transition policies since the early 1990s have had a strong impact on the institutional set-up of the housing sector.

Figure VII. Elements of transition¹



Institutional reforms are among the principal and most difficult tasks that countries in transition have to accomplish. These reforms require time and investment in human resources as well as experience in structuring institutions in a new environment. As a result of transition policies, many actors directly or indirectly involved in Armenia's housing sector are either newly established or their functions and responsibilities have been overhauled since the early 1990s.

This chapter gives an overview of the different governmental institutions and other organizations that are active in Armenia's housing sector either nationally or locally. It analyses their respective roles and their interrelations.

A. Housing responsibilities and decisions at the national level

Armenia's Constitution defines it as a sovereign, democratic State, based on social justice and the rule of law. In accordance with the Constitution, Armenia's President is elected by the citizens for a five-year term of office.

The Parliament

The National Assembly is the legislative power in Armenia. It has 131 deputies. Within the scope of authority defined by the Constitution, the National Assembly adopts laws and decisions. Laws and resolutions of the National Assembly are passed by a majority vote of the deputies present at a given sitting, provided more than half the total number of deputies participate in the vote.

¹ D. Andoni, *National housing policy and its impact on the poor in Albania* (2000).

In conformity with article 73 of the Constitution, the National Assembly has six standing committees. Two are of particular importance to the housing sector: the Standing Committee on Financial Credit, Budgetary and Economic Affairs, which proposes the yearly budget allocations for the housing sector, and the Committee on Social Affairs, Health Care and Environment, which holds consultations on new draft laws on housing before they are passed to the National Assembly for decision. This Committee also holds consultations concerning all other laws that directly or indirectly affect the housing sector such as laws concerned with vulnerable groups or environmental protection.

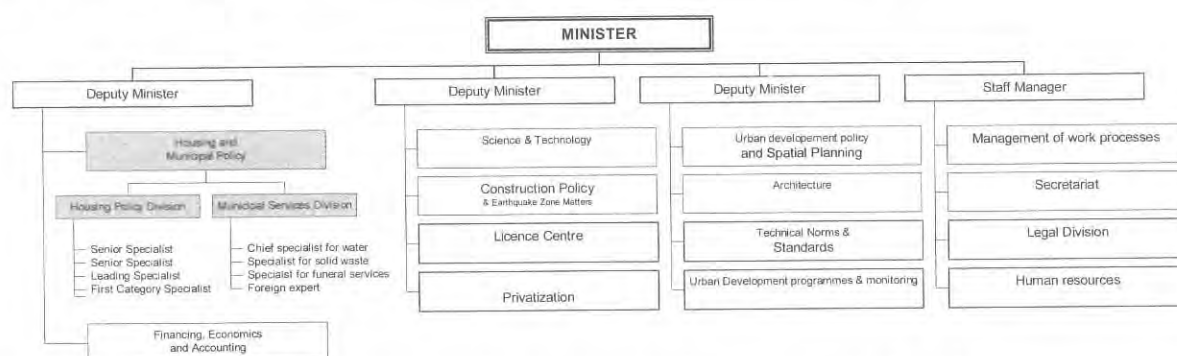
Ministry of Urban Development

Government housing policy is primarily developed and implemented by the Ministry of Urban Development. Certain aspects of the implementation of programmes are handled locally, by the *marzes* and municipalities. The Ministry of Urban Development was established in 1995 to replace the previous Ministry of Construction, the Departments for Architecture and Urban Development, and the ARMGEODESY company, as well as certain parts of the Ministry of Municipal Services.

The Ministry's housing priorities are:

- (a) Providing housing to citizens who lost their homes because of the earthquake, war, etc. and to those who are living in emergency shelters;
- (b) Developing an effective system for housing management;
- (c) Improving the legislation on rental housing and the housing allowance system.

Figure VIII. Organization chart of the Ministry of Urban Development



Of the above departments, the following are particularly relevant to housing:

- **Department for Housing and Municipal Policy**

This Department is responsible for the formulation and implementation of housing policy and policy concerned with municipal infrastructure including water supply, sewerage networks and water-treatment plants. It has two sections: one for housing policy and one for municipal services.

Housing policy section

The main objectives of this section are:

1. Establishing a uniform housing policy and implementing it;
2. Developing strategic directions for the housing sector;
3. Developing mechanisms to put housing policies into practice and to monitor their implementation;
4. Solving housing management problems;
5. Promoting the development of effective mechanisms to stimulate the housing market;
6. Providing input into the process of budget allocations for the housing sector;
7. Analysing the implementation of the State's housing projects and suggesting improvements;
8. Developing a tax and credit policy for the housing sector;
9. Developing mechanisms to stimulate the establishment of condominium associations and advisory services;
10. Developing normative documents such as rules and regulations with regard to maintenance, repairs and housing services, and monitoring their implementation;
11. Cooperating with international organizations on housing issues.

The section works together with the Urban Institute (United States of America), the Armenian Scientific Research Institute of Architecture and Construction, the Urban Planning Scientific Research Institute, the National Association of Condominium Owners (NACO) and the World Bank.

Municipal services section

Municipal services are mainly the responsibility of local governments. The municipal services section is responsible for setting the framework conditions for the municipal services sector. This includes in particular drawing up appropriate legal and technical norms. Municipal services cover: heating, solid waste collection, water supply and sewerage, management of urban green spaces, funeral services and the maintenance of cemeteries.

The municipal services section works together with a variety of institutions, in particular the Ministry of Environmental Protection, the National Water Committee and the Water Resources Management Agency, the heating management section of the Ministry of Finance and Economy, the World Bank, the Ministry of Territorial Administration, Erevan municipality, and *marz* authorities.

- **Department for Urban Development Policy and Spatial Planning**

This Department is responsible for housing construction policy, territorial planning, urban land, and urban development norms. Its objectives are to develop strategies for urban

development and prepare the corresponding laws, to coordinate the preparation of master plans for each municipality and monitor their implementation, and to assist municipalities in the organization of engineering and infrastructure works.

The Department employs 12 people, of whom 4 are in the foreign relations section and the other 8 work in either the spatial planning section or the engineering and cadastre section. The major document prepared by this Department is the document on Armenia's settlements which identifies the natural resources and the existing infrastructure and outlines the regions' development priorities.

The main institutions that this Department works with are the Ministry of Agriculture and the Commission for Land Privatization.

- The **Architecture Division** is responsible for setting design standards and for policies aimed at making buildings more energy-efficient.
- The **Science and Technology Division** is responsible for scientific research carried out in all areas within the Ministry's responsibility.
- The **Technical Norms and Standards Division** is responsible for the development of norms for the construction industry.

Ministry of Finance and Economy

The Ministry of Finance and Economy prepares the budget allocations according to the Government's priorities. Its project coordination unit is responsible for coordinating foreign assistance to the Government (grants and loans).

State Real Property Cadastre Committee

The State Cadastre Committee, established in 1996, has the status of a ministry. Its responsibilities include the creation of a unified land registration system. It is also responsible for the preparation of the Land Code and of regulations on land use and land tenure. The State Cadastre Committee is responsible for the valuation of real estate. However, large discrepancies between the cadastral and market value of property have frequently been reported. (For more details, see chap. V.)

Ministry of Justice

This Ministry comments on the legal acts on housing prepared by the Ministry of Urban Development. It is also responsible for the preparation of legal acts that set the framework for the functioning of housing finance institutions such as those dealing with mortgage finance or foreclosure. The Ministry of Justice has been working closely with the Ministry of Urban Development, especially in the preparation of the Law on Condominiums.

Public institutions

There are a number of scientific research and planning institutions that carry out activities for the Ministry of Urban Development. The most important are:

1. The State Scientific Research and Design Institute for Urban Development, Geodesy and Cartography (established in October 1998);
2. Stock companies in which the Ministry of Urban Development holds shares:
 - i. ARMPROJECT Institute: housing design, engineering and infrastructure projects;
 - ii. Institute of Seismically Resistant Construction: reinforcement and modernization of buildings;
 - iii. COMMUNPROJECT Institute: design of housing and municipal buildings, maintenance and modernization of the housing stock;
 - iv. PROMPROJECT Institute: design of industrial buildings;
 - v. ENGPROJECT Institute: survey of engineering standards/ conditions and protection of residential locations from hazardous natural phenomena.

B. Housing at the regional and local level

Local decision-making processes are one of the foundations of a democratic regime.² The level of autonomy of local governments depends largely on their functions as well as their endowment with, or capacities to generate, financial resources (fiscal decentralization). In most developed countries, local governments have played an important role in housing development, mainly through zoning and planning, but also by providing and managing social housing. In countries in transition, for historical reasons the main responsibilities for housing lie with the central government. The decentralization of housing responsibilities has started in Armenia. The question is what degree of decentralization is appropriate for the different areas of housing.³ To what extent is it economically, financially and managerially feasible for the Armenian Government to decentralize housing management? There are currently a number of factors that limit the effectiveness of decentralization, for instance:

- i. The lack of a clear and visible division of responsibilities;
- ii. The fragmented nature of local governments;
- iii. Capacity problems;
- iv. Financial problems and weakness of local governments.⁴

Several legal acts provide the basis for the organization and functioning of local governments, starting with the 1995 Constitution, the 1995 Law on the Administrative and Territorial Division of Armenia, the 1996 Law on Local Government Elections and the 1996 Law on Local Self-government (revised in 2002).

The powers and responsibilities of the local governments are prescribed in the Constitution, while concept, goals, principles, as well as the relations between the central

² European Charter of Local Self-Government, Strasbourg, 15.X.1985.

³ N. Flynn and F. Strehl, "Changing management practices", *Journal of International Development*, 1999.

⁴ UNDP, GTZ, SC, MoTACI: Concept paper: Local governance programme (August 2002).

government and local self-government bodies (see below) are stipulated in the Law on Local Self-government. Armenia is administratively divided into 10 provinces (*marzes*) and the capital city of Erevan, which is also accorded the status of a *marz*. The Government appoints and removes the governors of the *marzes*. The governors implement the central Government's regional policy and coordinate the activities of the regional executive bodies. The *marzes* are subdivided into 930 so-called communities or municipalities, of which 12 are urban municipalities within Erevan, 47 are urban municipalities in the other regions and 871 are rural municipalities. All are accorded the status of “local self-government bodies.”

Figure IX. Armenia's *marzes*



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

Interaction between the central Government and these local bodies takes place at the *marz* level. *Marzes* are responsible for infrastructure, such as road construction and utilities, and social services, such as education. In these areas close cooperation with the local self-government bodies is required. In the area of housing, *marzes* are responsible for:

- i. Overseeing the regulation of housing construction;
- ii. Administering the purchase of homes through the State budget for people who receive State support;
- iii. Overseeing the housing stock's maintenance in the districts outside the administrative borders of municipalities;

- iv. Taking measures regarding unauthorized construction in the districts outside the administrative borders of municipalities;
- v. Supervising the housing-related activities of the municipalities.

The responsibilities of the local self-government bodies are mainly determined by the Law on Local Self-government. Within the housing sector these include:

- i. Urban planning and land-use planning including the granting of building permits (see below);
- ii. Management and maintenance of the non-privatized residential and non-residential buildings that were transferred to them by the central Government;
- iii. Management of municipal services;
- iv. Setting the (recommended) fee for housing maintenance;
- v. Support to property management, including assistance to condominium associations for their foundation and supervision of their activities.

The representatives of these bodies are elected by the local residents. Their performance strongly depends on their ability to generate local funds and the fiscal autonomy provided for in the Constitution and the Law on Decentralization. The local bodies' revenue is made up of: (i) their own revenues; and (ii) State subsidies and subventions.⁵ Income from local taxes constitute roughly 34% of total revenues. Subsidies and other State transfers constitute 44%. The remainder comes from non-tax revenues such as rent payments and local fees. The bulk of local tax revenue come from the land tax and the property tax; together they amount to almost 30% of all revenues.

An assessment of the local self-government bodies' capacities has shown that they are poorly equipped, both financially and in terms of human resources, to fulfil their responsibilities within the housing sector. This is mainly owing to their scarce tax revenues, the lack of information as well as the lack of coordination between local and central level programmes and policies. Central housing policies and programmes rarely assign a clear role to the local bodies. Some improvement has taken place with the revision of the Law on Local Self-Government in 2002.

Applying for a building permit

1. The applicant writes to the head of the municipality, describing the project. The municipal administration informs the applicant about the conditions that have to be complied with.
2. The applicant entrusts the project to a licensed architect.
3. The project receives approval from the Architecture Division.
4. Finally, the project is approved by the municipality.

⁵ Loc. cit.

A governmental commission is established for the approval of large-scale projects. Processing an application for a building permit takes between 20 and 30 days, which is a relative short time compared to other countries in transition.

Source: Urban Development Department in the Ministry of Urban Development

C. Community organizations

Community participation is important for three reasons. First, it generally leads to better results in project delivery because the preferences of the beneficiaries are better taken into account. Second, it leads to better acceptance of the project results by its beneficiaries. Third, it improves the efficiency and effectiveness of the investment. By increasing the community's sense of ownership over a particular project, the target group's willingness to contribute in material or financial terms generally increases as well.⁶

Non-governmental and community-based organizations

It is commonly recognized that, for community participation to be effective, communities need intermediaries to mobilize and solicit participation. Non-governmental organization (NGOs) and community-based organizations (CBOs) have increasingly assumed this role. In addition, NGOs have rendered technical assistance and financial support to communities.

During the Soviet era the concept of NGOs was unknown. However since independence, the establishment of NGOs in various sectors has made steady progress. For example, in 1994 the Armenian Assembly of America created the Non Governmental Organization Centre (NGOC) to help Armenians and their fledgling non-governmental organizations to shape positive social, political and economic transformation in their country. Funded by the United States Agency for International Development (USAID), it continues to play a unique role in rebuilding Armenia and empowering its citizens. Various international organizations provide grants for NGOs for capacity building, training, partnership development, small grants programmes, media outreach, electronic communications, technical assistance, information and research, and awareness campaigns. Non-governmental organizations are seen by donors as essential agents of change in creating and strengthening civil societies by serving vulnerable population groups and advocating citizens' rights.

Non-profit organizations have flourished during the transition. The high number of foreign agencies and institutions that usually require an intermediary to work with has certainly had an enabling impact on these institutions. However, despite the assistance that NGOs have received from international donors, they frequently lack the resources to implement coherent, long-term projects.

⁶ F. Cleaver, "Paradoxes of participation: Questioning participatory approaches to development", *Journal of International Development*, 1999.

Condominium associations

Condominium associations are a particular form of community-based organization as they aim at promoting community participation in the management of common property in multi-apartment buildings. The aims of condominium associations in Armenia typically are:

- i. To manage the common property in multi-apartment buildings in accordance with the legal procedures;
- ii. To represent and advocate the common interests of owners in multi-apartment buildings vis-à-vis the local self-government bodies and other agencies;
- iii. To act on behalf of the owners by, for example, signing contracts with utility providers.

In its decision No. 295 of 30 May 1995, the Government instructed the local self-government bodies to support the formation of condominiums to improve the management of the common property in multi-unit buildings. Although the Law on Condominiums, enacted in 1996 and amended in 1998, clearly foresaw condominiums as a voluntary option for housing management, their establishment has in many cases been a top-down process. Consequently, many residents are now members of condominiums which they did not help to set up.⁷

In 1997, the National Association of Condominium Owners (NACO) was established. Its aim is to protect the rights of the owners of multi-unit buildings, to train these owners and the representatives of individual condominium associations in building management and to increase their awareness of the applicable laws. Of the 602 registered condominium associations 400 are members of NACO. The main counterparts of NACO are the Ministry of Urban Development, utility companies, the Ministry of Territorial Administration, NGOs and international organizations.

D. Private sector organizations and public enterprises

Private builders

Given the State's withdrawal from almost all aspects of housing, and in particular housing production, it was hoped that the private sector would play an increasing role in the provision of housing. However, although in relative terms private production of housing has increased -- private investment in new housing constitutes 70% of total investment -- in absolute terms this is still insufficient to meet the demand.

There are many small and relatively volatile companies in the building industry. Most are newly established or are privatized parts of former State-owned enterprises (see chap. II). The Union of Armenian Builders provides a number of services to these enterprises. Its main activities are:

- (a) Providing information on construction;
- (b) Providing information on norms, standards and legal issues;

⁷ Urban Institute, 2001.

- (c) Publishing a professional magazine;
- (d) Posting information relevant to the construction sector on its web site.

Private landowners

Among the main actors in housing development are the landowners. While rural land in Armenia was largely privatized to farmers, most urban land is owned by the State. Private landowners in urban areas are therefore rare. Public land is sold by auction.

Currently a reform which aims to transfer urban land from the central Government to the local self-government bodies is under way (see chap. IV). This reform is administered by a special commission which was established within the State Cadastre Committee and cooperates closely with the Ministry of Agriculture, the Ministry of Urban Development, the Ministry of Environmental Protection, the Ministry of Culture, and the Ministry of Territorial Administration.

Financial institutions

Armenia's housing finance market is its infancy. Banks have almost no experience with mortgage lending. Although an acceptable legal framework for mortgage financing exists, there is very little formal, private sector lending in this area (see chap. V).

Utility providers

The quality of utility services is unsatisfactory and few customers pay their bills. This is now a vicious circle with low levels of payment leading to a low quality and quantity of services and vice versa. During the Soviet regime utility charges did not cover costs; utility costs were heavily subsidized. Consumers are therefore often unaware of the real costs of the services that they receive, as they have never had to pay for these costs. Collection rates are particularly low for those services that are not metered individually (see chap. II).

Water companies. Water is supplied by two public enterprises: (i) the Erevan Water Company covers 38 municipalities and Erevan itself; and (ii) the Armenia Water Company covers the remainder of the country. This sector also faces the above-mentioned problems of arrears and charges that do not cover their costs. Although water prices increased by nearly 100% between 1995 and 1999, they are still too low to cover maintenance, operating costs and capital investments. The rate is currently 56 drams/m³. It was set in 1999 and has not changed since then. Collection rates are around 41%. Most households have not paid their water bills for 14 months.⁸ All debts of families to the water companies from before 2000 have been cancelled, while those from 2000 to 2002 were restructured. Those debts are also cancelled if the family concerned files an application and installs a meter. After the installation of a meter, water consumption tends to drop by a factor of 3 on average.

Heating. In Armenia winters are frequently harsh, so heating is crucial. But the sector suffers from the same symptoms as water supply. The area served by district heating systems decreased by 70% between 1990 and 1999. Most people use gas, electricity or wood for heating (see chap. II).

⁸ Urban Institute, 2001.

Energy. Energy comes mainly from fossil fuels (48.92%), hydropower stations (26.44%) and nuclear power stations (24.64%). Since 1995, the Government has implemented several reforms in the electricity market, including raising prices, metering consumption and introducing new social benefits to help the poorest. However, these were not able to create a healthy electricity sector: collection rates fell by 9%, arrears quadrupled and the percentage of households in arrears rose as well.⁹ Wood consumption increased.

The aim of current municipal service sector reforms is to improve the quality and quantity of the services. Privatization, as part of the reforms, requires an increase in charges to at least cost-recovery levels. An increase in charges may, however, increase the number of families that cannot afford to pay their utility bills. Policies to help poor families with these bills should therefore accompany the reforms in the utility sector (see chap. V).

E. Foreign institutions involved in the housing sector and their projects

A considerable number of international and foreign organizations are involved in Armenia's housing sector. However, it has to be stressed that their main focus is on the recovery of the earthquake zone.

Cooperation among these organizations exists but could be enhanced. Cooperation among donors in the housing area can ensure that their individual efforts are part of an overall strategy for the housing sector and that the benefits that result from their work are complemented by efforts in other, related, areas. For example, significant synergies can be achieved when the reinforcement of an apartment building is combined with new pavements, trees, kerbs, lighting and all other components of a complete public space. A holistic approach to improving people's living conditions is important (see conclusions and recommendations).

⁹ Urban Institute, 2001.

Chapter IV

LEGAL FRAMEWORK

Chapter IV gives an overview of the legislation that regulates the housing sector. In addition to analysing the most important laws which have influenced Armenia's housing sector in recent years, such as the Law on Condominiums, the Law on Multi-unit Building Management or the Law on Local Self-government, the chapter also provides an overview of the legislation inherited from the former regime, which provided the basis for the legal framework after independence.

A. Evolution of the constitutional framework since independence

Since independence the Government of Armenia has made significant steps to establish a legal and regulatory environment which addresses the significant changes that have taken place in Armenia's housing sector, in particular the withdrawal of the State from its dominant position as provider of housing. The transition from a centrally planned to a free market economy made it necessary to draw up new legislation to support the emerging housing and real estate market but also to regulate the new relationships between "housing consumers" and "housing producers". The Government has succeeded in drawing up basic legislation that contributes to the establishment of a well-performing housing sector. This has helped to create an enabling environment for those who buy, lease, finance, construct and invest in housing. Experience shows that improvements in the regulatory frameworks contribute greatly to the building of confidence among all participants in the housing sector.

The transfer of a vast housing stock from public to private ownership led to new rights and responsibilities for citizens. Their new rights to own and dispose of housing and land had to be regulated by new laws or complementary regulations to existing laws. The privatization was followed by the transfer of responsibilities for the management and maintenance of the privatized housing stock, which in turn created the need for a new set of basic laws. Residents and homeowners' associations or condominiums were assigned responsibilities and obligations that required additional legislation and normative acts. New market mechanisms have also evolved with manifold implications for the population, in particular for those living in the large multi-unit building stock. Regulations for property valuation, brokerage, property registration and contractual arrangements for the use, disposal and alienation of housing and other real estate also had to be drawn up from scratch.

The possibility of owning land and using it to build housing has opened up new opportunities for single-family housing production. This has helped to strengthen individual housing construction, but has also attracted various actors, and required regulations on the relationships between landowners, builders, housing consumers, etc.

The fundamental shift in policy and the institutional reforms pursued by the Government in the housing sector had to be accompanied by a new legal framework to create a conducive environment for all participants in the housing sector.

Since 1991 the Government has adopted a number of important laws and decisions directly affecting the housing sector, for instance:

- The Law on Multi-unit Building Management (2002);
- The new Law on Condominiums (2002);
- The Law on Local Self-government (amended in 2002);
- The Law on the Legalization of Unauthorized Buildings and Land Occupation (2003);
- The new Land Code (2001);
- The Law on the Gratis Privatization of Apartments in the State Housing Stock (2000);
- The Law on the Registration of Property Rights (1999);
- The Civil Code (1998);
- The Law on Condominiums (1996, amended in 1998);
- The Law on Real Estate (1995);
- The Law on Real Estate Taxation (1995);
- The Law on Land Taxation (1994);
- The Law on the Privatization of State and Public Housing (1993);
- The Land Code (1991);
- The Law on Property (1990).

The transition to a market economy required new legislation. However, there were already laws to safeguard housing rights. There were also laws imposing obligations on citizens regarding the use, maintenance and disposal of housing. Thus Armenia entered into a process of regulatory reform with a set of legislation inherited from its Soviet period.

B. Impact of the former Soviet legal system

During the Soviet period the housing stock was regarded as a national asset and its management was entirely in the hands of the State. Despite this State control, every Armenian citizen was allowed to “own” a house or part of it. The size allowed was stipulated in the Housing Code. The concept of ownership was, however, not understood in the same way as in market economies. Citizens were not allowed to commercialize the property or make use of it to generate additional income, e.g. through renting or subletting. In addition to the possibility of “ownership” of individual houses, housing rights were granted to citizens through the allocation of units from the State housing stock or the stock produced by building societies. Housing was allocated to citizens for an indefinite period of use on the basis of a “housing space quota,” which was set at 9 m² per person.¹ The Civil Code of the Soviet period further specified that citizens could not own a housing unit that exceeded 60 m² of living space plus 30 m² of service space, i.e. kitchen, corridor, toilets, etc.

During the Soviet period housing was considered to be a social good rather than a market commodity. The right to receive housing in a multi-unit building was protected by the Constitution. The State was expected to provide housing to the population. Evictions were foreseen but no one could be evicted without a court order.

¹ Tigran Janoyan, Marine Janoyan and Vazik Martirosyan, *Transformation of the Housing Right in Armenia: 1988-2002. A survey of legislation and practice* (Office of the United Nations High Commissioner for Refugees in Erevan, 2002).

The Housing Code further classified the housing stock into four major categories: State housing, public housing (owned by State farms, associations, trade unions, etc.), building cooperative housing and individual housing. In the case of housing built by building cooperatives, the rights of the members of the cooperative were defined by its charter. The building cooperative was responsible for obtaining a loan, mobilizing resources and ensuring that the construction was carried out according to the time schedule and the agreed budget. The cooperative would become the legal owner of the building after the State loan was repaid with every member holding a share in that ownership. In the case of individual housing, citizens were regarded as legal owners and enjoyed a significant right to use, possess and dispose of their property, but homeowners were not allowed to rent it or make use of it to generate additional income. Thus homeownership was meant to “satisfy the basic needs” of an individual citizen and his family rather than a commodity to generate capital (and profit).

Although land was State property and therefore not subject to any kind of commercialization, the Constitution of Soviet Armenia had provisions to grant individuals some rights to land allocated for residential purposes. Parcels of land could be allocated to individuals for the construction of individual houses through a notarized agreement. Thus citizens were allowed to make use of land for housing construction but they could not dispose of it. The size of land parcels allocated to individual housing construction was further defined in legislation and limited to 300 to 600 m² in urban areas and 700 to 1200 m² in rural areas. Individuals were obliged to complete the construction within three years after obtaining the building permit. This was later extended to five years.

The Civil Code enforced during the Soviet period had clear provisions for individual ownership of housing, including provisions for the sale, donation, exchange and inheritance of housing. Individual families could only own one house but were allowed to buy an additional holiday home or cottage. According to the Civil Code of Soviet Armenia, owners were allowed to sell a house only after three years. Armenians were allowed to rent out their house or rooms in it provided that it was not meant to earn unofficial income. Informal lease or sales transactions for the purpose of generating “unofficial” income led to confiscation. Rents were predefined by a designated council. The rights of tenants and landlords were further defined in the Civil Code.²

C. Legislation in response to natural disasters

The devastating earthquake of December 1988 led to the adoption of a series of government decisions laying down the principle of compensation for the families who had lost their homes. The Government committed itself legally to developing a comprehensive programme to resolve the critical housing needs. The subsequent enactment of legislation also helped to define an earthquake zone which was later transformed into a “rehabilitation zone,” for which the Government adopted special policies and legal instruments to account for the exceptional circumstances. One of these policies extended the free privatization of the housing stock until December 2003. Another concerned the housing voucher programme. Another

² Janoyan et al, 2002.

significant legal act adopted at the end of the 1980s addressed the housing rights of refugees from regional conflicts. All these initial legal measures to deal with resettlement and homelessness are still valid and enforced.

D. Privatization

On 13 June 1989 the Government adopted resolution No. 272, approving the sale of State-owned apartments and other apartments of the public housing stock. From then onwards their sitting tenants were able to obtain full ownership of the housing units. In other words, they gained the right to use, sell and dispose of that property. In order to obtain full ownership, individuals were expected to fill in applications on the basis of one housing unit per household. Town executive committees were responsible for valuation and price setting. However, not many applications for privatization were filed, probably because the tenants thought that the prices were too high. Consequently, only 12% of the State-owned stock was transferred to private ownership during the first four years of privatization.³ Subsequently new legislation was passed to accelerate the process.

In 1993 the Law on the Privatization of State and Public Housing was introduced. It overturned Resolution No. 272 and provided for voluntary privatization free of charge. This has indeed remarkably accelerated the pace of privatization. From then on only a processing and administration fee, equivalent to one month's minimum wage, had to be paid.

These laws led to a mass transfer of ownership of apartments from the State to households and individuals. This required new legislation to stipulate the rights and obligations of the different actors, in particular regarding the maintenance and management of common property in the privatized multi-unit buildings, including common spaces such as staircases, lifts, entrances, roofs, surrounding land, etc. As in most other former Soviet republics, legislation on these matters was enacted only after privatization had started. This left the buildings and their inhabitants with a temporary gap or a grey area with no specific laws to guarantee proper maintenance and management of common areas.

E. Housing management and maintenance

Traditionally, households were responsible only for the maintenance of their own apartments; any work which needed to be done in the common areas of the property was handled by the State housing management companies. With the large-scale privatization, the need for new legal mechanisms to regulate the management of the jointly owned property became apparent. The Government therefore adopted a set of decisions which concerned the establishment of condominium ownership of housing. The first piece of legislation on condominiums was adopted in May 1995 (government decision No. 295). It directed local governments to support the formation of condominiums as a means of providing for the management of multi-family housing in buildings where at least 50% of the units were privately

³ Peter A. Tatian, *Framework for Housing Policy in the Armenia Earthquake Zone* (Washington, DC, Urban Institute, 2002).

owned. The response varied widely, but on the whole few condominium associations were formed.⁴ The Law on Condominiums was adopted in 1996 and amended in 1998. It further clarified the legal framework for condominium development, in particular the legal rights and obligations of condominium associations. It specified that the condominium members shared ownership of common areas of the property and were responsible for their upkeep. It also allowed condominium associations to be formed for multiple buildings. A new Law on Condominiums came into effect in 2002. It further defines the legal status of condominium associations, the procedure for their foundation, operation and dissolution, and their relationship to State and local government organizations. The Law defines a condominium as “a non-profit and non-commercial cooperative entity based on the membership of the apartment owners and established for the purpose of managing the common property of the apartment building”.

The legislation on condominiums was complemented by the Law on Multi-unit Building Management. It aims to address the management vacuum that existed in many buildings due to the lack of condominium formation by further regulating the responsibilities for the management of common spaces in multi-family apartment buildings. The Law provides three options for managing the jointly owned property. Apart from forming a condominium association, these are the designation of an authorized manager or the delegation of authority to a trustee manager. If a building does not choose any of these three management options, the municipality takes responsibility for the management of the property. The Law also assigns obligations to unit owners regarding their participation in property management, payment of fees, maintenance regulations and responsibilities for common property. Although the language of the Law is not always very clear, it does provide a framework for settling possible disputes between homeowners in multi-unit buildings.

The different laws and decisions on condominiums as well as the Law on Multi-unit Building Management are cornerstones for the establishment of property management systems for the privatized multi-unit buildings. Implementation is still limited, however. As indicated in the previous chapters, few condominiums have been set up in accordance with this Law. Nationwide, there are only about 600 condominium associations covering around 40% of the multi-unit building stock and results from a recent survey indicate that only 20% of these are active (see chap. II).⁵

It should also be noted that the legislation on condominiums opens up the possibility that one condominium association may be responsible for the management of more than one building. Consequently, many condominium associations cover several buildings with as many as 600 units. However, such large associations are extremely difficult to manage and are not conducive to establishing the sense of community that is necessary for the condominium to be successful.

Condominium associations are most often formed from the top down and frequently cover exactly the same area that was formerly under the responsibility of a particular State management

⁴ Loc. cit.

⁵ Desilets and Vanoyan, 2001.

company. The legislation on condominiums has not yet succeeded in encouraging homeowners to form condominium associations themselves.

F. Property rights

The 1999 Civil Code regulates the details of the ownership rights established after privatization, including the protection of those rights, as well as the terms and conditions for renting, transferring and disposing of housing and other real estate. The Civil Code also spells out regulations on mortgages on residential units, foreclosure and eviction in case of default.

The Civil Code is definitely an important step in the consolidation of the legal framework that enables a housing market to flourish. It provides for the comprehensive protection of ownership rights, including procedures to restore these rights or compensate for any violation, procedures for waiving the right of ownership in favour of others, etc. The Civil Code created an unequivocal basic rule of law to protect individual ownership rights, which is a necessary condition for both housing consumers and producers to engage in formal business activities involving housing and other real estate. So the Civil Code has definitely increased the confidence of banks and investors in the housing and real estate markets.

A fundamental question that emerges in this context is the registration of these rights. It was first addressed in 1993 by a government resolution that laid down the registration procedures and defined the documentation needed to officially register the right of ownership to privatized apartments. Responsibility for registrations and for issuing ownership certificates was given to the local technical inventory authorities of the regional departments of the State Unified Cadastre for Real Estate. The 1995 Law on Real Estate regulated the conditions and procedures for the possession, use, disposal, sale and purchase as well as easements affecting real estate. It was complemented, in 1997, by a second government resolution which further established the procedures for the alienation of real estate conditional upon notarization and registration by the State Unified Cadastre for Real Estate. The Law on Real Estate remained valid until the adoption of the Civil Code in 1999.⁶

The legal provisions for the registration of property rights, in particular the establishment of clear procedures for the registration of all transactions (sale, purchase, lease, mortgage) are an important development in the legal framework governing the housing sector. The establishment of the State Real Property Cadastre Committee together with the enactment of the Civil Code helped to create a unified system of cadastral registration, which contains a range of property-related information. A reliable cadastre information system not only contributes to security of tenure but also greatly helps to increase the trust of banks in lending activities within the housing sector (see chap. V).

New legislation was passed in early 2003 to provide clear guidelines for the legalization of the “unauthorized buildings and unauthorized land occupation” that have mushroomed during the past 10 years. The illegal occupation of State-owned and community-owned land will be regularized by the new Law. The legislation aims to incorporate illegal constructions into the

⁶ Janoyan, loc. cit.

formal housing market by officially recognizing ownership rights and including these properties in the cadastre and property registration system.

According to the Law, residents of unauthorized buildings and of illegally occupied land are expected to apply to the local division of the State Real Property Cadastre Committee to formalize their ownership rights. The Law sets certain fees, based on the surface of the construction and/or the plot of land. For the rights to be recognized, they must not conflict with urban development norms, they must not limit other people's rights and the property must be safe. The right of ownership is recognized if the land is acquired at its cadastral value. There is also a possibility of leasing the land/ property; the leasing fees are also specified by the Law.

It is hoped that the Law will help to bring the high number of illegal constructions – approximately 320,000 – into the formal housing market. However, it is expected that many people will find it difficult to comply with the financial requirements of this Law.

G. Decentralization and land rights

The establishment of a functioning cadastre system has also greatly contributed to the registration and record keeping of land parcels. This is an important prerequisite for the transfer of land to the municipalities as provided for in the new Law on Local Self-government. The Law stipulates that land and property (assets) that are considered State property and are situated in the administrative territory of the municipality will be transferred to it without compensation (unless such assets are necessary for the State to exercise its authority).⁷ The mapping and registration of land rights in 800 different municipalities has started and at the beginning of 2003 the first municipality received full ownership of its land. Consequently, local self-government bodies will henceforth not only be in control of an important input to housing production, but will also be responsible for land management and land policies.

The responsibilities of the local self-government bodies are mainly determined by the Law on Local Self-government. The Law assigns responsibilities to the local self-government bodies for the management and maintenance of non-privatized residential and non-residential buildings, support to property management including assistance to condominium associations, the preparation of urban development plans and land-use schemes and the provision of public utilities. Although the Law does not devolve rights and obligations directly related to housing production to the local level, it does touch upon fundamental inputs, i.e. land and public utilities and support to property management, e.g. condominium associations, which will help the development of the housing sector.

H. Legislation concerning housing finance

Access to housing is closely linked to the availability of financial resources and, consequently, the existence of an adequate housing finance and banking system. For banks to be willing to engage in housing finance certain legal provisions need to be in place. In general, banks consider Armenia's legal framework conditions to be adequate (see chap. V).

⁷ Gtz et al., *Local Governance Programme* (August 2002).

Armenia has courts, appeals courts and ultimately a constitutional court in place to judge disputes on property, foreclosure, collateral and recovery of real property, but banks report that disputes can take up to 180 days to be resolved. Difficulties in settling collateral obligations and recovering property and the social impact of evictions may cause further delays in law enforcement. Banks have repeatedly been faced with a situation where they were granted property title, but the property was still occupied. Banks report legal shortcomings with regard to procedures for vacating property and reregistering properties. They also report a lack of well-trained officers in charge of foreclosures. Problems are also reported with property auctions even though there is a formula for calculating the value of properties. Auction prices cannot be lower than the value given by this formula. Problems in setting prices, dates and periods and limited information about auctions often lead to properties generating little or no money to creditors. Finally, banks also report that judges may not be fully informed and are not accustomed to judging property disputes, which results in additional bottlenecks when defaults on loans and mortgages make the resolving of collateral obligations necessary.

Chapter V

FINANCIAL FRAMEWORK

This chapter analyses the financial framework of Armenia's housing sector. The first section provides an overview of the financing available within the housing sector, including public financing. The Government's provision of financial assistance to the sector and to individuals will be analysed. The chapter then moves on to assess the current framework conditions of the housing finance system and its infrastructure, i.e. the banking system, property registration, housing markets, valuation and foreclosure.

A. Housing finance and subsidies

Total spending on housing

Total spending on capital investment as well as maintenance and repair in the housing sector during the past decade has been far too low to prevent the housing stock from decaying. The low level of financing is in particular due to the continuous decrease in public spending. Table 12 indicates the levels and sources of capital spending on housing since 1994, and clearly shows the withdrawal of the state from supporting capital expenditure on housing. Given the Government's withdrawal from major housing expenditure, it is encouraging that during recent years individuals have provided the majority of housing finance and the amounts have risen greatly between 1994 and 2002. Other sources of finance, such as aid and foreign investment, have fluctuated.

Table 12. Capital spending on housing

(a) Armenian drams (millions)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| State | 2,605 | 148 | 199 | 1,396 | 2,708 | 2,736 | 49 | 29 | 0 |
| Privatization | 0 | 0 | 0 | 0 | 0 | 0 | 4,411 | 1,864 | 1,039 |
| Community | 0 | 134 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| World Bank credit | 1,057 | 3,529 | 1,650 | 841 | 268 | 0 | 0 | 0 | 0 |
| Aid | 553 | 1,152 | 642 | 911 | 618 | 3,914 | 2,141 | 1,831 | 12,815 |
| Foreign investors | 0 | 0 | 0 | 0 | 0 | 175 | 233 | 791 | 11,404 |
| Organizations | 219 | 427 | 136 | 275 | 399 | 556 | 123 | 1,489 | 4,827 |
| Individuals | 8,500 | 12,618 | 9,380 | 12,551 | 25,301 | 18,724 | 14,141 | 23,442 | 45,932 |
| Other | 201 | 5 | 0 | 0 | 517 | 0 | 0 | 0 | 0 |
| Total | 13,135 | 18,013 | 12,007 | 15,974 | 29,811 | 26,105 | 21,098 | 28,656 | 64,613 |

(b) Percentage of total

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| State | 19.8 | 0.8 | 1.7 | 8.7 | 9.1 | 10.5 | 0.2 | 0.1 | 0.0 |
| Privatization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 20.9 | 6.5 | 1.6 |
| Community | 0.0 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| World Bank credit | 8.0 | 19.6 | 13.7 | 5.3 | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Aid | 4.2 | 6.4 | 5.3 | 5.7 | 2.1 | 15.0 | 10.1 | 6.4 | 19.8 |
| Foreign investors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 1.1 | 2.8 | 17.6 |
| Organizations | 1.7 | 2.4 | 1.1 | 1.7 | 1.3 | 2.1 | 0.6 | 5.2 | 7.5 |
| Individuals | 64.7 | 70.0 | 78.1 | 78.6 | 84.9 | 71.7 | 67.0 | 81.8 | 71.1 |
| Other | 1.5 | 0.0 | 0.0 | 0.0 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Ministry of Urban Development.

Public spending on housing and subsidies

Public spending on housing has been concentrated on those who lost their homes mainly as a result of the earthquake or regional conflicts. Much of this has been foreign aid, so it cannot be assumed that recent levels of spending will be maintained in the post-disaster period.

There have been several programmes aimed at providing housing by subsidizing supply or demand.

The most direct supply-side subsidy has been the provision of new homes at no cost to homeless families. Per unit, this is the most expensive way of meeting housing needs. Some units that were damaged in the earthquake have been strengthened and renovated to basic standards. This is less expensive than building new ones. These direct interventions will have had some spillover effect, both positive and negative. For example, some private construction activity, both inside and outside the earthquake zone, will have been crowded out. On the other hand, some new housing (such as houses funded by the Lincy Foundation in Gyumri) has been located in 'recovery channels,' which are designated new residential areas, to restore confidence in the city's prospects, which, in turn, could help to attract private investment.

Other households have been given land on which to build housing. The cost of this policy does not show up in the Government's spending figures, but nevertheless represents a substantial subsidy. Some households have been able to obtain bank loans to finance construction through a government guarantee. A variation of this policy has been assistance to families to complete unfinished dwellings, or to bring temporary structures up to habitable standards.

The principal demand-side subsidy has been the housing vouchers, officially known as "housing purchase certificates" These have been pioneered in Armenia by the Urban Institute and funded by USAID, having been used previously in the Russian Federation to rehouse military families who had been based in the Baltic States. In Armenia, they have been used to rehouse people who had been living for instance in *domies* in public places. They therefore fulfil a dual

objective of rehousing families in permanent structures while returning public spaces to their intended use.

Eligible households receive vouchers allowing them to buy a house of a size based on the number of household members at the time of the earthquake. The vouchers can be used only to buy permanent houses built to current construction standards. (See also chap. II.)

The vouchers are not tradable and may be deposited only with eligible banks. They can be used only to buy a house. Initially, families have three months in which to spend their vouchers, although this can be extended for a further three months. The evidence suggests that the vast majority of vouchers are used within the time limit.

The vouchers are an attempt to introduce a more consumer- and market-oriented approach to rehousing earthquake victims. Families may choose the house, rather than having a house allocated to them. Their design also allows for some 'shopping' incentive to be retained, at least at the margin. A household wishing to buy a more expensive house may top up the voucher with its own funds. Conversely, if a cheaper house is bought, the family may retain the 'unspent' portion of the voucher.

They are also intended to bring some movement into the property market, and to encourage a more efficient use of the stock. Emigration has left some units empty, while other families may have surplus housing for their size. The use of vouchers can help to use empty dwellings and to give other families an incentive to trade down into smaller accommodation. Released equity may help to stimulate economic activity, either through increased spending or by enabling a family to start a business.

There is no national housing allowance scheme in Armenia, although the Ministry of Urban Development and the Ministry of Social Affairs are considering options for one now in the hope that it might facilitate increases in public housing rents to finance repairs. The central Government does operate a system of welfare benefits, but these are not meant to cover housing costs. Responsibility for housing assistance has been devolved to the municipalities, but they do not have sufficient funds to implement it. There is, however, a temporary programme funded by the central Government to provide rental subsidy to households who are eligible for housing, but who are not benefiting from any of the programmes outlined above. The allowance is roughly equivalent to US\$ 18 per month.¹

There are no explicit housing subsidies to support housing maintenance or repairs, although de facto subsidies arise in what is left of the public rental housing stock, as rents and other charges are not paid up.

The implementation of any housing support system is currently hampered by the Government's lack of funding. An important potential source of public funds is the property tax (see chap. III for a more detailed description of the Government's revenues). However, collection rates are low. Increasing the collection rate would contribute to healthier public

¹ P. Tatian, *Framework for Housing Policy in the Armenia Earthquake Zone* (Washington, DC, Urban Institute, 2002).

finances and would increase the Government's and the municipalities' ability to implement housing policies (see conclusions and recommendations).

B. The housing finance system

The development of an efficient housing finance system is fundamental to maximizing the effectiveness of market institutions in Armenia. Across the world, housing is expensive in relation to earnings, so normally cannot be bought from a household's current income. It is also a necessity, which means that households depend on loans to buy a home. Sometimes such loans can be arranged informally, for example by intergenerational lending within the same extended family, or by local contacts. But for a society to depend on such informal arrangements is to leave access to housing up to luck. Intermediaries that can direct the savings of those households that wish to save to those who wish to borrow can improve access to housing finance and, by extension, to housing for many people.

Privatization has created a situation whereby the majority of Armenians have no immediate need of housing finance to enable them to secure housing. But for newly formed households, and for households wishing to secure larger or more expensive housing as their families grow, the availability of housing finance is crucial. Over time, the availability of housing finance will become important to an increasing number of people in determining their housing opportunities. This is particularly true in a country that depends so heavily on owner-occupation. Parallels can be drawn with parts of Southern Europe where access to housing finance is limited and young people have difficulty in setting up home. Difficulties in accessing housing finance and housing may even contribute to ageing populations.

An efficient housing finance system cannot solve all housing access and affordability problems. It cannot solve the access problems of those households who are and are likely to remain very poor. Such households will require large housing subsidies throughout their lives. Nor can a housing finance system be expected to solve all affordability problems associated with the life cycle. It can help, but temporary subsidies may also be required for some households.

In the shorter term, housing finance is also required to tackle the problems of disrepair in the stock. In many cases major capital repairs cannot be funded from current incomes, and the refinancing of property will be required if funds are to be made available. The collective nature of repairs in apartment buildings, where private costs and benefits are not discrete, makes it more difficult to establish the principles by which subsidies should be determined.

Attributes of an efficient housing finance system

An efficient housing finance system requires several attributes:

- Low to moderate inflation;
- A reliable system of property registration;
- A valuation system;

- A legal and administrative system that allows reasonably quick and certain foreclosure;
- A network of intermediaries (lenders).

These are described and examined one by one below.

Inflation

A housing finance system operates more easily in a climate of low inflation. Very high levels of inflation make mortgage lending less attractive and more complex mortgage instruments, involving indexing the value of the loan, tend to need to be developed in countries experiencing hyperinflation.

Even inflation levels that cannot be said to be 'hyper' can worsen the affordability problem because higher inflation tends to be associated with higher nominal interest rates. The higher the interest rate, the greater the so-called front-end loading problem – the tendency of the real burden of payments being concentrated in the early years of the mortgage, which are often when the household is least able to afford them.

It is true that higher inflation leads to a more rapid diminution of the real value of debt (and the accumulation of equity on the part of the owner, provided that real house prices increase). However, the distribution tends to favour those households who bought a house some time ago at the expense of limiting access to housing for others. This increases the numbers of households requiring assistance in order to access housing, and gives rise to pressure to introduce subsidy instruments (such as interest-rate subsidies).

However, moderate levels of inflation (no more than 5%) can assist a housing finance system, as negative inflation is a risk for both borrower and lender. Negative equity (where the value of the house falls below the value of the mortgage) reduces the liquidity of the housing market, and removes full security from the loan. Since loans are (ideally) long-term, a degree of certainty in macroeconomic management is also required.

Armenia experienced hyperinflation in the 1990s, but inflation has now been brought under control and is currently around 3%, which is the targeted level. This is forecast to continue over the next few years.² Combined with economic growth, the basic macroeconomic environment for housing finance has moved from being extremely hostile to being benign.

Property registration

A reliable system of property registration is needed so that property rights can be established. Without proof of ownership, housing transactions will be discouraged and intermediaries will be reluctant to grant mortgages.

² International Monetary Fund, *Republic of Armenia Staff Report for the 2002 Article IV Consultation, First and Second Reviews under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria* (Washington, DC, 2002), p. 13.

Armenia has a well-functioning system of property registration, the cadastre, which operates through 47 offices across the country. Registration fees are relatively modest. However, the rate of registration is still low. The main gap in the system of property registration arises from the large numbers of illegally constructed dwellings (estimated to be 325,000).

Valuation system

Lenders also require a system that can reliably establish the market value of a property.

Armenia operates a system of independent appraisers, who are licensed by the cadastre. They use a formula to establish the value of properties. The cadastre itself registers a value for a property, but this tends to rely more strongly on notions of intrinsic value, so its valuations tend to be lower than the market value in high-demand areas, but higher in low-demand areas. The independent valuers are reported to attempt to make more market-oriented estimates, but it is difficult to see how these can be particularly reliable when the volume of transactions is so low. Ultimately, the most reliable guide to the market value of a property is the actual prices paid recently for similar dwellings in the same neighbourhood. But if there are very few such transactions, it is impossible to make a reliable estimate.

Foreclosure

The ability of a lender to foreclose a loan in the event of default is crucial to the development of an efficient housing finance system. If foreclosure takes too long or the outcome is uncertain, then lenders will be reluctant to lend, or will lend only to very safe customers. Inevitably this restricts access to housing finance.

The reports received from interviewees indicated that, broadly speaking, Armenia has an adequate system of foreclosure. The average time taken for a lender to foreclose a property is reported to be six months – which is relatively quick by international standards. It might take another six months to gain vacant possession of the property in order to resell it at its full value. Some parties believe that the system is difficult to operate, but others suggest that it is efficient provided that lenders keep good records and are proactive in pursuing claims. Of course, the system has not really been tested to any great extent because the number of mortgages in Armenia is so small, but evidence from the enforcement of utility debts suggests that the framework for debt recovery is reasonably effective.

Properties taken into possession are sold at public auction. There is some anecdotal evidence of corruption in this part of the process. For example, officials might be bribed in order not to publicize the auction properly, so the property either fails to gain its full market value, or is not sold at all. The process may sometimes fail due to solidarity (rather than corruption). In some tight-knit communities, neighbours might refuse to buy a dwelling that had been taken into possession.

Complaints of corruption during the disposal of property have given rise to the amendment of the law to allow mortgage contracts to specify an alternative disposal mechanism.

The banking system

The banking system is the weakest part of the infrastructure required for a successful housing finance system.

The banking sector has encountered many problems since the transition began. In the Soviet period the banks were nationalized, undertook basic payment and settlement functions, but operated in a risk-free environment and, consequently, were not subject to regulation or capital-adequacy standards. The banks were not really intermediaries.

The economic collapse in the early 1990s made the establishment of a banking system still more problematic. Hyperinflation and high levels of dollarization meant that the banking system was weakened by losing its capacity to make payments and settlements.³

Thereafter, the introduction of a new currency, the stabilization of prices and the recovery of the economy made for a more favourable climate for the development of the banking sector. After 1994, the central bank established a regulatory framework for the sector. As confidence in the sector began to rise, deposits from households flowed in and lending capacity grew. Long-term lending grew in the late 1990s, although this was mostly generated by internationally funded projects or loans made under government guarantee to the energy sector (to buy imported fuel).⁴

By 2001 there were 28 banks operating in Armenia. All were privately owned and three were subsidiaries of foreign banks. However, towards the end of 2001, there was a new banking crisis and funds began to be withdrawn once again. By mid-2002, 8 of the country's 28 banks had been taken under interim administration. The five smallest of these banks are being wound up; the others are being restructured. Together, these banks represent almost one fifth of the sector's assets, more than one quarter of its loans and almost one third of its deposits.⁵ The cause of the crisis appears to lie in a combination of mounting bad debts (related to inadequate risk assessment methods) and fraud (reflecting a failure of the supervisory system). Further consolidation in the sector is expected.

Much effort is now being directed towards restoring confidence in the banking sector. Before the mid-1990s, the minimum capital required to establish a bank is reported to have been as low as the price of a second-hand car.⁶ It was raised to US\$ 50,000 in 1995, to US\$ 1 million in 2001 and will rise to US\$ 5 million by mid-2005.⁷ Moreover, these more rigorous requirements will be extended to banks that are already operating.⁸

Deposit insurance is also being phased in from 2003, and should be operational by mid-2005. This is intended to restore confidence in the banking system and to attract savers back into it. However, there are some concerns that deposit insurance may reduce the incentive for banks to

³ B. Asatryan, "Banking System Reform," in Griffen, K. (ed) *Growth, Inequality and Poverty in Armenia* (Erevan, United Nations Development Programme, 2002).

⁴ Ibid.

⁵ IMF, op. cit.

⁶ Asatryan, op. cit.

⁷ Ibid.

⁸ IMF, op. cit.

avoid high-risk lending or to develop better risk assessment methods. There are further concerns that deposit insurance may operate to the disadvantage of prudent banks that currently offer relatively low interest rates to savers.

Legislation has also been developed to support a non-banking financial sector. At present this includes the insurance sector and a number of cooperatives. These institutions are not required to meet the same capital-adequacy standards as the banks and are excluded from the deposit insurance scheme.

Housing and mortgage markets

Given the parlous state of the banking sector, it is unsurprising that the mortgage market is almost non-existent. In 2002, there were only about 3,320 mortgage transactions involving residential property, just over half of which were in Erevan.⁹ Within Erevan the market is said to be concentrated in the central areas. Nationally, mortgage transactions represent only a tiny proportion (around 5.5%) of total housing market activity.

Housing transactions grew by more than one third in 2001 and 2002, when almost 61,000 properties were registered.¹⁰ However, not all of these registrations will have arisen from actual sales of residential property (see chap. II). For example, they may include privatized flats that are being registered. Transactions are heavily concentrated in the owner-occupied sector: there were only 373 transactions of rental property in 2002 and the vast majority of these were in Erevan.¹¹ Nevertheless, overall levels of genuine property transactions are reported to be very low – involving perhaps 2.5% of the stock each year, which is even lower than the estimated number of illegal transactions in the Soviet era.¹² So it must be remembered that the percentage increases in property transactions are measured against a very low base.

The low levels of mortgage transactions can be attributed to demand factors as well as supply factors. Not only are the banks unable to provide very much long-term finance, when they do so it is on extremely restrictive terms. A 50% down payment is normally required, although in exceptional circumstances this may be reduced to 30%. Loans must be repaid over three years, and nominal interest rates are around 18% (that is still 15% in real terms). It is questionable whether loans with such onerous terms merit the term ‘mortgage’ in anything but a technical sense. They do virtually nothing to facilitate access to housing.

Table 13 indicates clearly the way in which longer repayment periods and lower interest rates enhance the affordability of housing finance. Repayments under current mortgage terms (US\$ 330 per month for a \$6,000 mortgage at 18% repaid over three years) can be contrasted with the payment in an efficient housing finance system (US\$ 36 for a \$6,000 mortgage repaid over 25 years at 5% interest). It should be remembered, however, that with the present levels of income the vast majority of households would be unable to sustain a mortgage, even on the more generous terms.

⁹ The real estate market in 2002.

¹⁰ Ibid.

¹¹ Ibid.

¹² New construction and existing housing.

Table 13. Monthly mortgage repayments for a US\$ 6,000 mortgage under different lending terms

| Interest rate → Repayment period ↓ | 5% | 10% | 18% |
|---|-----------|------------|------------|
| 3 years | 184 | 201 | 330 |
| 10 years | 65 | 81 | 111 |
| 20 years | 40 | 59 | 93 |
| 25 years | 36 | 84 | 92 |

Source: Author's calculation using the Building Society Association's mortgage repayment tables.

Several factors appear to contribute to the conservatism of the banks. Apart from their lack of long-term finance, it is clear that banks lack confidence in the housing market itself. This is understandable, given the economic crisis of the 1990s and the lack of liquidity in the market. Banks are willing to lend in downtown Erevan because the area attracts higher-income households (including many from abroad) and enjoys higher transaction levels than elsewhere. The housing market is caught in a vicious circle: transactions are low in part because mortgage finance is restricted, while mortgage finance is restricted because transactions are low.

There is, of course, also a demand element in the lack of mortgage activity. Demand for mortgages is likely to be relatively low in a country where so many people own their houses outright. But demand might be expected to rise as prospective households wish to form and require mortgage finance to gain access to housing. Moreover, demand for mortgages is clearly severely limited at present by their restricted availability. In other words there is effective demand for mortgages on more generous terms.

Outside the general banks there are no specialist institutions offering mortgage finance. For example, there are no mortgage banks issuing mortgage bonds, and the legislation to facilitate this does not exist. This is to be expected given the dearth of institutional sources of finance, such as private pension funds.

However, there is anecdotal evidence of an informal mortgage market. In addition to intergenerational lending within the same family, arrangements are sometimes made for prospective house buyers to provide credit to a builder, or for builders to extend credit to buyers.

CONCLUSIONS AND RECOMMENDATION

The country profile was undertaken at a time when the Government of Armenia was looking back on a series of significant changes within the housing sector. During the past decade Armenia has become a "nation of homeowners," with 96% of the housing stock now in private hands. Privatization was accompanied by changes in the institutional and legal framework. New institutions, governmental, private and international, have become an integral part of the housing sector and the legal basis for private ownership has been laid by the introduction of framework laws for the management of the newly privatized housing stock.

The past decade has also been characterized by great hardship for the entire population. The sharp drop in national and individual incomes has severely limited the possibilities for investing in maintaining and improving the existing housing stock. Consequently, a large part of the country's housing stock is in a deplorable condition and many households are unable to improve their housing conditions because they have no money or experience with private property management. Improving the condition of the housing stock and assisting the population in meeting its housing needs are the main challenges that the Government of Armenia is facing within its housing sector today.

It is within this context that the Government of Armenia requested the Committee on Human Settlements for a country profile to be carried out on its housing sector. The preceding chapters analysed Armenia's housing sector and developments, i.e. the condition of the housing stock, the institutional responsibilities, the legal and the financial framework. On the basis of their findings, a number of conclusions and recommendations will be put forward. They follow the structure of the main report:

- (a) Housing reform
- (b) The existing housing stock and new construction
- (c) Institutional framework
- (d) Legal framework
- (e) Financial framework

Since housing, by its very nature, is highly integrated, the conclusions and recommendations do not always adhere to the chapters' structure, but unite the various aspects of a specific issue, combining its institutional, legal and financial aspects, for instance.

The conclusions and recommendations put forward here take a long-term perspective of Armenia's housing sector and reflect the aim of the study to present an encompassing view of the housing situation. It is hoped that they can assist the Government to formulate policies, to develop a comprehensive national housing strategy and to tackle the country's housing problems effectively.

A. Housing reform

The Government's housing policy during the past 15 years has been strongly shaped by three events: the break-up of the Soviet Union and the ensuing transition with its privatization policies, the 1988 Spitak earthquake, and the influx of a large number of refugees. The Government's housing policy has concentrated on addressing the most pressing needs, in particular the need to provide shelter to the victims of the earthquake and to the refugees.

Twelve years after independence and 15 years after the Spitak earthquake, the Government has certainly made progress in this area. With the support of international donors, many people who belong to these vulnerable population groups have received shelter.

At the same time the Government has adjusted the framework conditions of the housing sector to the new situation brought about by the large-scale privatization. Privatization policies were introduced in 1989, and policies and procedures have changed several times since then. Privatization policies were followed by a number of legislative acts to create the necessary legal and institutional structures in view of the new situation, e.g. the Law on Condominiums and the Law on Multi-unit Building Management.

Despite these accomplishments, it has become increasingly apparent that a more encompassing approach to the housing sector will be necessary in the future. An overall housing strategy is needed to create a framework for all future housing policies. The Government is aware of this need and has recently begun to develop a concept which lays down the principles for the establishment of a national housing strategy. The Government is strongly encouraged to pursue these efforts.

Box 1: Recommendations: housing strategy

1. It is important to consider the present problems of Armenia's housing sector holistically. The Government's housing strategy, therefore, needs to be comprehensive and should provide a broad sectoral perspective.
2. The strategy needs to be developed together with representatives from all levels of government, including local authorities, and in close consultation with representatives from NGOs, the private sector and international organizations.
3. The Government needs to assume overall responsibility for the realization of the strategy and should facilitate its implementation by establishing enabling laws and a monitoring system. The strategy needs to specify clearly the competencies for each level of government.
4. The strategy needs to be integrated with Armenia's overall economic development policies. Given the large number of vulnerable groups that have difficulties meeting their housing needs, it is important to place a national housing strategy in the context of the country's overall poverty reduction strategy.
5. The most important elements of the strategy should be:

- (i) Establishing a framework for the management and maintenance of the existing housing stock;
- (ii) Providing social housing for vulnerable population groups, including refugees;
- (iii) Creating a framework for a functioning housing market (see sect. E below);
- (iv) Raising the necessary public financing.

6. At the operational level, the national housing strategy should focus on the design and implementation of appropriate financial and legal instruments to put policies into practice (see sects. D and E below). The process of institutional capacity-building is instrumental to the success of these reform efforts and needs to be supported through a series of initiatives not only at the national but also at the local level (see sect. C below).

B. The existing housing stock and new construction

Stock condition, new construction and housing markets

The condition of Armenia's housing stock is poor. Extremely limited investment in maintenance and repair during the past decade together with the impact of severe winters and the 1988 earthquake have led to massive deterioration.

It is estimated that 5% of the population has no permanent shelter. Nearly half these people live in temporary shelters whose technical and sanitary standards are inadequate. These are often so-called *domics* -- temporary shelters in the earthquake zone. However, owing to the high portion of low-quality housing in the permanent housing stock, the overall difference in quality between temporary and permanent housing is not as big as might be expected. The general provision with utilities, for example, is low, in particular heating: only 9% of households have access to central or individual heating systems.

Unfinished residential structures and damaged buildings are a prevalent feature of Armenia's housing sector. The unfinished residential buildings were mostly started in the late 1980s and early 1990s by the Soviet regime. Many were intended to provide shelter to those who had lost their homes during the 1988 earthquake. With the collapse of the regime, the work was abandoned. As the economic conditions declined after independence, the work has not been resumed and there is currently no strategy for completing these buildings. As long as completing these unfinished structures is more expensive than buying similar finished units on the market for existing housing, this situation is unlikely to change.

New construction has decreased sharply since the early 1990s and is still very low. The level of new construction (measured in square metres) in 2001 was merely one tenth of the 1991 level. New construction began to increase significantly only in 2002 mainly in Erevan, with private money, and in the earthquake zone, with financing from international donors. Most investment in housing construction comes from the private sector (71% in 2002), followed by foreign investment (some 20% in 2002) and investment by other Armenian organizations (7% in 2002). Public sector investment amounted to less than 2% of the total in 2002.

Market transactions are equally low. Only 2-3% of all apartments change hands annually. Most transactions are done informally – professional real estate organizations are involved in less than 30% of market transactions. Market transactions are comparatively high in the earthquake zone, boosted by the Government's housing voucher programme. The programme grants eligible households a voucher to purchase an apartment of a size based on the number of individuals in the household at the time of the earthquake. The vouchers are primarily granted to those households that are living in temporary shelters in public spaces. The programme provides earthquake victims with a permanent home and at the same time serves as an urban planning tool, as it enables the clearing of public spaces so that they can be reverted to their intended use. There is no geographic limitation as to where vouchers can be used. However, they can be used only to buy permanent homes built according to current construction standards.

Despite the sharp decrease in new construction there is unlikely to be a shortage of housing. The reason is the drop in population owing to emigration. Some sources, such as the Urban Institute, even estimate a housing surplus. However, in the absence of accurate statistics – in particular about the condition and adequacy of existing housing -- these estimates cannot be confirmed. There are, in addition, strong regional variations, with most of the cities in the earthquake zone reporting a housing shortage.

Rapid privatization policies since the early 1990s have changed the tenure structure of Armenia's housing stock dramatically. Today the owner-occupied sector represents 96%. The public rental sector is very small, but comparatively high in the earthquake zone. Privatization has also resulted in many buildings having mixed ownership, with both private and public owners.

The Government's privatization policies were linked to the expectation that privatization would encourage the new owners to invest in their homes, which they would come to regard not only as shelter but also as valuable assets. Privatization was also expected to lead to better management and maintenance of the housing stock with apartment owners having direct control over the choice of management.

These expectations have not been met yet. There is a large and increasing backlog of maintenance and repairs. The current maintenance fees are too low to cover even current repairs, let alone make up for deferred maintenance. In addition, collection rates are very low. This same is true of utility fees. The result is continuously deferred maintenance, a low level of utility provision and ad hoc subsidies from local governments to cover the most pressing needs. The condition of the housing stock is likely to continue to deteriorate, which will result in the rapid rise of financial resources needed to restore the housing stock to a decent standard.

The hardship experienced by many people explains to a large extent why these developments have not taken place. Another reason is the lack of awareness of the new owners about the rights and responsibilities that come with private ownership.

Box 2: Recommendations – existing housing stock and new construction**Existing housing stock**

1. One of the top priorities should be to prevent the housing stock from decaying any further. A comprehensive approach to the problem requires the following major initiatives:

- The Government needs to provide the municipalities with clear responsibilities for the management and maintenance of the municipal housing stock. Responsibilities need to be matched with adequate financial resources (fiscal decentralization) (see sect. C, box 4);
- Municipalities need to prepare strategies for housing repair and renovation and assess the scale of the task. Pilot projects could be used to test a particular strategy and, if successful, information on the strategy should be disseminated to encourage other municipalities to follow suit;
- Municipal strategies for promoting the establishment of sound management systems for multi-apartment buildings need to be drawn up (see box 3 on condominiums);
- Earmarked funds for the maintenance of the building stock should be set up (see sect. E);
- Measures should be implemented to raise the fees and collection rates for maintenance and repair to a level that covers at least current maintenance needs (see sect. E for suggestions on how to boost collection rates);
- A system of assistance for those who cannot afford the full maintenance fees needs to be set up;
- Simple-to-apply, practical guidelines on recommended standards and priorities for repair and renovation (e.g. energy efficiency/insulation) should be provided.

2. The Government's policies should promote a more rational distribution of the existing housing stock. When households have to pay the real cost of maintaining housing and basic services, they are less likely to over consume housing. The Government could achieve this by:

- Increasing the "recommended maintenance fee" and/or property taxes for private housing above a certain size. The total payment for housing and municipal services should, in general, be determined by the size of the occupied unit rather than the size of the household;
- Using legal enforcement procedures against those who have not paid for maintenance and/or utilities for more than, for example, 6 months and have more than a minimum amount of floor space (e.g. 15 m²) per person;
- Establishing a system to help and protect those who would like to move voluntarily to a smaller house.

New housing construction

3. As an essential part of its housing strategy the Ministry of Urban Development needs to establish a framework for new, in particular private, construction. This will involve:

- Setting up national guidelines for builders and authorities, including examples of good practices in design, construction methods and maintenance;
- Paying particular attention to building safety, including earthquake resistance norms;
- Promoting the local production of building materials.

4. The local governments' responsibilities in promoting new construction involve, in particular:

- Establishing a building and development control system;
- Developing land policies which ensure a steady supply of land for housing development in general and for social housing in particular;
- Preparing strategic plans for upgrading and expanding the infrastructure.

Housing markets and housing vouchers

5. The Government needs to take measures that aim at lowering market transaction risks, increase the transparency of the market and, ultimately, boost transactions in housing and real estate markets (see sect. E). This will, in particular, require the promotion of a system of professional intermediary services for real estate transactions.

6. The Government should assess its housing voucher programme in the earthquake zone, including possibilities for extending it to other areas of the country. Any extension of the programme should, however, be part of a broader programme to improve housing management. This could be done, for instance, by (see also sect. E):

- Linking the granting of vouchers to the obligation of setting aside funds for maintenance and repair;
- Restricting the use of vouchers to those buildings where an appropriate management system is in place.

General

7. In order for the Government to be able to assess the needs with regard to the existing housing stock and new construction, a well-structured information system needs to be in place. Establishing such a system will require:

- A survey of the condition of the existing housing stock, including capital repair needs of buildings;
- A survey of the existing and future demand for housing on the basis of demographic projections for different parts of the country, taking into account population movements;

- Continuous estimates of the cost of the repair and maintenance backlog;
- A level of charges necessary to prevent further deterioration;
- Information on the market prices in recent transactions;
- Information on the number of households that require State support to meet their housing needs.

Most of this information will need to be collected at the local government level, in particular the estimates of capital repair needs and the operating and maintenance costs associated with each building.

Management of the housing stock

The large-scale privatization of the housing stock required new management systems. A number of legislative acts have been passed to provide a framework for the efficient management of the privatized housing stock – most notably the Law on Condominiums and the Law on Multi-unit Building Management.

A big drawback, however, is that the legal provisions were not accompanied by the necessary technical, financial and institutional capacity-building. The new owners were not prepared to assume responsibility for the management and maintenance of the common spaces. They did not have the money or were unaware of their rights and responsibilities. There was almost no information on the practical implications of the legislation for homeowners and the local governments themselves were rarely trained and, consequently, poorly equipped to redefine their role vis à vis the newly privatized housing stock.

Although the law encourages local governments to support the formation of condominiums as management form in multi-family buildings where at least 50% of the units are privatized, the organization of homeowners in condominiums has not progressed very far yet. Less than half the multi-apartments buildings are under condominium association management and 60% is under zhek management. Nationwide there are only about 600 condominium associations and a recent survey indicates that only 20% of these are active. The lack of financial resources, low household incomes, no awareness, no tradition of self-management or no experience in property management are the main reasons. In addition, participation in a condominium association remains completely voluntary and very few owners avail of this option.

The 2002 Law on Multi-unit Building Management provides three options for managing jointly owned property. Apart from forming a condominium association, these are the designation of an authorized manager or the delegation of authority to a trustee manager. In regard to these two options, it is not clear how the residents would decide on a manager. The condominium association, as an ownership structure, is generally the mechanism through which these and other important decisions are made. Without it, it is unlikely that the residents will be able to manage the property over the long term.

If a building does not choose any of the three above-mentioned management options, the municipality takes responsibility for the management of the property, which is currently the case for the majority of multi-unit apartment buildings. Property management is then carried out by zheks -- former State management companies which are now municipally owned. Zheks also carry out maintenance services if condominium associations are not able to find an alternative provider. There are today only a handful of buildings where condominium associations have taken over the management and maintenance of their properties themselves; most continue to depend on zheks for these services. The availability and quality of housing management and maintenance have improved little, and without alternatives or competition, this situation is unlikely to change in the near future.

A particular management challenge is housing with mixed private and public ownership, e.g. publicly owned units in condominium buildings and private units in non-condominium buildings. Private owners in mixed ownership buildings where no condominium association has been formed continue to pay management and maintenance fees directly to zheks. However, they have little say in how the property is managed and no alternatives to relying on zheks. Meanwhile, tenants of municipal apartments in condominium buildings pay the condominium fee in lieu of rent to the condominium association. But, since they are not owners, they have little say or interest in investing further in the property.

Another challenge is the fact that condominium associations are frequently formed for several buildings. Those associations are very difficult to manage and tend not to be conducive to establishing the sense of community that is necessary for a condominium to be successful.

Strengthening the formation of condominium associations will not solve all housing management and maintenance problems; however, it will give owners an improved platform for expression and channelling their interests. At the same time, the municipal maintenance system, which includes the municipal maintenance companies (zheks), needs to be reformed. Encouraging more competition is particularly important here as it would improve the efficiency of maintenance operators and would also give condominium associations more choices as to the execution of maintenance services.

Box 3: Recommendations – condominiums

1. The current practices in the establishment and management of condominium associations need to be reviewed. This will involve, in particular:

- Reviewing the practice of establishing a single condominium association for a large number of buildings. The number of apartments in a condominium association should be limited to prevent management becoming unwieldy and to ensure that a sense of community takes hold;
- Establishing provisions for legal action against those who fail to pay the condominium fee and at the same time introducing protection mechanisms for those who cannot afford to pay;

- Strongly encouraging the establishment of condominium associations in new buildings.
2. To judge the effectiveness of the condominium legislation currently in place, its application needs to be monitored closely, in particular:
- Practices in fee setting and collection;
 - Decisions on capital investment;
 - Owner's participation in property management.
3. Local governments need to be encouraged to train their staff in the condominium legislation and its implementation.
4. In addition, local governments need to take a strategic and long-term view of the housing stock. This involves in particular the planning of the future use of municipally owned housing, such as social housing.
5. The Government will have to raise awareness, with the strong involvement of local governments, about the function of a condominium association and the rights and responsibilities of its members. Apartment owners will need practical guidance on all condominium operations: from negotiating a management contract to running association meetings. Information can be provided by:
- Distributing training materials which have already been developed by a number of organizations;
 - Highlighting successful condominium models and disseminating information on these good practices;
 - Encouraging NGOs that are currently supporting condominium associations to share their experience.
6. Improving the quality of management and maintenance services mainly requires making the operations of *zheks* more efficient. This necessitates:
- Increasing competition in the maintenance sector by providing assistance to emerging private sector maintenance firms;
 - Encouraging local governments to seek private firms that may also be able to provide management services to the publicly owned housing stock. This should be done through a competitive bidding process.
7. While working on the condominium legislation, full use should be made of the Guidelines on Condominium Ownership of Housing for Countries in Transition (ECE/HBP/123) prepared by the UNECE Committee on Human Settlements.

C. Institutional framework

Establishing adequate institutional structures in the housing sector is important. Efficient and effective institutions are essential for a functioning housing sector and it is therefore important to clarify the roles and responsibilities of all institutions as well as the other actors involved.

Most of the Government's housing-related institutions were established only in recent years. Although the structures of the individual institutions are relatively well developed, coordination among them needs to be improved.

The Ministry of Urban Development is the main body responsible for housing at the central government level and also the local counterpart for this study. Its Department for Housing and Municipal Policy has the leading role in housing policy concerns. The National Assembly has two committees of particular importance to the housing sector: the Standing Committee on Financial Credit, Budgetary and Economic Affairs, which proposes the yearly budget allocations for the housing sector, and the Committee on Social Affairs, Health Care and Environment, which holds consultations on new draft laws on housing before they are passed to the National Assembly for decision. This Committee also holds consultations concerning all other laws that directly or indirectly affect the housing sector such as laws concerned with vulnerable groups or environmental protection.

Coordination is a particular problem on the local government level and between national and local government authorities. At the local level, the so-called communities or municipalities are granted increasing responsibilities in the housing sector. Armenia is administratively divided into ten provinces (*marzes*) and the capital city of Yerevan. The *marzes* are further subdivided into 930 municipalities. These vary greatly in size. One third of the rural municipalities have fewer than 500 inhabitants and many, especially in remote areas, have fewer than 150 inhabitants. Nevertheless, all municipalities are regarded as autonomous "local self-government bodies" with the same powers and responsibilities. Yet, many of the small local self-government units are barely viable and are finding it extremely difficult to provide even the most basic services.

The responsibilities of the local self-government bodies are set out in the Law on Local Self-government, originally adopted in 1996 and revised in May 2002, which assigns "mandatory" and "voluntary" powers to them. Among the mandatory powers are: management and maintenance of non-privatized residential and non-residential buildings, support to property management including assistance to condominium associations, preparation of urban development plans and land-use schemes, and provision of public utilities. In the execution of these powers, however, the dividing line between the local self-government bodies and the national Government has been far from clear, both legally and in practice.

The local self-government bodies are poorly equipped, financially and in terms of human capacities, to fulfil their responsibilities. In particular the smaller ones lack the human and financial capacity to carry out the basic mandatory responsibilities and service delivery functions laid down by law, let alone to engage in innovative forms of socio-economic investment and development. Strategic planning is mostly lacking; local development plans currently produced

by local self-government bodies consist largely of a “shopping list” of individual projects, with little integration or strategic orientation, and with few links (if any) to available budgetary resources.

The revised Law on Local Self-government addresses some of these problems. It includes provisions to strengthen the financial capacities of the local self-government bodies by allocating to them a share of the income tax, property tax and nature protection fee. The share is determined by the annual budget laws. Equally important is the provision that public land and property situated in the administrative territory of a municipality are transferred to this municipality at no cost (see sect. D).

There is currently little cooperation between the local self-government bodies and other community-based organizations, in particular NGOs, despite these organizations’ strong involvement in municipality-based activities. NGOs as well as international/foreign institutions are active at all governmental levels of Armenia’s housing sector as they provide advisory services, technical and financial assistance. Their activities have particularly targeted the earthquake zone and the refugee population. There is no doubt that these organizations have rendered valuable assistance to Armenia’s housing sector. For instance, the provision of permanent shelter to the many victims of the 1988 earthquake would not have been possible without their support. However, there is no strong coordination of the activities of the individual organizations. This results in the implementation of a vast array of strategies, which at times contradict each other. Strengthening coordination among these organizations is the task of the Government, and the Ministry of Urban Development needs to play a stronger role here.

The private sector has become more active in the housing sector in recent years, in particular in housing provision. However, although the private share in housing provision has grown strongly, it remains low. There are many private construction companies. Some of them result from the privatization of former State enterprises, but most were newly established after independence. Their activities, however, are constrained by the limited access to land, the lack of funds and underdeveloped financing mechanisms. There are private maintenance firms, but they are few in number. Most maintenance services are carried out by the municipally owned *zheks* (see sect. B). The number of private real estate agencies is also low. Private sector activity in the housing sector, in particular in housing provision, has mainly been stimulated by funds from Armenia’s diaspora.

Box 4: Recommendations – institutional framework

Central Government

1. Clear roles need to be developed for all government institutions involved in the housing sector, locally as well as centrally. Their roles should be defined in the context of the foreseen national housing strategy.
2. Coordination of these institutions is essential for the development and implementation of efficient housing policies. The Ministry of Urban Development should take a leading role here.

3. To improve coordination a project coordination unit should be set up within the Ministry of Urban Development to:

- Coordinate and supervise all major programmes that are currently being implemented in the housing sector;
- Provide guiding criteria for international and non-governmental organizations which are planning to engage in the housing sector regardless of the type of assistance provided (e.g. grants, loans).

4. To improve the dialogue between the different government levels as well as other organizations, an advisory board on housing should be established. The advisory board should have the following features:

- It should comprise members from the central Government (Ministry of Urban Development), local governments, the private sector, homeowners' associations and academics, among others;
- It should serve as a forum to share views and experience on different projects and initiatives and their performance;
- The leading role in the process should be clearly with the Ministry of Urban Development;
- It should meet every two to three months.

Local governments

5. For the local self-government bodies to perform their duties adequately, their responsibilities must be clearly defined. The following steps need to be taken as a priority:

- Local development plans need to be linked with the Government's housing strategy;
- The roles and functions of the different government levels need to be clarified;
- The framework for fiscal decentralization needs to be improved – along the provisions of the new Law on Local Self-government (May 2002) – in order to better match the local self-government bodies' obligations with their financial means;
- Local self-government bodies need to be encouraged to generate funds locally (see sect. E);
- The legal framework for transferring the ownership of land and other immovable property to the local authorities needs to be improved (see sect. D).

6. A comprehensive capacity-building and institutional development programme needs to be implemented to enable the municipalities to fulfil their responsibilities:

- Training for all levels of staff is needed, especially in strategic planning, project management, participatory approaches, fund raising and budgeting;

- Local self-government bodies, in particular, need to be trained in the preparation of realistic development plans and supported in their implementation;
- Small, neighbouring rural local self-government bodies should be encouraged to establish and implement local development plans together. In this context the promotion of "inter-municipal unions," whose establishment is foreseen by the Law on Local Self-government, would be helpful.

7. Collaboration and partnerships between the local self-government bodies, civil society organizations, the private sector and national/regional government institutions should be encouraged.

Non-governmental and private sector institutions

8. The Government should make good use of the activities and experience of the numerous non-governmental institutions active in the housing sector today. To ensure that the assistance provided by these organizations is efficient and to clarify the potential of their, an assessment is needed of the roles and functions of NGOs in the housing sector and how their activities fit within the overall objectives of the Government's housing strategy.

9. The Government should provide the non-governmental organizations with an enabling framework for their activities. This should involve:

- Providing the necessary regulatory support;
- Providing them with information on the Government's housing policies, best practice projects, etc.;
- Supporting, in particular, the activities of homeowner associations (see box 3).

Private institutions

10. The Government should also play an enabling role for private sector organizations to become increasingly active in the housing sector. This involves in particular:

- Providing a clear regulatory framework especially with regard to access to land;
- Facilitating access to credit (see sect. E);
- Facilitating access to building materials;
- Encouraging municipalities to engage in partnerships with private sector organizations, particularly in the provision of housing maintenance services (see box 2).

D. Legal framework

There is no doubt that the Armenian Government is pursuing a continuous policy to regulate the housing sector. Armenia's housing sector is no longer characterized by a dominant public sector acting as major provider and owner of housing, and the legal framework needs to be adapted to the new conditions. Since independence the legal framework has been changed

substantially to account for the changing structures in the housing sector, in particular the large-scale privatization.

The enactment of the Civil Code in 1999 was an important step in providing a legal enabling environment for the housing sector in particular with regard to property rights and the development of a functioning housing market. However, the old Housing Code, the main piece of housing legislation during the Soviet period which is still referred to in court arbitration, was not abolished. This mix of old and new laws not only makes the task of arbitration difficult but also creates a situation of legal uncertainty.

In addition, there are still gaps in the legal framework that the Government needs to address. The responsibility of the State in housing provision to socially vulnerable citizens, in particular the elderly, the homeless and refugees, is not specific enough (see sect. E). Rental housing is also not adequately tackled. The Civil Code provides only basic regulations and procedures for establishing leases between landlords and tenants. Beyond these, the Civil Code relies on the individual leases to regulate all details. In practice, such individual leases are rare and most apartments in the rental housing stock are rented informally.

In the owner-occupied sector, the Law on Condominiums and the Law on Multi-unit Building Management were intended to establish a framework for the efficient management of privatized housing and in particular for the common property in multi-unit buildings. However, both laws still leave room for uncertainties and misinterpretations (see sect. B).

The registration of property rights has not progressed far enough yet for all types of property. The reasons are the lack of financial resources, the unavailability of the relevant documentation and the lack of information. Consequently, most housing and real estate property transactions today do not enjoy full legal protection, as ownership rights are recognized only once the property is duly registered.

The problem of inadequate property registration is aggravated by the existence of a large informal housing sector. However, an important step towards regulating this sector was the 2003 Law on the Legalization of Unauthorized Buildings and Land Occupation, which provides the basis for bringing the high number of informal structures -- around 320,000 units -- into the formal housing market. The Law stipulates in detail how these structures are to be legalized. However, the financial implications are likely to prevent many occupants from actually doing so.

Resolving the deficiencies in the legislation on landownership will help clarify property rights and contribute to effective land-use planning. The transfer of land to the local self-government bodies will provide local authorities with an important tool for land-use planning and housing provision. The process will, however, need to be accompanied by legal and institutional capacity-building measures to enable them to use this tool efficiently.

Box 5: Recommendations - legal framework**General**

1. An integral part of the development of a national housing strategy is the review and evaluation by the Ministry of Urban Development of all existing legislation that directly or indirectly affects the housing sector. The analysis should focus on identifying gaps and inconsistencies in the current legislation and should aim at providing a transparent and clear framework for the rights and responsibilities of all government institutions as well as other actors involved in the housing sector.
2. Making the existing legislation more transparent will require abolishing the Housing Code inherited from the Soviet period so that the Civil Code can serve as the clear point of reference.

Rental housing

3. The legislation on rental housing needs to be strengthened. The rights and obligations of landlords and tenants need to be clearly stipulated by law. This involves in particular:
 - Setting provisions for the early termination of a lease, e.g. minimum advance notice;
 - Establishing rules for maximum possible rent increases during a certain period of time;
 - Introducing penalties for the non-payment of rent while at the same time establishing a system of social security for those who are unable to pay.
4. Regulations concerning leases need to be made as simple and accessible as possible so that landlords and tenants are not discouraged from choosing the formal procedures.

Owner-occupied housing

5. The legislation on the owner-occupied housing sector needs to be improved, in particular the Law on Condominiums and the Law on Multi-unit Building Management (see box 3 for recommendations).

Legal protection of the socially vulnerable

6. A system of legal protection for households in the event of evictions needs to be established. This is particularly relevant to refugees who are evicted from community centres which are being privatized. Mechanisms need to be put in place to provide those vulnerable groups with adequate alternative accommodation or adequate compensation.

Property rights and land administration

7. An operational land and property market is a vital part of a healthy housing sector. Present legislation and practices in this area still need to be improved. Priority should be given to:
 - Promoting the registration of property rights in order to give owners full legal protection and to create a secure legal environment;
 - Promoting the transfer of publicly owned land to local self-government bodies;

- Privatizing the land plots under apartment buildings as foreseen in the Law on Multi-unit Building Management;
- Taking full advantage of the work of the UNECE Working Party on Land Administration. The Working Party has collected a range of information and policy experience on land management issues in the UNECE region. A land administration review on Armenia (HBP/2001/8) was prepared in 2001 and sets out recommendations in this area of work.

8. The implementation of the Law on the Legalization of Unauthorized Buildings and Land Occupation, which provides the basis for bringing informal structures into the formal housing market, needs to be closely monitored. Provisions will need to be established for current occupants who cannot afford the stipulated fees. They will need to be protected.

9. The transfer of land to local self-government bodies has to be accompanied by an appropriate legal and institutional framework and capacity-building measures. This should involve:

- The development of legislation on instruments for land leasing, land readjustment, development control and building rights, public-private partnerships in land development and transfer of development rights;
- Measures to ensure the proper registration of land parcels and other immovable property (see above). Steps already taken in this direction and the process of record-keeping and registration should continued to be a priority;
- The local self-government authorities need to be trained in land administration and management (see box 4).

E. Financial framework

Housing finance and subsidies

The total amount spent on capital investment and maintenance and repair in the housing sector during the past decade has been far too low to prevent the housing stock from decaying. The low level of finance stems from the collapse of the economy, which in turn led to a continuous decrease in public spending. Although the provision of housing finance by individuals has risen greatly in recent years, it is not yet high enough to compensate for the sharp decline in public spending. Finance has also come from other sources, such as aid and foreign investment, but these amounts have fluctuated.

Public spending on housing has concentrated on those people who lost their homes either in the earthquake or as a consequence of regional conflicts. Much of this has been funded by foreign aid, so it cannot be assumed that recent levels of spending can be maintained in the long term. The most direct supply-side subsidy has been the provision of new houses to homeless families at no cost to the families themselves. Other households have been given land on which to build. A very limited number of households were able to obtain bank loans to finance

construction through a government guarantee. The principal demand-side subsidy has been the housing voucher programme (see sect. B).

There is no national housing allowance scheme in Armenia, although the Ministry of Urban Development and the Ministry of Social Affairs are currently considering this option. The hope is that this might facilitate increases in public housing rents in order to finance repairs. The central Government does operate a system of welfare benefits, but these are not meant to cover housing costs. The municipalities are responsible for housing assistance, but they have insufficient funds to implement it. There is also no longer any social housing. The 4% of the housing stock which was not privatized has been largely transferred to the municipalities and is used as general rental housing.

The consistent lack of financing has led to the widespread deterioration of the housing stock. Its poor quality caused by the long-term deferment of repairs is a pressing problem which requires urgent action. Organizational structures in the form of condominium associations are essential (see sect. B), but in themselves condominiums cannot mobilize funds. It is therefore necessary to find ways to support in particular those individuals who are living in the large privatized housing stock to raise funds for maintenance and repairs.

Solutions also need to be found for the rental sector, which is equally badly affected by the maintenance problem. Rents are generally too low to pay for maintenance. Consequently, the quality of properties continues to decline. As in the owner-occupied sector, money for maintenance needs to be found if the quality of the stock is to be maintained or improved. Ideally, rents should cover the costs of housing management, routine repairs and maintenance, as well as a contribution to a sinking fund that can be built up over the years to finance major capital repairs. The fundamental problem is that many tenants are too poor to pay any rent, let alone higher rents. The introduction of a housing allowance might help to ease this problem.

Box 6: Recommendations – housing finance and subsidies

General

1. As part of its housing strategy, the Ministry of Urban Development should be responsible for regularly analysing public and private sector financing of housing. Its analyses should concentrate on volume, source, destination and conditions of financing.

Housing allowance

2. The Government should consider introducing a housing allowance. This would allow public sector rents to rise to pay for maintenance, while protecting the poorest households. In the owner-occupied sector, it would make it easier to raise the property tax (see below). The housing allowance should have the following features:

- It should be means-tested, that is, entitlement to it is reduced as incomes rise. Savings may also be taken into account when considering eligibility;
- The housing allowance should be developed within the framework of the social security system that has been developed to date. The system identifies 16 categories

of households that are vulnerable to extreme poverty. A means test is then applied to establish who qualifies. Eligibility for the housing allowance should be based on the same principle;

- Housing allowances will inevitably give rise to questions of incentives – as incomes rise the allowance will be withdrawn. This is an unavoidable feature of targeting assistance to the poorest households.

Property tax

3. A potential source of funds for maintenance and repair in the owner-occupied housing sector is the property tax. Collection rates are reported to be low. To increase it the Government may do the following where housing is in a poor state of repair:

- The collection of the property tax could be linked to the establishment of local funds for maintenance and repairs. The Government would need to encourage local governments to establish such funds and to allocate the share of the property tax that they receive to that fund (see sect. C). Local governments would receive incentives to do so if the Government committed itself to transferring an equal or similar amount to such a local fund. If the taxpayers consider maintaining the housing stock as important they will be more willing to pay the tax if they know that the generated funds will go directly to maintenance. This would lead to higher collection rates and, consequently, improved housing maintenance;
- The availability of funding for individual apartment blocks could be made contingent on the adoption of a suitable management system or the development of a longer-term plan for the maintenance of the building. If repair funds were made the responsibility of condominium associations this would encourage their development;
- As a supplementary measure a means-tested housing allowance (see above) should be introduced to help low-income homeowners pay their property tax.

Self-built housing

4. The Government should consider promoting self-built housing. This would involve the following:

- The provision of land and building materials on favourable conditions by the municipalities. In addition, training should be offered.
- Households will provide their own labour as input.

In this way assistance can be provided to those households who are unlikely ever to be able to obtain decent housing through the market.

Social housing stock

5. The Government needs to start building up a social housing stock as part of its efforts to facilitate access to housing for the socially disadvantaged. This can be done through new

construction or by using part of the existing public rental stock.

To build up a social rental housing stock, the Government should first make use of the existing publicly owned housing stock and do the following:

- Encourage local governments to stop subsidizing (through low rents) all households living in the municipal housing stock regardless of their income;
- Local governments should means-test future subsidies (in the form of low rents). Rents should rise if incomes rise above a certain level;
- Tenants in the municipal rented housing stock who can afford to pay cost-covering rent levels should be expected to do so without receiving any additional subsidy. This will increase municipal revenues, which could be invested in maintenance and new social housing.

Local governments should be encouraged to invest in new social housing through pilot projects targeted to special population groups such as young families. For pilot projects the financial resource requirements are limited and, if successful, those projects might be copied by other local governments. In implementing pilot projects the following should be taken into account:

- The buildings should be designed in such a way that they are adequate and affordable for the targeted population groups;
- If the targeted groups are, for example, the elderly or families with young children, the appropriate provisions, such as lifts which are easy to access, should be made available.

6. In the development of a strategy to assist the socially weak in accessing housing, the Government should make full use of the work carried out by the UNECE Committee on Human Settlements in the framework of its social housing project.

Housing finance system

The development of an efficient housing finance system is fundamental to enable the housing sector to operate along market principles. A functioning housing finance system facilitates access to housing, allows loans to be taken out to finance repairs and allows equity to be withdrawn to support business start-ups. A formal system of intermediation is an essential part of a functioning housing sector.

The basic infrastructure for a housing finance system exists in Armenia, but the principal weakness is a fundamental one: savers do not trust banks. Strengthening the banking system is therefore a priority, and capacity-building needs to extend to the principles and practicalities of mortgage financing, including risk assessment and management. In addition, alternative solutions for the provision of housing finance through, for example, credit cooperatives, should be pursued. In many countries, retail-based lenders flourished as a result of the spontaneous actions of individuals seeking housing. Informal lending certainly exists in Armenia and there is anecdotal evidence of arrangements between builders and prospective buyers.

Lenders' confidence in the housing market has also yet to be established. Those banks that offer mortgages do so on highly restrictive terms and are highly suspicious of lending in some areas. This caution is understandable since the market is currently highly illiquid. If housing market transactions were more common, then banks' confidence in the valuation system of property and the ultimate security offered by the property would grow.

Box 7: Recommendations – housing finance system

Strengthening the formal system of intermediation

1. The Government should take measures to increase the banks' confidence in the housing market, in particular in the system of property valuation and the security offered by the property. This can best be achieved by stimulating the housing market to increase transactions.
2. The housing market could be boosted by extending the housing voucher programme from the earthquake zone to other parts of the country. This might work in the following way:
 - Vouchers need not cover the whole value of the house, but instead should be intended to pay a deposit of 10-25% of the property value. The proportions could vary depending on the income of the household and the area;
 - The use of such deposit vouchers is likely to stimulate secondary housing market transactions as households that sell their homes buy another one. Moreover, as transactions rise, property valuations should become more reliable;
 - Once the level of transactions has risen to a certain level in an area, the market could be judged to be self-sufficient and the scheme ended. It might, however, be continued for social reasons.
3. With increasing transactions in the housing market, the Government should improve its information systems on real estate markets, including property valuations and prices paid. This information should be published regularly and made easily accessible to the public.
4. The Government should consider the further extension of government mortgage guarantees. The guarantees would encourage banks to engage in lending and they would reduce the deposit requirements. The mortgage guarantees should be limited in time, i.e. only extended for the first years of a mortgage, which are the most risky. In this way the Government would avoid long-term open-ended commitments.
5. To increase the effective demand for housing finance, the Government should implement training programmes for inexperienced borrowers (commercial developers, municipal enterprises, households), including the development of proper construction proposals, market analysis and possible sources of loan repayment.

Alternative systems of housing finance

6. The Government should consider promoting the development of alternative institutions for the provision of housing finance. One option would be to promote locally based credit cooperatives. These cooperatives should have the following features:

- They should be non-profit making so that they would have no incentive to make risky investments;
- Their activities should be limited to a small range of basic banking functions, with lending restricted to loans secured by residential property, either for the purposes of buying or improving a property or promoting a small family business;
- These institutions should be local, as mortgage lending is best undertaken by institutions with a good knowledge of the local market;
- The cooperatives should be subject to a proper and adequate regulatory framework.

The Government could facilitate the development of credit cooperatives by providing training and information to interested groups. To discover any weaknesses in the design of credit cooperatives it is essential that any general scheme should be preceded by a number of pilot projects.

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