

ECONOMIC COMMISSION FOR EUROPE

**COUNTRY PROFILES
ON
THE HOUSING SECTOR
ROMANIA**



UNITED NATIONS

ECONOMIC COMMISSION FOR EUROPE
Geneva

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PREFACE

This study on Romania's housing sector is the fifth carried out by the UNECE Committee on Human Settlements to analyse housing sector reform in countries with economies in transition. The first focused on Bulgaria and its results were published in 1996 (ECE/HBP/101). The second study, on Poland, was published in 1998 (ECE/HBP/107); the third, on Slovakia's housing sector, came out in 1999 (ECE/HBP/112); and the fourth, on Lithuania's housing sector was published in 2000 (ECE/HBP/117).

These country-specific strategic housing sector analyses are intended to assist the Governments of countries with economies in transition in improving performance in this sector. They also aim to provide practical information to those with a special interest in the country, such as international lender and donor organizations, technical assistance agencies, or private sector investors, within and outside the country. The objective is to identify positive trends and problem areas, so as to be able to assess the implementation of national policies and strategies, and the social and economic consequences of housing reform for the population and other major actors in the sector. The studies are the work of international teams of experts. They cooperate with governmental bodies, non-governmental organizations, local authorities and the private sector to mobilize available information sources in the country. An international team of experts also draws up recommendations to guide the housing sector reform towards sustainable patterns of housing development.

The UNECE Committee on Human Settlements included the Country Profile on the Housing Sector of Romania in its work programme in September 1999. In January 2000, teams of national and UNECE experts were formed to carry out the study. The Governments of Bulgaria, Estonia, Poland, the Republic of Moldova and the United Kingdom made national experts available for the task. The travel expenses of the experts from countries in transition and from the UNECE secretariat were covered by extrabudgetary funds, which had been provided by Finland and the Netherlands. The Government of the United Kingdom financed the project coordinator as its contribution in kind. The successful conclusion of the project would not have been possible without this generous support.

The project started with the workshop on housing finance, which took place in Timisoara, at the end of January 2000. The fact-finding mission of the international team of experts took place from 2 to 8 May 2000, the mission to verify the conclusions from 21 to 27 July 2000. The Romanian experts responded to the queries and requests of the international team during both these missions.

The results of this study will be discussed at the annual session of the UNECE Committee's on Human Settlement in September 2001. It is also important to refer to the other studies that UNECE is carrying out in Romania, such as the Environmental Performance Review of Romania. The follow-up process to both projects is important for inter-sectoral policy implementation in the country.

INTERNATIONAL EXPERTS

Mr. Vilius Pogozhelskis	(UNECE secretariat)	Project manager
Mr. Nick Reed	(United Kingdom)	Project coordinator
Mr. Ian Holland	(United Kingdom)	Chapter 1
Mr. Stoicho Motev	(Bulgaria)	Chapter 2
Mr. Roode Liias	(Estonia)	Chapter 3
Ms. Elena Bejenaru	(Republic of Moldova)	Chapter 4
Mr. Marek Zawislak	(Poland)	Chapter 5

ROMANIAN EXPERTS

Mr. Gheorghe Tomoiala	Secretary General, Ministry of Public Works, Transport and Housing
Ms. Ileana Budisteanu	Director for Research, Urbanproiect and project coordinator
Ms. Carmen Pauna	Head of Regional Department, Department for Prognoses, Institute for Economic Forecasting
Ms. Ruxandra Noica	Institute for the Quality of Life
Ms. Doina Liana Pasa	National Commission for Statistics
Mr. Stefan Ragalie	Institute for Financial and Monetary Research, Ministry of Finance
Ms. Cristina Popescu	Director of Urban and Regional Planning Division, Ministry of Public Works Transport and Housing
Ms. Teodora Coman	Urbanproiect
Mr. Dorel Niculae	Director, National Habitat Centre

Information cut-off date: 1 September 2000.

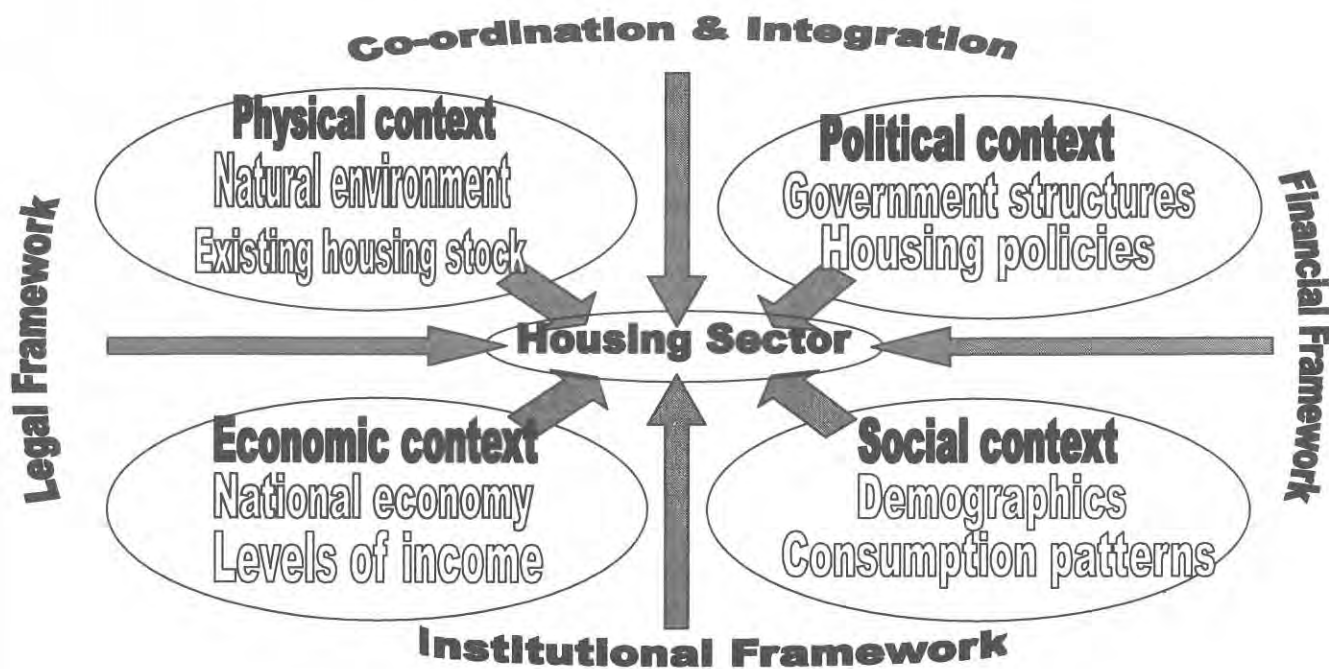
I. FRAMEWORK FOR THE HOUSING SECTOR

Introduction

The framework for analysing the housing sector in Romania (fig. I) consists of the four elements conditioning its housing sector today. These are the political, economic, social and environmental factors that impact directly on housing. They are governed by the specific institutional, legal and financial context of the housing sector, which is discussed in detail in chapters III, IV and V respectively. Coordination and integration - or their absence - is a common factor, which is addressed in the conclusions and recommendations of this report.

This chapter commences with a presentation of the main facts about Romania and its physical features. Separate sections follow to deal in turn with the political, economic and social context of Romania in relation to housing. This chapter is therefore intended to be 'navigational', in that it lays the foundations for a comprehensive and systematic description of the challenges facing the housing sector in Romania. It also introduces some of the key themes which are analysed in greater detail in each of the four following chapters. The resultant core and purpose of the report are the conclusions and recommendations (set out at the beginning) for consideration by those most directly involved in the housing sector in Romania.

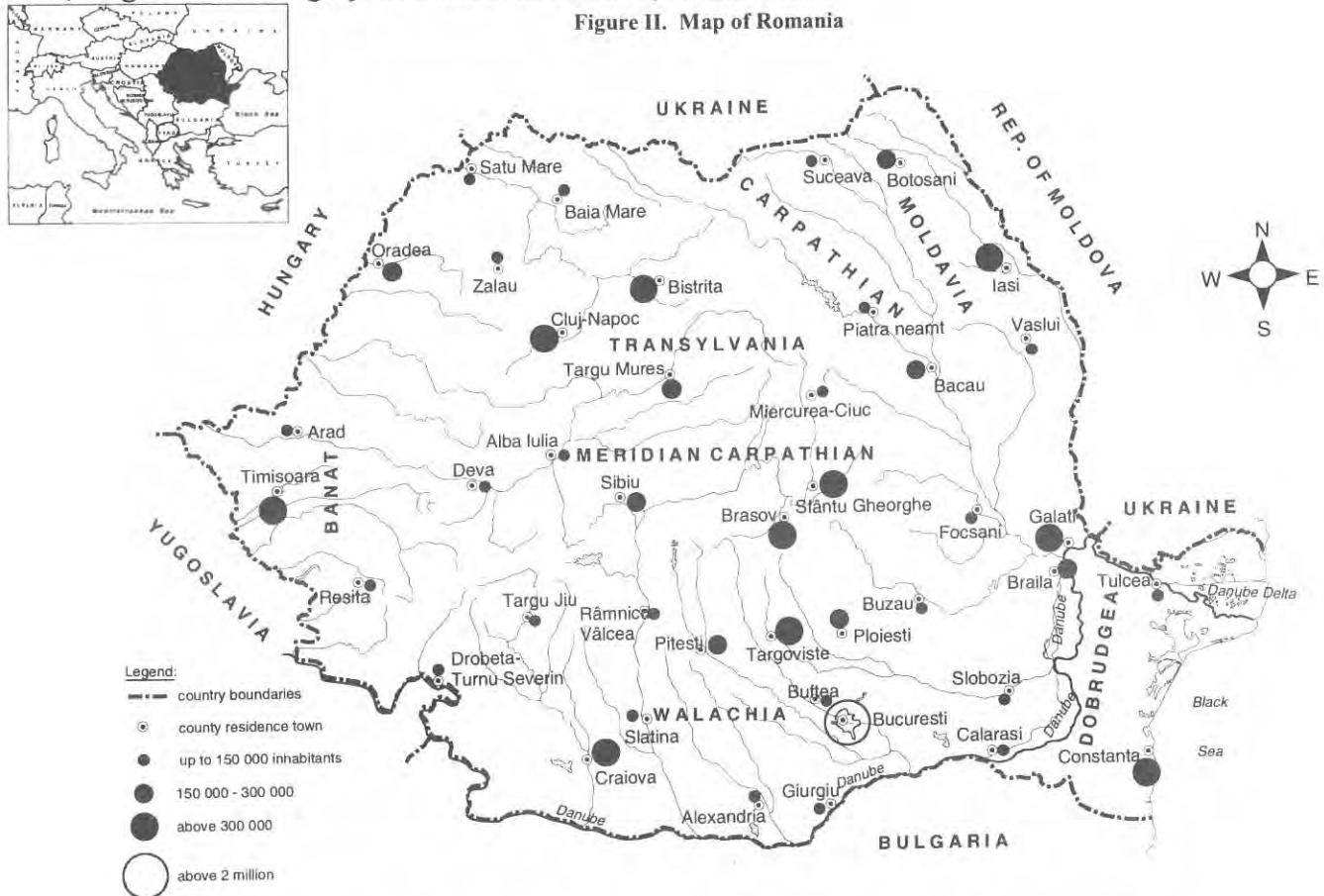
Figure I: Framework for the analysis of the housing sector in Romania



A. Physical context

A medium-sized country of 237,500 km², Romania is located in the south east of central Europe. It is bordered to the north by Ukraine (see fig. II), to the east by the Republic of Moldova and to the south-east by the Black Sea. To the south lies Bulgaria and to the south-west, Yugoslavia. Hungary is situated immediately to the west.

Figure II. Map of Romania



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

Environment

Romania has a varied topography (fig. II). The Transylvanian Basin occupies central Romania, with the Carpathian Mountains to the north and east. Romania's most important river is the Danube, which demarcates part of its eastern boundary with Yugoslavia, and most of its boundary with Bulgaria. Forests cover 28% of the country, arable land 39%, and meadows and grazing land 20%. This is a landscape of enormous natural beauty, and the country also enjoys a continental climate. As a result, Romania has great potential as a destination for both summer and winter tourists – a development which would have implications both for the general economy and for the provision of accommodation.

The physical resources of Romania provide a wealth of building materials – timber, cement, stone, aggregates, oil-based products, etc. – which have been exploited throughout history and continue to be available to support industries involved in housing construction, modernization and repair.

Environmental risks

The greatest environmental risk affecting housing in Romania is earthquakes. The zone of highest earthquake risk follows the south-east elbow of the Carpathian Mountains (see annex). Many residential buildings still require renovation after major earthquakes in 1977, 1986, and 1990. In Bucharest, the older housing stock is not very resistant to earthquakes, and an estimated 4,700 apartments are in danger of collapsing. The Municipality conducted studies on about 2,500 buildings "at risk", and found, 300 five-storey structures, built before 1940, to be seriously damaged. In 1998, the Municipality allocated 1.2 billion lei for studies and structural upgrading, but found it difficult to house families during the repairs.

There have also been significant cases of flooding in recent years. The Government is well aware of these risks, not least to residential buildings, and surveys have been carried out to help target the resources dedicated to repairing earthquake and flood-damaged housing.

The record of the Romanian Government's attempts to preserve the environment has been marred by a number of incidents, the most recent of which was a large spill of cyanide into the Danube in January 2000. A more detailed report on the environment by the United Nations Economic Commission for Europe (UN/ECE) (Environmental Performance Review of Romania) should be published in December 2001.

General condition of the housing stock

Although a number of local studies have been undertaken, the overall state of Romania's housing stock has not yet been surveyed, and the cost of repair, remodelling, refurbishment and renovation¹ remains unquantified. There is certainly no national work programme to rectify the obvious structural or qualitative defects of the housing stock.

Furthermore, the challenge for housing appears to be compounded by the poor condition of the infrastructure that services housing - for example, the utility services, including energy and water distribution, district heating systems, sewage and refuse collection. These are all part and parcel of the housing system in Romania, and appear to be facing similar difficulties as they struggle to provide services which both adequately meet consumer needs and are "market-oriented".

The position is compounded by long-term under-investment in the nation's housing stock. Given the economic hardships of the past ten years, it is not surprising that only a nominal amount of public or private funds have been invested in the housing stock in general. A large segment (nearly 40%) of urban housing, as can be seen in the following chapter, is prefabricated panel buildings, and is served by ageing infrastructure and utility services which are in need of new and urgent investment. A further share of housing in rural areas (less than 50% of rural housing is constructed with concrete or bricks) is also believed to require significant investment in modernization.

The physical state of housing therefore represents a serious political (as well as social and economic) challenge to Romania. Yet it does not appear to be as a high priority for the Government; although this is perhaps not surprising since it is vying politically with other urgent issues for national attention.

B. Political context

Action and policies of the Government

From a recent political and a historical perspective, there were two distinct stages leading to the current housing situation in Romania. The first was the policy of the former communist government, which saw housing as one of the main ways to achieve urban expansion and rapid industrialization. This policy commenced in the 1970s and continued into the 1980s. It was the period that witnessed the dramatic growth of urban settlements through massive State-led housing programmes. Despite this large-scale activity, by 1990 the public sector's share of the housing stock in Romania had increased to only 32.7% - i.e. two thirds was still in private hands.

The second stage occurred between 1990 and 1993, when the new post-communist government pursued a policy of mass privatization of the State-owned housing stock. State-owned housing was offered to the sitting tenants at a price based on the age, structure, category and size of the dwelling. A 10% down payment was required, combined with a soft loan offered by the State to cover the remainder. High inflation in the early to mid-1990s quickly eroded the real cost of loan repayments to the further benefit of the buyers. Nevertheless, those revenues which did accrue to the State as a result of the wholesale transfer of residential property were ploughed back into the completion of the many buildings in Bucharest and other regional cities which were left unfinished at the time of the revolution in 1989, when work on them came to a halt.

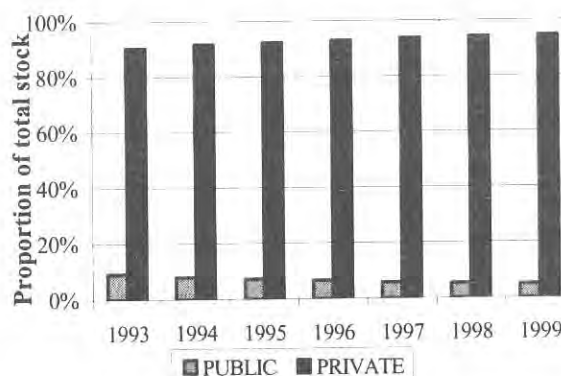
Mass privatization resulted in an increase in private housing from 67.3% in 1990 to over 90% in 1993. By the end of 1999, private sector stock had reached 94.6% of all housing in Romania. The political control of a large share of the national housing asset had therefore been relinquished by the State. Furthermore, since most properties were purchased at heavily discounted prices, few of the homeowners would necessarily have calculated or appreciated the true value of the asset which they had acquired. Furthermore, even fewer of the new owners would have been aware of the need to budget for the repairs and maintenance which many of these properties required and for which responsibility had also been transferred to them.

Table 1. Existing housing stock by number and ownership, 1993-99

Year	Total ('000)	Public	Private	Other	Annual increase
1993	7,710	707	6,971	31	0.5%
1994	7,749	609	7,110	30	0.5%
1995	7,782	565	7,186	31	0.4%
1996	7,811	515	7,266	30	0.4%
1997	7,837	449	7,357	31	0.3%
1998	7,861	412	7,416	33	0.3%
1999	7,883	390	7,460	33	0.3%

Source: National Commission for Statistics, Romania.

Figure III. Ownership of housing stock, 1993-99



Where are thus both advantages and disadvantages in such a massive privatization. The main advantage, to both State and occupiers, is relatively short-term. Since the price of their home was relatively low for former tenants, household income could be spent on other essential

or non-essential commodities. It is widely reported that this 'housing policy' together with the strong family ties which fostered the transfer and exchange of food and other consumables from the rural to the urban population actually enabled many Romanians to survive the hardship of the past decade.

Chief among the consequences of this wholesale transfer are:

- The apparently precarious state of a large part of the housing transferred to individual private owners.
- The precarious socio-economic circumstances of the new owners – and, in particular, their capacity to invest (more than slightly) in their new home.
- The reduced ability of the Government to provide for those segments of the population in genuine social, economic, or other special need of housing, due to its reduced stake in the housing stock.

Ultimately, political responsibility for housing rests with the Ministry of Public Works, Transport and Housing (MLPTL), which, however, has not yet adopted a national strategy for housing. Clear goals and priorities have certainly been set, but they remain essentially aspirational and have not yet been put into practice. Work is currently being undertaken by one of its central agencies, the Urban Project, to broaden and promote the policy agenda for housing in Romania, and one of the aims of this housing profile is to help inform and to contribute to the development of a comprehensive national policy on housing, housing development and housing management.

Currently and throughout the 1990s, Romanian housing strategy has been almost entirely reliant on market forces and, after privatization, prioritized the development of a market for new housing. There is, however, within MLPTL and elsewhere, evidence of a growing awareness that the current housing situation is much more complicated than this, that Romania is not yet able to rely on market forces to solve the problems and that the privatization of most of the stock does not relieve the Government of responsibility for the health of the housing sector. An effective overall national strategy for the housing sector, therefore, requires a review and a redefinition of the challenges facing the sector.

In developing its housing strategy, MLPTL has so far centred attention on the following priorities:

- Relieving genuine housing emergencies, for example the reconstruction or relocation of dwellings damaged by natural disasters, in particular, earthquakes and floods;
- The completion of a large number of previously uncompleted pre-revolution structures
- The creation of a national housing agency to 'kick-start' the housing construction sector and promote the market supply of new housing; and
- Establishing the legal framework as a foundation and prerequisite for the operation of a housing sector based on market principles.

As well as these four focuses, there is also an increasing concern within MLPTL that more attention needs to be paid to three more fundamental housing issues:

- Policies and incentives to encourage investment in improvements in the overall condition and quality of the mass of privatized housing in Romania;

- Policies and standards to improve householders' access to transparent, accountable and well run utility companies, homeowners' associations and housing management services;
- Policies and mechanisms to promote more efficient and mature primary and secondary housing markets throughout the entire country.

There is still little evidence of any political action that considers housing issues in the context of their interrelation with issues outside the sector - for example, with the general economy, employment, health, education, social and community development, and so on. Arguably, any strategic thinking about housing issues which does not take these interrelationships into account is destined to fail.

Housing in the context of the general administrative structure of government

The Constitution of Romania was approved by referendum on 8 December 1991. It provides for a multi-party system, a free market economy and respect for human rights. Legislative power is vested in a bicameral parliament, which is made up of a 341-seat Chamber of Deputies and a 143-seat Senate. Members of Parliament are elected by universal suffrage using proportional representation, for four-year terms.

Public administration devolved to territorially-based administrative units is based on the principle of local autonomy and the decentralization of public services, and is written into the Constitution. Romania is divided into 41 counties plus the Municipality of Bucharest, and 2,688 communes. 80 of the larger towns are classified as municipalities. There are also eight development regions.

Figure IV. Administrative boundaries



Source: MLPTL, UNECE.

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

Legislation grants wide-ranging decentralized powers to local authorities, including responsibility for housing matters. The municipal and communal councils have become the landlords of the previously State-owned housing that has not been privatized. They maintain housing waiting lists, are responsible for investment in the existing stock, and collect rent from their tenants. Whilst local authorities are competent to raise finance for building projects to develop new ‘social’ housing for residents in genuine need, only a handful of schemes have actually been developed to date. Nevertheless, the provision does exist and could be applied if conditions or incentives to local authorities were more favourable.

Responsibility for the management of some of the local utility companies – above all district heating - rests with the local authorities. Where these are underperforming, due primarily to a lack of investment over many years, the local authorities are at pains to maintain their operation. They recognize that they do not have the necessary management skills for their restructuring and direction in a competitive free-market environment. While the privatization process will gradually affect these former State-owned industries, the financial burden of supporting the operating deficits of these firms is in the meantime borne by the local authority budget.

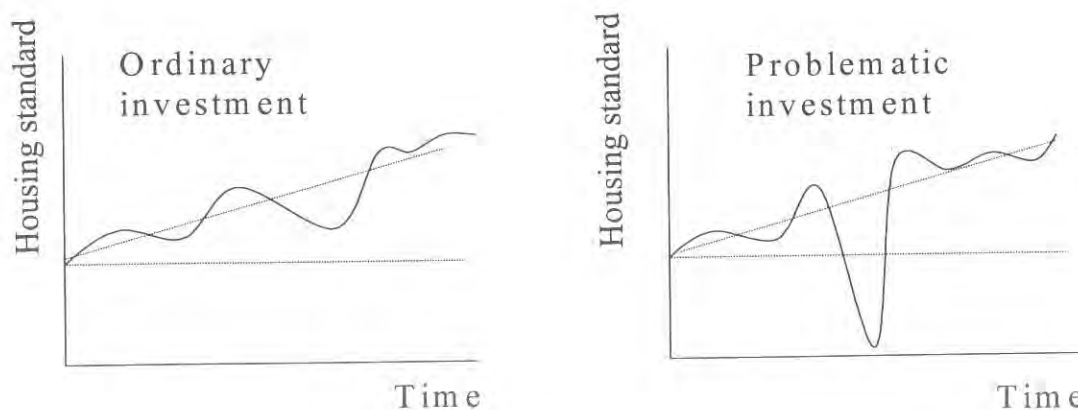
Public investment in housing

The sustainable approach to investment in housing requires the State to enable individual homeowners to maintain their properties themselves. This requires both political support for

intervention and the financial resources for dealing with the most pressing difficulties. The Government, understandably, does not wish to have to find resources again for a potentially

expensive problem which it considered it had resolved (through privatization) ten years previously. Yet the rationale for early investment in housing is clear - not simply for its social or political benefit, but for sound economic reasons, as illustrated in **figure V**.

Figure V: Ordinary and problematic investment in housing



Source: UNECE 'Implementation of human settlements policies on urban renewal and housing modernisation – Evaluation of four case studies July 1999.

The first graph in **figure V** indicates investment in the maintenance and repair of housing over time. When investment is timely, the price of housing tends to increase in line with the value of that investment and with the prices of commodities and products in society generally. The second graph illustrates a scenario where investment in housing maintenance and repair has fallen off dramatically. Housing which does not benefit from systematic investment over time will deteriorate, often rapidly, and the economic life of the building be shortened. Furthermore, the cost of renovating the housing stock to restore it to its market value increases at a greater rate over time. As a simple illustration: if a leaking roof is not repaired when it should be, it soon becomes necessary to completely re-roof part of the building. Any further delay may result in the need for even more expensive repairs due to weather penetration causing damage and endangering the structure.

The second graph illustrates the situation in Romania. Not only does it begin with the situation where the housing stock erected between 1970 and 1989 is acknowledged to be of poor-quality construction, but it has not received any significant investment for at least the past ten years, perhaps in some cases never at all. To bring the housing stock up to a reasonable condition - more in line with standards current in the rest of Europe - very significant and urgent investment is required.

Landownership and property restitution

Restitution is considered to be one of the hallmarks of the transition process in relation to land, property and housing. In Romania, by the end of 1998 more than 84% of arable land and

72% of total agricultural land was in private hands. 78% of landowners who had applied for land restitution had received back their original land, or had been compensated. Notwithstanding the achievements, anecdotal evidence suggests that the transition process is plagued with difficulties over claims that can be registered to the title of land, including a potential lengthy legal process. Similarly, whilst legislation exists for former owners of property to recover that which was previously theirs, there is an unduly strong presumption in favour of the rights of the sitting tenants, which appears to oblige the former owner to find suitable alternative accommodation for them. These legal issues are dealt with in greater detail in chapter IV.

C. Economic context

The overall economic climate of a country has a marked effect on its housing. An enterprising and well governed economy is the locomotive of prosperity for a nation and one of the chief determinants of its population's demand for housing. Income generated from economic activity fuels expenditure across a range of products and services, primary among them being the need for each family to purchase, or have access to, suitable, safe and secure housing.

A summary of ten years of transition in Romania¹

The ten years of transition have not brought about an improvement in average living conditions in Romania. By 1999, GDP was still at just 74% of its 1989 level, although GDP per capita was around 80% of the 1989 level. Progress in the transition to a market economy has been slow, particularly when compared with Romania's near neighbours in eastern and central Europe. There are three main reasons for this:

1. The legacy of President Ceausescu's policy in the 1980s to pay back foreign debt had left the economy very weak; and there was no debt-funded capital replacement or investment during this period.
2. The impact on Romania's trade of the United Nations trade embargo on Yugoslavia in 1992-95.
3. Inconsistency in domestic economic policy, combined with a culture of industrial unrest, which has complicated the implementation of reforms.

From 1990 to 1996 the Government included members who were opposed to implementing the structural changes in industry, agriculture and the financial sector that were required to develop a competitive market economy in order to make full use of the country's potential. The coalition Government that took power after the election in November 1996 announced its intention to initiate the economic policy that had been drawn up in consultation with the International Monetary Fund. However, failure to reach a consensus on the Government's economic policy prevented implementation of many of the reforms. A second recession affected Romania between 1996 and 1999, resulting in GDP falling a further 16% in real terms.

By 1999, there were some preliminary indications that industrial restructuring was finally taking effect. Reductions in energy consumption contributed to a narrowing of the current account deficit, and some major privatizations helped to facilitate foreign direct investment in key sectors, including telecommunications and car production. However, the need to attract foreign capital for restructuring industry, public utilities and the financial sector remains a major

¹ Economist Intelligence Unit Limited, Romania 2000 – p. 23

prerequisite for sustained economic recovery. Economists have predicted that it is likely to be the second half of this decade before Romania returns to 1989 output levels.

Romania's economic journey through the 1990s can be charted by reference to a number of key economic indicators. The Government's mid-term economic plan shows a more stable economic climate developing over the next five years. This is as vital for housing as it is for other sectors of the economy. Briefly, for the 1990 to 1999 period, GDP growth remained negative and average inflation reached a peak of 256% in 1993, although fell back to an average of 45.8% in 1999. The Romanian currency, the leu, was devalued in October 1990 to an official rate of 35 leu for US\$1; but, by June 2000, the currency had depreciated to 20,000 leu for US\$1. By December 1999, real wages had declined by 64.2% since 1989, and foreign direct investment per capita was a fraction of that in other large central and east European countries.

Table 2. Main economic indicators, 1999

Real GDP growth (%)	-4.8
Unemployment rate (year end %)	11.5
Consumer price inflation (av. %)	45.8
Current-account balance (% of GDP)	-4.1
Exchange rate (Sept. 99 leu: dollar)	16,300

Sources: National Statistics; IMF; EIU.

Structure and performance of the economy

Industry and agriculture have contracted in real terms as a percentage of GDP since the onset of the transition in 1989. Industry's share of GDP fell from 57% in 1989 to an estimated 40% in 1999, and its share is expected to go on falling as restructuring accelerates. The share of agriculture and forestry has also declined, despite the proportion of the population employed in agriculture having increased from 27.5% in 1989 to 41.2% in 1999. Its contribution to GDP is expected to steady at about 20%. Services, at around 40% of GDP in 1999, lag behind those in other countries in transition, but are expected to grow over the longterm. The 'shadow' or 'informal' economy is reportedly making a rising contribution to annual GDP: according to the National Accounts, it was estimated to be 16.6% in 1995, and 19.9% in 1998.

Major industries

Romania is among the world's 50 most industrialized countries. However, the rapid industrialization during the communist era has left Romania with a concentration of metallurgical, heavy engineering and chemical industries in which it has little comparative advantage. Because of accelerated foreign debt repayments in the 1980s, the capital stock was not renewed, with the result that most industrial plants use technology that is 15 to 20 years behind the European Union average. Restructuring has been generally slow in the industrial sector. Those industries producing consumer durables and light-industry consumer goods are seen as having the greatest potential.

Communism also left Romania with excessive industrial consumption of energy and overstuffed, inefficient primary energy production systems. The modernization of the energy sector was held up until the late 1990s by the continuation of State-owned monopolies, high levels of consumer subsidy, and resistance to privatization of the coal, electricity and gas

industries. Government measures to tackle these fundamental problems began in 1997, but have been slow and costly. However, by 1999 their positive impact was beginning to be felt.

Romania also has large oil and gas reserves, which are attracting the interest of foreign investors. A major new discovery of crude oil under the Black Sea was announced in 1999. A 20-year programme to revitalize the oil and gas industries is under way with the support of the World Bank.

Transport and communications

Road and rail networks and the general communications infrastructure in Romania are among the least extensive in Europe. Major transport projects aimed at upgrading the strategic transport infrastructure are under way with World Bank and EU assistance. Romania's outdated communications network is also receiving a large injection of international and domestic funds, and former State-owned monopolies in the sector are being restructured for genuine market competition.

Construction

A spate of large projects towards the end of the communist era gave the construction sector an artificial boost, leaving Romania with the highest per capita cement consumption in the world. Schemes included the campaign to house large numbers of the rural population in apartment blocks in urban areas, and the reconstruction of large areas of central Bucharest.

The construction sector in the 1990s was badly affected by the decline in GDP, which led to cuts in government spending on infrastructure and a sudden and steep decline in house building. At the beginning of the 1990s, public sector developers dominated housing construction, but during the transition period, a large number of small privately owned construction firms have appeared in the market. By the end of 1998, there were 8,263 companies registered as having construction as their main activity. Of these, more than 96% were private, and 92% in the small or very small categories - i.e. with fewer than 50 employees.

By 1999, construction activity had fallen well below its 1989 level. The downsizing of the construction sector caused many construction workers to seek work abroad, with a consequent reduction in the immediate capacity of the sector. Predictions of a revival in construction work are, however, becoming more favourable as longer-term economic forecasts suggest that investment levels will rise as macroeconomic conditions become more stable. Prospects of a revival are also becoming more hopeful as the demand for commercial premises and hotels increases, particularly in Bucharest. This may well pose a serious challenge to the economy if the domestic construction industry cannot expand quickly enough to match predicted growth.

Financial and securities markets

Romania introduced a two-tier banking system in 1990. This consisted of a central bank, the National Bank of Romania (NBR), and approximately 40 commercial banks, including 12 branches of foreign-owned banks. Confidence in the financial sector was upset by a number of highly visible financial upheavals involving mutual funds and savings accounts. By the end of 1998, State-owned banks still accounted for more than 70% of all banking activity. Many of

these had large portfolios of non-performing loans. A number of major banks were privatized in 1998 and 1999, whilst two other major banks went into receivership. Tighter regulations and a

stronger prudential policy are intended to complete the current phase of restructuring in the sector. (See also chapter V.)

The Bucharest Stock Exchange reopened in 1995. This was followed, in 1996, by the launch of the Rasdaq, an electronic network for registering over-the-counter share sales.

Foreign direct investment (FDI) and international trade

Cumulative net FDI inflows between 1991 and 1997 amounted to 4.5 billion dollars - a low level by regional standards. Foreign investors were deterred by the outbreak of the war in Yugoslavia as well as by more general macroeconomic instability in Romania. In 1998, FDI inflows rose significantly to over \$2 billion, but in 1999 fell back again to under \$1 billion. Nevertheless, many State-owned companies which have not yet been privatized could still become major targets of capital inflows. The five leading foreign investors in Romania are France, Germany, The Republic of Korea, the Netherlands and the United States. Other major import/export partners include Italy, the United Kingdom, Hungary, Turkey and the Russian Federation.

Employment and wages across sectors

Romania's population is the second largest (after Poland) of the current east European applicants for EU accession; but the country's domestic market ranks sixth in terms of dollar GDP, and eleventh in GDP per capita at purchasing power parity.

The transition period towards a market economy has had a significant impact on the size and composition of the labour force. From 1989 to 1997 the active population fell by over 1.9 million to 9 million. The largest job losses have been in industry, where the number of workers fell from 4.2 million to 2.4 million over the same period. There has also been a marked reduction in wages.

Earnings in several sectors have changed considerably. They have increased most in the financial services sector, which has grown rapidly since 1989. Wages have also risen sharply in mining and energy; in the post office and telecommunications and in transport and storage companies they now stand at 25% above average. Wages in the construction and real estate sectors are some 6%-7% above average, while the worst paid sectors are education, health and the civil service.

Wages have diversified over the past ten years, and have also become more varied between regions. Rural wages are reported to be generally lower than urban wages, whilst in Bucharest wages tend to be higher than in the rest of the country due to a higher proportion of workers in the highest income bracket.

Income inequalities and consumer expenditure patterns

The post-1996 reforms have contributed to greater income inequality. Poorer households - traditionally hardest hit by high inflation - have also suffered disproportionately from above-

average increases in the prices of meat, vegetables, energy and services such as urban transport, water and post, due to the removal of subsidies.

Research by the Government's Quality of Life Institute revealed that an average family of two adults and two children earn barely a subsistence wage and is not able to afford a 'decent' standard of living without other sources of income.

Furthermore, family incomes given by interviewees in a sociological study conducted in November 1998 by the same Institute (with a national sample of 1,510 people) revealed a critical situation:

- In 37% of households, income only just pays for the absolute necessities. In a further 34%, household income cannot even cover this bare minimum.
- For 21% of households, income permits an acceptable standard of living.
- 7% of households are able to buy some more expensive goods, if they save elsewhere.
- 0.5% of households can afford whatever they need.
- Moreover the study revealed that:
 - 7% of families are able to save money every month.
 - 23% have some financial reserves.
 - 38% of households borrow money to pay their bills.

From the figures above, it appears that an alarming 71% of the population finds it difficult to meet its most basic needs. For those who are homeowners, this poses serious questions with regard to their ability to maintain their homes.

Food accounts for a large proportion of total expenditure. Non-food items account for one quarter of consumer expenditure, and services for one tenth. Most of the last two items represent quasi-obligatory expenditure on goods and services for basic needs (clothing, footwear, rent, transport).

D. Social context

Demography

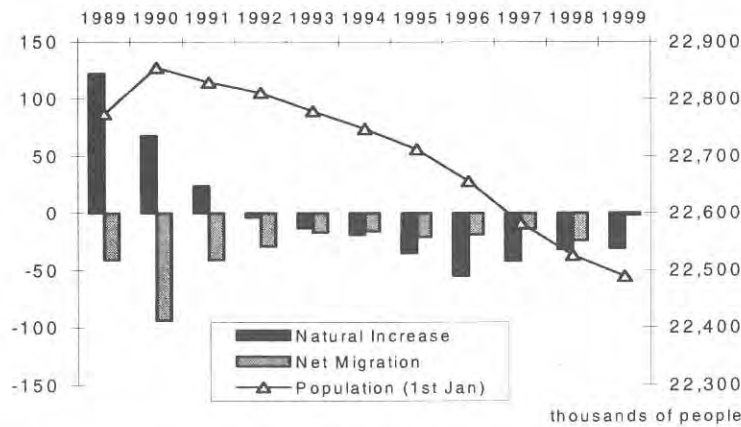
The population of Romania on 1 January 2000 was estimated at 22.455 million. Average population density is 94 persons/km², but this varies considerably. 54.9% of the population lives in the officially designated urban areas, where the average density is about 480 persons/km², while the overall rural density is only one tenth of this. The actual densities vary greatly between these two averages, the highest levels being reached in concentrated estates of multi-storey apartment blocks.

The size of the population, its growth and its characteristics are fundamental in assessing the overall need, types and location of housing. Chief among these are household formation rates and household characteristics, which themselves reflect birth, death, fertility, marriage and divorce rates, and also migration - internal, as well as in and out of the country. Recent migration patterns show fairly evenly distributed urban-rural and rural-urban flows and suggest that there are no areas with particularly high migration pressures.

The transition to a market economy has fuelled demographic changes (see fig. VI) of which the most important can be summarized as:

- Negative demographic growth for most of the 1990s. (In 2000, the population was 715,000 lower than in 1990; over 300,000 Romanians emigrated during the same period.)
- Faster ageing and increased pressure from the retired population on the active population.
- The number of marriages fell from 178,000 in 1989 to 140,000 in 1999, while the number of divorces fell only from 36,000 in 1989 to 34,400 in 1999.

Figure VI. Main demographic data



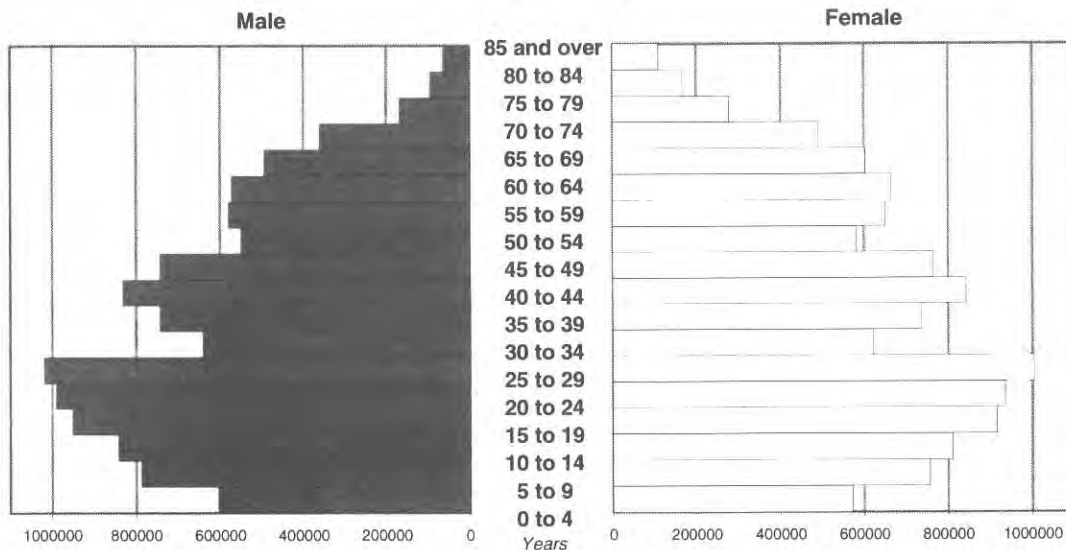
Source: National Commission for Statistics, Romania, 2000.

The main indicators for the general health of the Romanian population which affect the demographic trends are:

- Life expectancy at birth (average lifespan) has fallen from 69.78 years in 1990/92 to 69.71 in 1997/99.
- In the 1997/99 period, the median life expectancy of men was 66.05 years, compared to 73.67 years for women.
- Life expectancy in rural areas in the 1997/99 period was 68.66, compared to 70.58 years in urban areas.
- Romania has the second highest infant mortality in Europe, after Albania.

Figure VII shows the age-sex structure of the population. Romania has a relatively young population compared to that of western Europe, for example, in 1996 45.4% of the population was under 30 years of age. A key feature of Romania's population, however, is the declining proportion of the younger age groups, 0-14 years of age. If the declining birth rate continues as

Figure VII. Romania's population pyramid



Source: Official Statistical Yearbook, 1998.

forecast, the old-age dependency ratio (of retired people to active population) will increase, placing extra strain on the funding of pensions and publicly funded social security provisions, etc.

The general economic climate is considered one of the main causes of the fall in the birth rate. This has been compounded by the abolition in 1989 of the legal ban on abortion and the liberalization of contraception. The lack of affordable housing for young adults has also been suggested as a contributory factor to the lower number of marriages and subsequent fall in the birth rate over the past 10 years.

Clearly, the population group responsible for the fall in the birth rate over the past decade is the cohort now 30 to 40 years old. As a result of the economic hardship of the past ten years a large proportion of this group appears to have decided not to marry and/or have children. Current population forecasts do not account for the fact that this cohort is still young enough to have children. If economic conditions improve in the short term these projections will need to be carefully monitored and may need to be revised.

Household formation

These general population changes suggest broadly what housing requirements might be, but the key determinant will actually be the number of households. Households are created when existing households divide, or when young adults leave their parental home.

Up to the fall of the previous political regime, access to housing was allocated by the State upon marriage, or shortly afterwards. This was a mechanism to translate housing need - at least numerically - into effective housing demand, and any mismatch could be attributed to weaknesses in the administration of this system.

Since 1990, however, an entirely new and evolving mechanism for matching households and dwellings, the housing market, has been in place. The State has now adopted a marginal role as a provider of housing and young adults and others wishing to create new households have had to turn to the fledgling new construction or existing - housing markets to satisfy their housing needs. It is suspected that most have encountered difficulties, either due to the lack of mortgage instruments, or to their generally depressed purchasing power. The overall need for housing is therefore significantly masked, since it can only be translated partially into effective market demand. Households may be formed, but forced to share with others ("enforced sharing"); others may feel unable to create independent households - e.g. through marriage - because they cannot afford a separate home (so-called concealed households). There is currently no practicable way to measure this unmet need, although there are clear indications of its existence in studies conducted by the National Quality of Life Institute.

Against this background, forecasting the future change in household numbers is difficult. The declining population suggests a forecast of declining household numbers, and the received wisdom in Romania reflects this. However, the picture is anything but simple, and caution is advisable. It is not practicable to give here a reliable forecast of future change in household numbers; nonetheless, several factors do indicate the direction for future monitoring and, possibly, research needs:

- The current, relatively small cohort of younger people will carry the effect of lower birth rates into a smaller number of households. However, if the recent lower birth rate proves to

have been a deliberate delay in having children, rather than a choice to have fewer or none – as in many western countries – there could be a significant rise in birth rates in the future, which would tend to halt the potential decline in household numbers. The general economic position and its forecast improvement will undoubtedly play a role in this.

- Increasing rates of divorce and/or greater life expectancy could easily lead to a significant increase in the number of households despite falling population numbers.
- The success of current economic policies could – if it results in a real increase in incomes – bring the sharing and concealed households referred to above into the market for separate dwellings.
- More significantly, a growing economy could easily lead to behavioural changes contrary to current demographic patterns and increase the number of households: earlier marriage, young people choosing to live alone as one-person households, generations of the same family no longer living together. The demand for dwellings could increase even without these demographic changes, since growing consumer buying power is already leading to a market for holiday and other second homes in Romania.

Overcrowding and household/dwelling mismatch

Even if a balance were struck between dwelling and household numbers, this would not of itself guarantee that the available dwellings were suitable for their occupants. Households allocated their homes under the previous regime, even if they were of a suitable size at that time, may find that changes in household size through normal family life cycles have changed the situation. Since 1990, only market mechanisms have been available to deal with the resulting mismatch, and provide appropriate dwellings for the vast majority of new households. Only where the household had the necessary purchasing power would it have been able to ensure that its home was of the appropriate size.

Although dwellings which are too large may represent a problem with heating costs, under-occupation is almost certainly a problem in Romania which, by its nature and extent, can be effectively ignored here. Overcrowding, which was mentioned in the United Nations Human Development Report for Romania (1999) is, however, a very different matter. It appears to present a problem, despite the population fall over the past ten years and the fact that the number of housing units exceeded the number of households by 184,000 in 2000. The Quality of Life Institute based in Bucharest appears to corroborate this fact, reporting the presence of a 25 to 35-year old son or daughter in over 10% of households. Overcrowding and accommodation mismatch are discussed in greater detail in the next chapter.

Homelessness

A particular manifestation of household/dwelling mismatch is homelessness. The National Commission for Statistics (NCS) reports that there is no evidence of homelessness, and homelessness is not yet considered to be a national issue. Nonetheless, homelessness was identified as a concern of local authorities, and a subject addressed in social security networks. Attention was drawn in researching the study to the possibility that homelessness may grow in the near future as a result of house repossessions through restitution, despite the provisions of the law, and as households fail to pay their regular utility bills, as privatization comes into force, or to pay the property tax, as the tax-free period following purchase comes to an end.

If it does grow, homelessness should find its place among the other social needs already officially recognized and monitored. Dealing with it would be no great problem for the country if the supply of suitable social housing were sufficient; however, privatization and the heavy restrictions on public spending in this area may exacerbate the situation.

Urban and rural disparities

There are considerable regional variations, as well as stark urban-rural inequalities in housing, both in terms of demographic characteristics, e.g. a far larger number of old people living in rural areas, and of the quality of the housing stock and its infrastructure.

Chapter II deals with this subject in greater detail. Here it may be worthwhile mentioning a few of the most salient points, for they have serious implications for housing, and they help paint the picture of the housing sector in Romania:

- Rural infrastructure is generally very poor. The 1992 census showed that only 15.7% of the rural population² had access to running (piped) water and drains. Over 90% of local roads in rural areas remain without all-weather surfaces.
- The rural population (45% in 1999) is clearly ageing. In 1999, 17.6% of the rural population was 65 years of age or over, compared to 9.6% in urban areas and 40% of the rural population (most employed in agriculture) were over 50.
- According to an integrated household survey in 1995, poverty³ is more common in rural areas: 30% compared to 17% in urban areas. 64% of all those living in poverty were found in rural areas.
- The average level of consumer spending is 15% lower in rural areas than elsewhere.

The Government is trying to alleviate the worst of the poverty, which is clearly more severe in rural areas. With assistance from the World Bank it is attempting to divert 10% of GDP to welfare. One of the first exercises has been to map the scale of the problem. A recent extensive study on the subject was published in 1999 entitled 'From Rural Poverty to Rural Development'. Measures to tackle poverty that have so far been introduced include higher child allowances, the full indexation of pensions and projects to reduce youth unemployment.

² The population living in villages.

³ Poverty – According to the national statistical methodology the poverty level is calculated by the poverty ratio, that is, the share of households living under the poverty threshold set at 60% of the average expenditure per capita.

II. HOUSING STOCK AND CONSTRUCTION

A. The existing housing stock

Size of the stock

At the end of 1999, the Romanian population of 22.46 million relied on a total housing stock of 7.88 million units - an average of 351 dwellings per 1,000 people (see **table 3**). Compared with other countries in transition (**table 4 and fig. IX**), the size of Romania's housing stock might appear adequate. In the 1992 census, the total number of dwellings exceeded the number of households by over 378,000 (just under 5%). Another factor appearing to point to a favourable volume of housing is the continued increase in the stock (with an average annual rate of 0.4% - see **fig. VIII**), at a time when the population has been decreasing (1.3% over the 1993-99 period). Even over a longer period of 15 years (between the last two censuses in 1977 and 1992), the stock expanded more rapidly than the population - by 21% and 5.3%, respectively.

Table 3. Housing stock, population and household size, 1995-99

	1995	1996	1997	1998	1999
Population (thousands)					
Romania	22,681	22,607	22,545	22,502	22,458
Bucharest	2,054	2,037	2,027	2,016	2,011
Housing stock (thousands)					
Romania	7,782	7,811	7,837	7,861	7,883
Bucharest	776	778	780	784	788
Household size					
Romania	3.0	3.0	3.0	3.0	2.9
Bucharest	2.8	2.7	2.7	2.7	2.6
Units/1000 people					
Romania	343	346	348	349	351
Bucharest	378	382	385	389	392

Source: National Commission for Statistics.

Figure VIII. Dwelling/population ratio, 1995-99

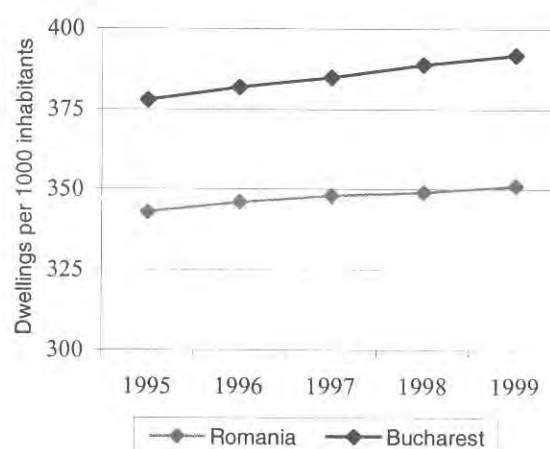
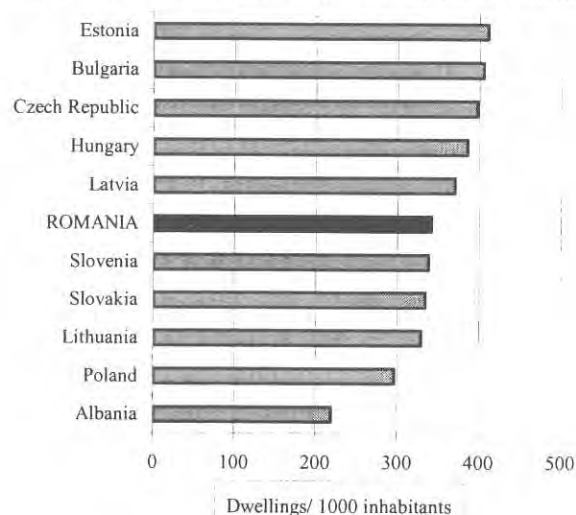


Table 4. Housing consumption in 11 countries in transition, 1994

	Dwellings/ 1000 inhabitants	Households/ dwelling	Persons/ room	Living space/ person (m ²)
Albania	219	1.00	2.70	8.0
Poland	296	1.06	1.02	18.2
Lithuania	329	1.06	1.30	19.7
Slovakia	334	1.00	1.14	21.9
Slovenia	338	0.95	1.33	19.0
ROMANIA	341	0.95	1.19	17.4
Latvia	370	1.13	1.21	20.9
Hungary	385	0.99	0.92	32.1
Czech Republic	397	1.01	1.04	25.5
Bulgaria	405	0.88	1.00	16.7
Estonia	410	1.03	1.18	32.0

Source: Hegeduz J., Mayo S., Tosics I., Transition of the Housing Sector in the East-Central European Countries, MRI, Budapest, 1996.

Figure IX. Housing consumption in selected countries



Nonetheless, this apparent aggregate fit between housing supply and demand may hide a possible mismatch in terms of potential households or geographical distribution. For example, observation and reports received during the study would appear to confirm the possibility of a real housing shortage in Bucharest and some other urban areas. The available data⁵ give only a rough idea of the variation in dwelling and floorspace-per-person ratios by county and region. The number of dwellings per 1,000 people varies from 369 in Bucharest to 300 in Bistrita Nasaud (>12% difference). Floorspace per person varies even more (>50%) between 11.5 m² in Iasi and 17.7 m² in Arad.

The only reliable detailed data on dwelling occupancy are found in the 1992 census. These give an occupancy rate of 94%, with 6% (472,200) unoccupied units. In a fully operating market economy, such a figure might be considered desirable to facilitate housing mobility. However, this is not the case in Romania, since most of those units are either rural leisure houses (second homes) or simply located in places where the housing market is not functioning, and in many cases the vacant housing is substandard.

Though statistically correct, the above picture can be misleading for both researchers and politicians. It may imply that Romania does not need much new construction. However, real needs should be assessed only after all aspects of the housing system have been analysed.

Condition and life expectancy of the stock

When assessing stock condition, the key factors are the age of the stock, its construction type, and the management and maintenance that it has received.

Romania's dwelling stock is relatively new in comparison to that of western Europe, and quite similar in age to that of many countries in transition. The oldest part of the stock, pre-1930, constitutes roughly 14% of the total, and only some 22% has been added since 1970 (table 5). The 52% share from 1945-1970 is higher than in both western Europe (33%) and comparable countries in transition (about 28%) (fig. X). Only Bulgaria has a similar share of about 49%. This is evidence of the extremely high rates of new construction during the first half of the socialist era.

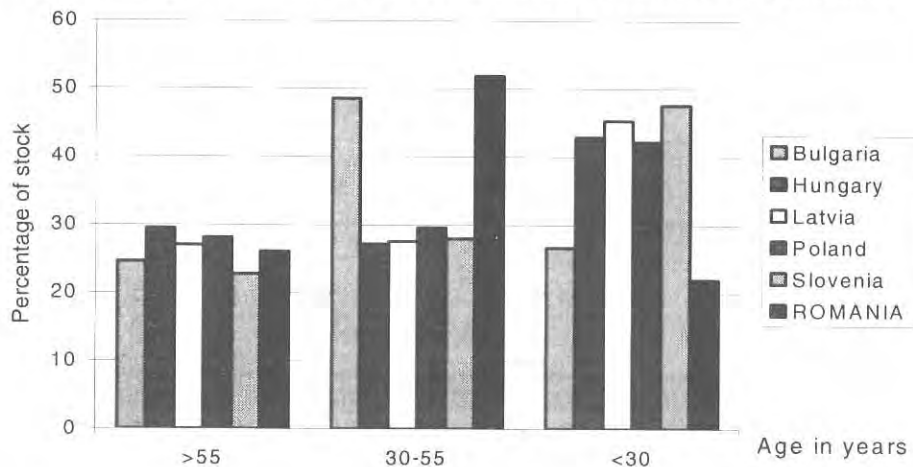
Table 5. Age of the housing stock, 1992

Period of construction	<1915	1915-29	1930-44	1945-60	1961-70	1971-80	1981-90	Illegal
Romania	8.8%	5.6%	11.6%	28.7%	23.2%	14.5%	6.7%	0.1%
Municipalities	13.1%	7.0%	13.6%	23.8%	19.5%	14.6%	7.6%	0.1%
Villages	7.5%	5.2%	11.0%	30.2%	24.4%	14.5%	6.4%	0.0%
Bucharest	11.3%	10.1%	25.3%	29.4%	11.3%	7.6%	4.4%	0.4%
Age of buildings (years)	>85	>70	>55	>40	>30			
Romania	9%	14%	26%	55%	78%			

Source: National Commission for Statistics, 1992 Census data.

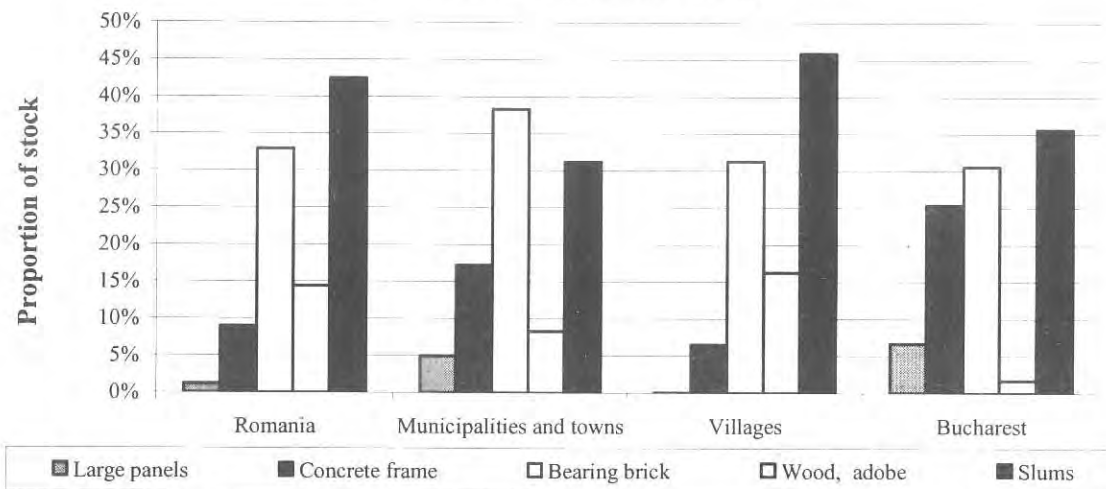
⁵ 1992 census

Figure X: Age of the housing stock in selected countries in transition



Source: Housing and Building Statistics for Europe and North America, UNECE, 1998.

Figure XI. Construction quality



Source: National Commission for Statistics, Population and Housing Census, 1992.

The mass introduction of large panel construction at the end of the 60s, and its large-scale use over a quarter of a century, now contribute to a lowering of the general quality of the stock. According to the Romanian classification, there are six types of buildings defined by the material of their external walls (see fig. XI):

1. Reinforced or prefabricated concrete;
2. Brick, stone (in a reinforced concrete skeleton);
3. Brick, stone (in a wooden skeleton);
4. Wood (beams);
5. Adobe, similar materials;
6. Non-standard materials (slums).

Table 6. Technically amortized buildings

ROMANIA	TOTAL	Amortized buildings				Remaining life <20 years	
		>30 years	(%)	>50 years	(%)	number	(%)
Total residential buildings	4,463,971						
From reinforced concrete or prefabs	53,637					342	0.01%
Brick, stone (reinforced concrete skeleton)	401,909					24,224	0.54%
Brick, stone (wooden skeleton)	1,470,093			388,646	8.71%	753,775	16.89%
From wood (beams)	642,320	534,991	11.98%			107,329	2.40%
From adobe, similar materials	1,843,012	1,551,723	34.76%			291,289	6.53%
From non standard materials	53,000	20,329	0.46%			32,671	0.73%
Total amortized		2,107,043	47.2%	388,646	8.71%	1,209,630	27.1%

Source: National Commission for Statistics, 1992 Census data, expert estimates.

The effective life (technical amortization periods) of different structures can be prolonged or shortened depending on the adequacy of their management and maintenance. If the effective life of buildings of the first two material types is assumed to be 100 years, for the third type 50 years, and for the last three 30 years, a disturbing picture emerges (**table 6**). This calculation suggests that 56% of all residential buildings in Romania are fully amortized – i.e. they have theoretically come to the end of their effective life. The amount of robust housing available 20 years from now – i.e. with over 20 years of the assumed amortization period left – would decline by a further 27.1%. So only 17% of the 1992 stock would still be able to provide reliable shelter in 2020.

This does not mean that over half the housing stock is in imminent danger of collapse. Fortunately, the theoretical amortization period is not the only – nor the most important – factor determining the useful life of buildings. It is, however, based entirely on the reality of construction materials and methods, and it is therefore a very effective tool to draw attention to the other factors which need to be addressed if this scenario is to be avoided.

Good-quality construction followed by proper maintenance can prolong the life of almost any type of structure for centuries, and certainly significantly longer than any theoretical amortization periods. Yet what is the case in Romania? There are no statistics available to answer this question. According to Romanian experts from Urban Project (see chapter III), poor construction and long-deferred maintenance account for the qualitative shortcomings of the existing stock. The most critical problems are in multi-family structures: 2.5 million units (35% of all occupied units) are in need of infrastructure upgrading; a large number of units were left unconsolidated after the last three earthquakes⁶⁶. So the picture is bleak. Even if the housing may still be able to provide minimal shelter in 20 years, it is unlikely to meet the needs of a decent standard of housing, unless considerable efforts and resources are devoted to repair and renovation to counteract the effects of poor construction and the lack of maintenance over many years.

Types of dwellings

A particular feature of Romania's housing stock is the highly dominant share of single-family houses. They total 95.1 % of all residential buildings and 55.7% of all dwelling units (see table 7 and fig. XII). The proportion of dwellings in apartment buildings, only 39.2%, is smaller

⁶⁶ The Transition of the Housing System in Romania, Urbanproject report for the workshop on Housing Finance, Timisoara 2000.

than in other countries in transition. The remaining 5.2% are non-detached houses (semi-detached or rows/terraces).

In rural areas, single-family houses dominate by 98.5%, providing the potential for ecologically sound living conditions and easy maintenance and management. However, the problem in Romania is that this will remain just a potential and not reality for most of the rural stock, until the requisite knowledge and resources are fully available.

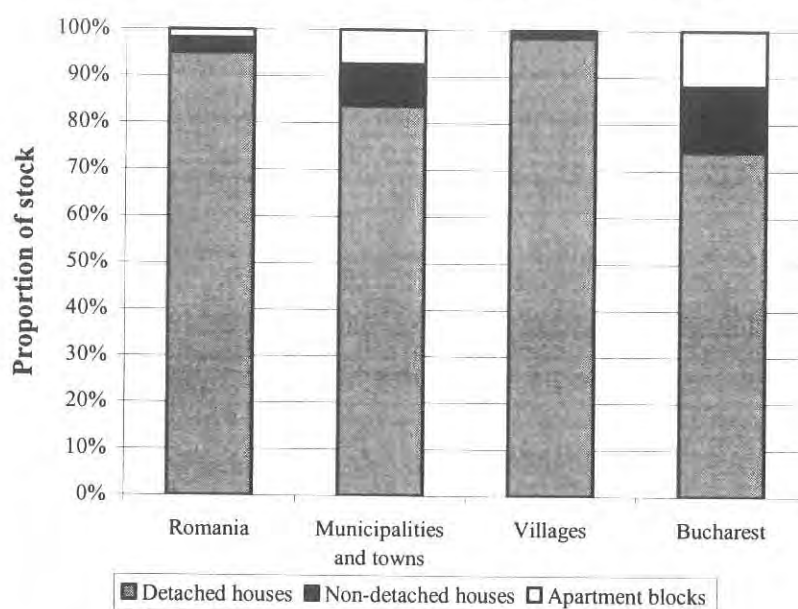
Apartment buildings make up 71.7% of the urban stock. It is this part of the stock (about 2.9 million units in 76,000 buildings) which has the greatest need for urgent improvements.

Table 7. Housing stock by type of building

	Detached houses	Non-detached houses	Apartment blocks	All buildings	All dwellings
Romania	4,244,187	139,152	80,632	4,463,971	7,659,003
Municipalities and towns	869,613	92,730	76,151	1,038,494	4,076,335
Villages	3,374,574	46,422	4,481	3,425,477	3,582,668
Bucharest	80,073	15,190	12,753	108,016	761,156

Source: National Office for Statistics, 1992 Census data.

Figure XII. Housing stock by type of building, 1992



The size of dwellings can be analysed by number of rooms and living space. These characteristics relate directly not only to current consumption standards and the adequacy of distribution, but also to the ability of the stock to meet future household needs. Table 8 and figure XIII illustrate the general picture.

Figure XIII. Dwellings by size, 1999

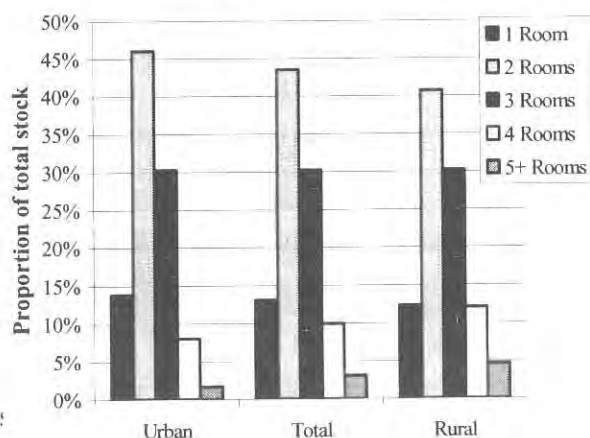


Table 8. Dwellings by size, 1999

	Number ('000s)	Dwellings by number of rooms				
		1	2	3	4	5+
Urban	4176	580	1922	1264	338	72
Rural	3707	457	1509	1119	449	173
Total	7883	1037	3431	2383	787	245

Source: National Commission for Statistics.

When looking closely at size, a more disturbing picture emerges. A comparison of the stock's structure in 1992 according to number of rooms with that of household size is provided in table 9 and illustrated in figure XIV. These show a mismatch between the rooms available and those needed for different sizes of household: for example 56.3% of dwellings with one or two rooms against 42.3% of households with one or two persons. This would indicate that over 1.7 million small dwellings (24% of the total) were occupied by households with three persons or more. In fact, as table 9 shows, more than 10% of all dwellings had more than two persons per room in 1992. The scale of the problem was so great in 1992, that it is unlikely that it has now been completely solved.

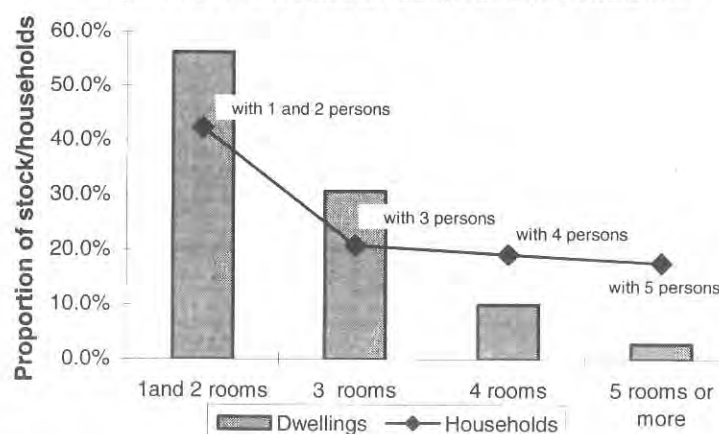
Table 9. Occupied dwellings by household size and number of rooms, 1992

Households size	Size of dwelling by number of rooms					Total
	1	2	3	4	5+	
1 person	401,059	563,475	193,650	44,815	11,240	1,214,239
2	236,320	933,602	486,455	131,565	33,914	1,821,856
3	122,319	699,161	500,452	134,463	34,866	1,491,261
4	67,373	550,160	548,062	169,555	42,175	1,377,325
5	31,971	215,351	258,852	116,908	37,657	660,739
6	17,724	99,736	129,461	73,347	28,352	348,620
7	10,395	49,456	55,887	32,124	13,182	161,044
8	4,501	19,103	19,520	11,557	5,479	60,160
9	2,098	8,517	8,175	4,978	2,424	26,192
10+	1,990	8,116	7,670	4,825	2,710	25,311
Total (number)	895,750	3,146,677	2,208,184	724,137	211,999	7,186,747
Total (%)	12.5%	43.8%	30.7%	10.1%	2.9%	100.0%
Overcrowded dwellings = >2 persons/room						
Total (number)	258,371	400,279	91,252	9,803	0	759,705
Total (%)	28.8%	12.7%	4.1%	1.4%	0.0%	10.6%

Source: 1992 Census.

The size of dwellings is not merely judged by number of rooms, but also by floorspace. The average living space in 1992 was 41.2 m², but only 14.1 m² for one-room apartments and 25.3 m² for two-rooms, and it is in these that so many households live with more than three persons per room. The assumption is that most of these extremely small units result from the reduced space standards and the priority of output in industrialized construction during the pre-transition period.

Figure XIV. Occupied dwellings and household size



Infrastructure and building services

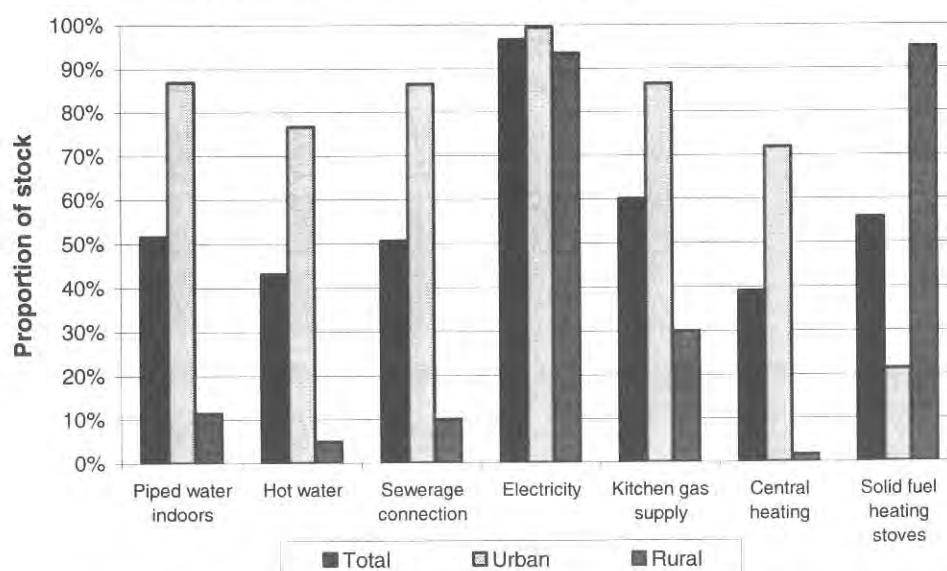
The lack of basic amenities seems to be one of the most disturbing aspects of housing quality in Romania. With only 53.1% access to piped water, Romania rates last among the 14 European countries in transition⁷. The picture is even worse if only piped water inside dwellings is considered (51.6%).

Table 10. Amenities in urban and rural areas, 1992

	Total		Urban		Rural	
	Dwellings	Households	Dwellings	Households	Dwellings	Households
All occupied dwellings	7,659,003	7,281,441	4,076,335	3,967,201	3,582,668	3,314,240
Dwellings with:						
Piped water indoors	3,950,731	3,843,865	3,542,749	3,456,611	407,982	387,254
Hot water	3,302,013	3,214,427	3,126,594	3,048,955	175,419	165,472
Sewerage connection	3,882,079	3,777,057	3,522,809	3,437,049	359,270	340,008
Electricity	7,406,891	7,100,387	4,054,902	3,951,402	3,351,989	3,148,985
Kitchen gas supply	4,603,262	4,554,991	3,527,546	3,481,887	1,075,716	1,073,104
Central heating	2,992,057	2,908,851	2,931,243	2,855,121	60,814	53,730
Solid fuel heating stoves	4,270,810	3,990,966	871,136	844,283	3,399,674	3,146,683

Source: The National Commission for Statistics, 1992 Census data.

⁷ Country Profiles on the Housing Sector - Poland, UNECE 1998.

Figure XV. Amenities in urban and rural areas

In terms of regional disparities, **figure XV** shows how rural areas lag far behind urban ones in access to piped water, sewerage systems and gas. Only one in ten rural homes has piped water indoors and a sewerage installation. The development of rural areas has obviously been neglected over a long period of time. Large-scale investment programmes for infrastructure are being considered by the Government, but the task of catching up with other countries will be considerable.

However, disparities in service levels exist among cities too. Bucharest is in a better position than other towns with respect to most basic utilities. As outlined in the Urban Project report⁸, obsolete infrastructure in the old parts of most cities should be addressed as a top priority. Mass replacement and upgrading are urgently needed.

Statistics on availability provide only a partial picture of the situation. Far more significant is the quality, reliability and cost of the services provided to residents. Informal interviews support personal observations during the study that the price, the poor management and reliability of some networks (water supply and district heating in particular) aggravate the poor living conditions in much of the housing stock.

Probably the most significant issue is heating. This topic is important for two reasons: the cost of energy, which places a heavy burden on households, and the energy efficiency problem in the context of the sustainable development aspirations of the country as a whole. Consideration here is restricted to the type of heating used in residential buildings:

- District heating from local heating stations is used in 39.1% of all occupied dwellings, in 71.9% of those in urban areas;
- Natural gas is used for heating (local stations or domestic stoves) in only 10.1% overall (urban 16.4%);
- Gas installations for cooking only are found in 60.1% (86.5% urban and 30% rural);
- Solid-fuel stoves are used in 94.9% of rural and 21.4% of urban dwellings.

⁸ The Transition of the Housing System in Romania, Urbanproject report for the workshop on Housing Finance, Timisoara 2000.

Heating represents the greatest share of household energy consumption and spending on utilities. This raises several issues:

- The monopoly of district heating companies, blamed for high prices and poor services;
- The lack of individual metering of energy consumption, which discourages households from pursuing efficiency;
- Poor insulation standards, particularly in prefabricated apartment blocks (losses of 30-35% to judge by Bulgaria's experience);
- Huge energy losses from district heating systems before dwellings are reached (Romanian experts estimate losses of more than 50%);
- Very considerable debts in the form of unpaid utility bills for both individual consumers and owners' associations;
- The reduction of solid fuel resources, leading to price increases;
- Ecological problems associated with the continued, widespread use of wood as a fuel.

The issue of energy efficiency received political attention in Government Ordinance 29/2000 (see chapter IV) but since this is a recent measure, there are as yet no specific results. The Ordinance is nonetheless a first concrete step in addressing this complex issue. The importing of know-how and best practice, together with the education of local energy consumers and providers, should accelerate the achievement of practical and sustainable results.

B. Housing markets – dwellings and land

The housing market in Romania started to emerge immediately after the start of transition to a full market economy in 1990. It received a strong impetus from the mass privatization of housing and the restitution of urban land. It has continued to develop rapidly until recently; it is a fluid market offering a wide range of prices and amenities. The number of residential sales rose from about 39,000 in 1990 to a peak of about 226,000 in 1993, before dropping to an annual rate of fewer than 180,000 by the mid-1990s. The 100,000 sales reported in 1999 were expected to be followed by even fewer in 2000: evidence of the continuing stagnation of housing markets after 1996. Most transactions involved the privatization of existing dwellings, or their resale, and not newly constructed units. For example, only about 36,000 new units were finished in 1995, yet there were approximately 170,000 transactions during that year (representing about 2% of the total stock)⁹.

The boom in sales was facilitated by an emerging broker industry. By 1996, 500 (out of 2,000) real estate companies in Bucharest listed brokerage as their main activity. The National Romanian Association of Realtors (ARAI) was established in 1994 and has become a leader in the real estate industry (see chapter III). Brokers represent both buyers and sellers, and typically receive commissions from each. While commissions are negotiable, a broker might receive 6% on an average sale, and perhaps 3% on a larger sale (paid 50/50 by buyer and seller). For land sales, the commission ranges from 4% to 6% (again 50/50).

⁹ The Prospects for Housing Finance in Romania, the Urban Institute report, Washington D.C. Dec. 2000.

Rental market

A rental market has also developed, although it is difficult to gauge its size. It is widely believed that much of the market is hidden because of tax evasion. One survey suggests that about 3% of households in Bucharest rent units from private owners¹⁰. Figures for other urban areas and rural areas are thought to be lower (according to the 1999 Institute for Quality of Life survey). An additional 1.8% of households are "rent-free tenants".¹¹

Brokers tend to view the rental market as two segments: a small, high-end luxury market catering to the international community, and a second, larger market for Romanians. The former tends to operate in hard currencies (US\$ and DM) exclusively, while the latter accepts payments in hard currencies or lei. The luxury market has been responsible for some investment in new construction; but it has been hard hit in recent years, and rents have apparently fallen as the level of direct foreign activity has declined. In contrast, the mass market primarily consists of existing flats, mostly on the outskirts of cities, and it offers a range of options. Young people who want to live apart from their parents can share apartments. Some families share with others or move to a second home outside the city so they can earn cash income by renting out their flats. Brokers participate in the rental market, and typically receive a month's rent as a commission (paid 50/50 by tenant and landlord).

The rental market faces some constraints, but their impact on prices and supply is not clear. For example, an ARAI report notes that renting both residential and commercial properties is hindered by a lack of telephone lines - although presumably this would affect sales as well. Also, the tax on rental income has now been reduced from 40% to 15%, but it is unclear to what extent this reduction has stimulated supply, if at all.

The developing market is proving able to support greater flexibility in providing numerous options for households wishing to improve or adjust their housing situation. For example, households can trade up by selling or exchanging their existing home and paying the difference between its value and that of a better one. Others can keep some of their home equity by trading down to less expensive dwellings. A household with a high-value dwelling seeking more space and privacy can sell its home and use the proceeds to help purchase two less expensive dwellings. Finally, those who wish to buy newly constructed homes can finance their purchase by paying the developer in instalments as the work proceeds.

Prices and affordability

The price of new construction is prohibitive for most households. The price of a new minimum-standard, two-room flat is about \$18,000 to \$21,000. This is well above the approximately \$12,000 that the newly-created National Housing Agency (see later chapters) plans to charge for a comparable unit - a price that excludes charges for land, infrastructure, profit, taxes and financing costs.

In contrast, the prices of existing dwellings cater for a wide range of household budgets. Rough estimates of the price-to-income ratio for existing housing appear to fall within the same

¹⁰ The same figure is suggested for the country-wide share of private rentals in the UN/ECE- CHF Practical workshop on housing privatization, Cracow 1999.

¹¹ National Human Development Report, UNDP, Romania 1999, table 36.

range as in a number of other industrialized countries (2.4 to 6.6). For example, a household can purchase an existing two-room flat in Bucharest for as little as \$7,000, or as much as \$60,000. There is no general rule for the price of a single-family home (known locally as a villa). In urban areas, a relatively small number of villas have been built recently, many by high-income households. While prices for luxury units can exceed \$100,000, it is possible to buy a modest villa with services on the outskirts of Bucharest for around \$25,000 to \$30,000.

The concept of housing affordability takes on a different meaning in a country with widespread free-and-clear ownership (over 94%). In principle, any homeowner can trade his or her present home for another one of at least similar value, provided he or she can cover the transaction costs. Thus, there is a very high degree of potential effective demand among homeowners. However, it remains merely potential when the income of so many proves to be insufficient even to meet normal expenditure on food and utilities, and where the financial mechanisms are not properly developed (see chapter V). Therefore, notwithstanding the high level of private ownership, housing mobility is very low for most people. Moving to rural areas, where prices are several times lower, cannot be an option for most of the active urban population, because employment opportunities are few. Thus the real market develops within the thin layer of the highest income group's demand.

The economic downturn of the past few years has slowed overall demand for housing. While this has hit the construction industry hard, it has helped to keep prices in line with incomes, which have not grown in real terms. The price difference between existing and newly constructed units has made newly constructed units unattractive to buyers. This is illustrated by the fact that nearly all of the 11,000 beneficiaries of a recent government-subsidized loan programme chose to purchase existing units rather than new ones. The decline in new housing construction has contributed to heavy job losses in the construction industry; the number of construction workers in 1999 (342,600) was only half of what it was a decade earlier.¹²

The main constraints on the further development of housing markets have been:

- Limited purchasing power;
- Unclear title to much urban land;
- A lack of explicit legal provision for obligations regarding utilities;
- The lack of an effective strategy for the provision of infrastructure to development sites;
- Construction costs too high (due to the still monopolistic position of construction material companies, according to some private builders);
- The continued and widespread use of traditional building technologies (with low-paid, relatively unskilled labour) and resistance to change from consumers and some developers, making construction slow and unresponsive;
 - The lack of, or resistance to, public/private partnerships;
 - The inadequate understanding of markets among many players – education and training are needed;¹³
- Considerable black market/illegal construction;¹⁴

¹² UNECE Annual Bulletin of Housing and Building Statistics and National Commission for Statistics.

¹³ The Romanian Union of Real Estate Agencies.

¹⁴ The State Inspectorate for Building and Urban Planning, MLPTL, admits it – 20%, according to a sample survey in 1993 and according to an expert estimate 10% since 1994.

- Inadequate conditions for “fair” market competition, making the risk too high for investors;
- Financial obstacles (see **chapter V**).

Some attempts at tackling these factors are described in the following chapters. However, they will continue to affect housing in Romania for a long time, limiting the ability of market mechanisms alone to meet the challenges.

C. Apartment blocks: the big challenge

The management and maintenance of the housing stock as a national as well as a private asset is a widespread issue; but it is of primary concern in the condominiums of Romania, because of:

- Their considerable share of the stock in urban areas;
- The prevailing use of prefabrication; and
- Their recent administrative (and not market) transfer from public rental to homeownership.

The problems facing management and maintenance in condominiums are:

Institutional (see chapter 3)

Physical:

- Defects of design, construction, structure and material in many buildings;
- Worn-out utility infrastructure;
- Mass leakage from roofs and baths;
- No rooms for social contact;
- Unequipped and neglected spaces around buildings;
- Extremely high densities in many large housing estates (especially in bucharest);

Social:

- Systematic breaking of the internal rules;
- Lack of neighbourhood/community spirit in some cases;
- Crime
- Ongoing social and spatial segregation – leading to social ghettos;

Political:

- Housing is not a political priority;
- The state is not committed to the future success of condominiums;

Economic:

- Market recession;
- Low incomes;
- High inflation, low savings;
- High unemployment;

Urban planning:

- Lack of a concept or models for the restructuring of condominium buildings;
- Piecemeal approach.

The rehabilitation of housing can be seen in the larger context of urban renewal:

- The general replacement of buildings as they reach the end of their effective life (see sect. A above);
- The renewal/regeneration of historic city centres; and
- Earthquake consolidation and the diminishing of future risks.

However, Romania faces the need to restructure and renew large estates of multi-storey apartment housing where management and maintenance have been inadequate and the long-term continued use of the buildings is in question.

Having been neglected, these housing estates are likely to produce increasing social problems to add to the physical and economic ones:

- Underdeveloped social services;
- Declining trade, services and other small businesses when the average spending power of residents declines;
- Alienation of occupants from their immediate environment as it deteriorates, particularly neglected public spaces;
- Declining community ties, especially if household turnover increases as newcomers view their homes as only temporary before moving on to somewhere more desirable;
- Stress and poor health due to poor thermal and sound insulation and aesthetic qualities of residential blocks; and
- Continuously higher crime rates.

All of these issues imply the need for permanent and continuous activity, to deal not only with the housing environment and technical aspects, but also with the economic, cultural and psychological factors. Overcoming the psychological and actual alienation of residents from their environment is very complex, and it is therefore more effective to avoid them in the first place. Residents need a focus of interest, a feeling of stability, of ownership, of security and opportunities for future generations. Residents' identification with their environment in all aspects - from cultural and psychological to economic and legal - will motivate them to accept, support or even initiate positive measures for change.

It is necessary to promote the establishment of support functions for neighbourhood social structures, for an active community life, for civil initiatives and participation in the renewal, maintenance and, eventually, the construction of a new housing environment. Current legal provisions and the formal existence of owners' associations (see the next two chapters) are proving insufficient.

Urban planning

It might be expected that urban planning could provide some solutions for the future of the large multi-storey apartment block estates.

Former urban renewal development practice used to rely on two general conditions:

- The right of compulsory purchase (expropriation) of private property for public purposes (including new housing construction); and
- The availability of public subsidies in the form of direct investments.

Now, both are absent. Moreover, investment in the construction of public buildings has been reduced to the bare minimum, so that urban renewal projects relying on public finance are now virtually impossible. The application of public-private partnership has not spread enough to public investment, and this is unlikely to happen until public subsidies are available again. (All housing renewal projects of the past few decades have taken place only within the public stock or in architectural conservation areas.)

There is currently no clear statutory basis for large-scale renewal projects in owner-occupied stock – i.e. in the large estates. Nonetheless, this could be organised on a voluntary and contractual basis, provided there is public initiative, private willingness and affordability, and some public subsidies.

Romania has been lucky to inherit a large housing stock of architectural/cultural/historic value. Most listed buildings have suffered from insufficient maintenance and they now require considerable investment in repairs and renewal. Restitution and private initiatives have started the renewal and conversion of residential into commercial premises, but it is still insignificant in scale, and not planned. Public attention has recently been attracted to about 100 listed buildings in Bucharest damaged by the last earthquake. Scarce resources have been sufficient for surveys alone and not for the needed consolidation and refurbishment.

D. New housing construction

After a sharp drop in 1989-1990, the total yearly production of new housing fluctuated around 30,000 units until 1999. This makes an average increase of 0.3-0.4% per year and a rate of 1.3 units per 1,000 people.

Significant features of this period are the fact that:

- New construction shifted from urban to rural areas (the urban/rural ratio in 1990 was 85.4:14.6, and in 1999 35:65);
- The basic amenity standards of new housing worsened (in 1998 only 33% of all new units were connected to sewerage systems compared with 89.7% in 1990; the trend for piped water connections was similar – from 91.4% in 1990 down to 43.2% in 1998).

This last negative trend can be partially explained by the dominant share of new construction taking place in rural areas, where water-supply networks are insufficient and cesspools are traditional. Apart from addressing basic infrastructure supply, the above trends require a revision of building regulations and their application.

Figure XVI. Urban/rural housing construction, 1990-99

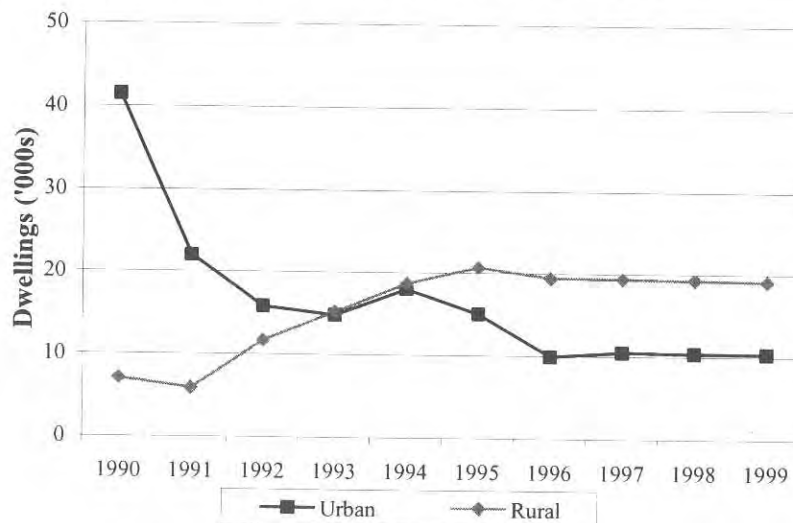


Figure XVIII. Amenities in new housing, 1990-98

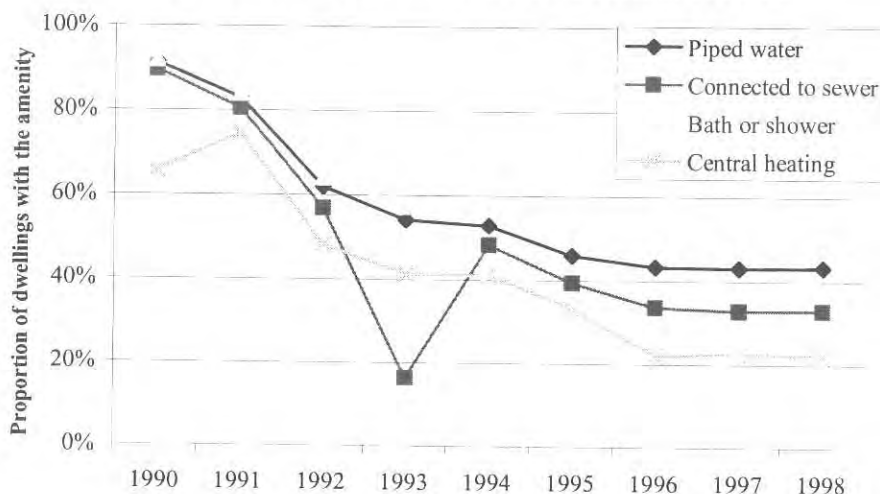
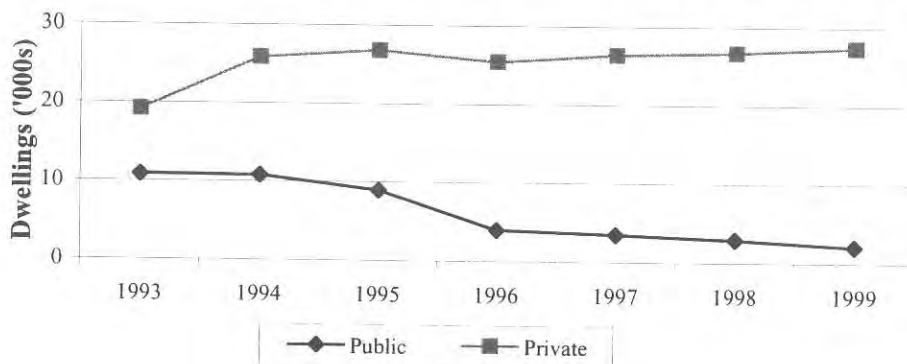


Figure XVII. New public and private housing construction, 1993-99



There are conflicting views as to whether land prices hinder production by contributing to higher costs. Realtors point to the sharply rising land prices in prime locations such as downtown Bucharest (where prices per square metre can exceed US\$ 500), but they often overlook the availability of land in surrounding neighbourhoods and on the periphery which sells for as little as US\$ 10-50 per m². Another constraint is the difficulty of consolidating large parcels of land. Specifically, larger projects have a higher risk of property claim disputes.

The problems of the housing construction industry are likely to remain so long as there is a relatively soft market for cheap existing dwellings. The survival of some firms may depend on their ability to adapt to the market for renovation and upgrading – something which would help solve the apartment block problems mentioned above. In the meantime, many builders (particularly some of the larger firms) face an even bigger threat to their existence in the form of overdue payments from State organizations.

Private land for residential construction can be acquired through market transfers, restitution (pursuant to Law 18/1990, and provided the land is not built up or re-zoned by the master plan), and the restitution of former property rights on plots of up to 300 m² in rural and 150 m² in urban areas. A major problem, however, is to identify the landowner – or, more precisely, to identify him with any degree of certainty: about 70% of all titles issued since 1990 are being contested in court. Titles issued up to 1999 do not contain information on precise location and tax payments. Cadastre registering is incomplete, since there is no legal obligation to register land transfers and 50 years ago private land was transferred to the public domain and most of the registers lost. Therefore new claims to a piece of land cannot be ruled out, and buying land involves risks.¹⁵

Public land can be obtained only from the State or local administrations:

- Through public tender, in accordance with the provisions of the urban development plans and Law 50/1991 (for authorizing construction) and Law 219/1998 on leasing ;
- *Without tendering*, where the land is leased for public purposes (including social housing) and for extensions to existing constructions.

The minimum price for leasing is decreed by the local council, to recover the market price of the land and the infrastructure costs over 25 years.

Land leased for housing purposes should not exceed:

- In urban areas: 300 m² for a single family house ; 200 m² for a house with two storeys and two apartments ; 150 m² for a collective housing unit with maximum 6 dwellings.
- In rural areas: 1000 m² ; or, for second homes, 250 m² .

Local authorities do not know the full extent of their assets (especially in Bucharest). There is no clear land status, hence the many conflicting claims. Each time a piece of land is singled out for construction, a great number of claims emerge. There is no data bank for land.¹⁶

¹⁵ This description and opinion is provided by the local team.

¹⁶ This description and opinion is provided by the local team.

Building permits require the provision of infrastructure for every construction project. The General Urban Plan for each area contains clear provisions for each case of undeveloped land, entailing:

- An obligation to connect to the existing networks;
- Individual solutions (for water, sewerage) where there are no networks (with the obligation to connect later if such are built);
- An obligation on the developer to extend or to increase the capacity of existing public networks (in the case of larger developments).

The General Urban Plan of Bucharest provides zoning for residential uses and identifies vacant land for housing construction. The regulations that will accompany the Plan will provide detailed provisions for the type of housing construction to be built (density, height, etc.).

Conclusions

After 20 years about 80 % of all dwellings will probably come to the end of their life unless serious measures are taken to reverse current trends and considerable efforts and resources are applied to renewal and maintenance along with replacement and new construction. Even if still in use, most housing will provide just shelter and not a decent standard of housing. Multi-family structures (35% of the stock) are in particular need of upgrading.

The average dwelling is too small. New construction should focus on larger units; the existing housing market provides enough small dwellings. Given the market context the reverse correlation between affordability and household size will hinder the achievement of adequacy in housing size for a long time.

Poor basic amenities and insulation seem to be the most disturbing aspect of Romania's housing stock, compounded by poor management and the low reliability of some utility networks.

The massive material problems in multi-storey apartment blocks are compounded by the social and economic circumstances of their residents, particularly where condominiums are concerned.

The enormous obstacles facing the fledgling markets in land and housing prevent them from adequately addressing the above issues.

III. INSTITUTIONAL FRAMEWORK

Introduction

The term 'institutional framework' has become a widely accepted umbrella term in the housing sector covering all the different organizations that either are or should be involved in housing throughout the country. The term includes organizations with very different origins, purposes and constitutions – governmental and other public bodies, commercial and charitable organizations, or those representing private individuals' interests in associations, professional bodies, etc. This chapter comments on the viability and sustainability of housing organizations in Romania and, more generally, on the whole organizational structure of housing in Romania.

Any attempt to describe or understand housing policy in Romania, and its institutional framework must take into account the way in which both the public and the private sector representatives act in relation to it. An important development in Romanian society has been the number of new organizations which have been created, or evolved, to liaise between the central Government and its national policies on the one hand, and the individual citizen and household on the other. This is much more complicated than the previous relationship between the citizen and a monolithic State, and all involved in the future of housing in Romania will have to adapt to it.

States in transition are finding that the effective operation of the housing sector requires newly created institutions to do the work needed by the sector and by society in general. Several new actors have appeared on the housing scene since the end of the communist regime: new private owners, builders, maintenance companies, banks, property developers, local councils, cooperatives and other not-for-profit organizations, and providers of housing services, all of whom can be considered as potential protagonists in ensuring an appropriate housing environment. Some of these organizations may have been on the housing scene during the former regime, but their roles have now changed with the new business environment. Governmental organizations in particular have to play completely new roles, and this demands adjustment by individuals and operating cultures alike.

The activities of all these organizations are closely interrelated, and from outside appear to have a common goal, implementing a national housing policy, reflecting the goals of society as a whole. Undoubtedly, the organizations are nowadays considered vital 'transmission' mechanisms, to assist, transform or hinder policy formulation and implementation; and this is a major issue in Romania, which is embarking on a radical transformation of its economy and society. However, whether the organizations see themselves in the same way is a moot point. They are likely to identify with "national" policy goals only insofar as these goals and the strategy to achieve them are fully articulated, that they have a clear role in implementing them and, indeed, that they feel they were properly consulted in their formulation at the outset.

Every society has its basic rules and conventions constituting a "social contract" defining the relationship between State and citizens. The assurance of decent housing conditions is one of the issues identified here, and is implicit in Romania's Constitution (see also Chapter IV), adopted by referendum in December 1991: 'The State must ensure the creation of all necessary conditions to increase the quality of life' [art. 134]. This implies certain obligations for the

different organizations – private or public – as the institutional actors in society. For example, while the housing-related institutional framework and legislation always infringe on private property rights, they also place obligations on landlords and tenants irrespective of any contractual arrangements. According to the Constitution ‘The State shall protect property’ [art. 135] and ‘Private property shall be equally protected by the law, irrespective of its owner’ [art. 41].

These constitutional principles oblige the Government to pursue a housing policy that will provide long-term guarantees for all citizens. Alternative housing policies lead to variations in the institutional framework and will inevitably result in unequal housing quality and satisfaction among consumers. In comparison with the previous, totally regulated and constrained life of individuals in Romania, the present range of housing conditions is, at least in theory, much wider. Today choice has become almost obligatory and substantive for everyday life, in all areas of social activity – including housing. Yet an individual’s opportunity to exercise choice is very often determined by his practical opportunities and resources. Moreover, as will be seen later, limited opportunities and resources also restrict many individuals’ ability to assume the wide range of responsibilities laid down in legislation.

Romania’s institutional framework can be understood by comparing it to a typical organizational pyramid. At the top is the State with its parliamentary structures, ministries and other governmental authorities. At the bottom are the individual households, the basic units of the whole housing-related institutional framework, together with the consumers for whom it was developed. The intermediate levels contain all the other actors, not necessarily in any clear relational hierarchy, but certainly dependent to various degrees on their relationship with the base and the apex.

It is worthwhile here to highlight one group within the hierarchy, the non-governmental organizations (NGOs), which has become a significant institutional constituent grouping smaller, less powerful organizations with like interests. NGOs are a voluntary element whose main mission is to defend the interests of the smaller actors in the market. In most cases, neither the NGOs themselves nor those with whom they might deal have yet to realize their potential for improving the functioning of the housing market.

This chapter focuses primarily on issues related to organizational changes and the relationship among the various actors. It starts with the special role of the individual households, for whom the housing sector exists. However, the intention is not just to see how other actors go about satisfying the household as a consumer. It is equally important to see whether and how households themselves act in their own interest. Specifically, does the institutional environment in Romania help individuals to adapt to the new conditions, to recognize their choices and make decisions in line with their own individual housing strategies. There is no universal institutional model for housing which can guarantee reliable results in any setting whatsoever, so the analysis seeks to take full account of the reality in Romania.

A. Governmental structures

State intervention in housing - influencing and regulating the sector - was the norm in Romania from the Second World War up to the early 1990s. Since then, society has changed considerably, and the role of central Government has gradually changed, even if it still remains

considerable. Even in areas where the Government has tried to escape direct responsibility by creating a free market, there is still a legitimate tendency to look to the Government for leadership. This applies equally to the need to ensure a well-functioning free market, and also to those cases where State intervention is needed to support those without effective access to the market.

It is important to acknowledge the legal aspects of State intervention in housing, as set out in the next chapter, and to recognize the crucial roles which the Romanian Constitution and parliamentary legislation play in establishing the institutional framework for State action in housing. The Parliament has two chambers: the Senate and the Chamber of Deputies. Parliamentary legislative procedures are enshrined in the Constitution, but the initiative lies with the Government, which can introduce bills in the chambers. In the case of the Senate, housing-related bills are passed to its Permanent Commission for Public Administration and Regional Planning, while in the case of the Chamber of Deputies they are submitted to its Permanent Commission for Local Administration and Environmental. The Ministry of Public Works, Transport and Housing is responsible for housing, and coordinates consultation on parliamentary bills with other ministries before the bills are submitted to the specialized permanent commissions. Through their permanent commissions, the two chambers have developed their international housing activities with the Global Parliamentarians for Habitat and its European Regional Council for Habitat.

The current Housing Act sets out the Government's role in housing (see chap. IV), and establishes two major obligations for the Government when establishing the institutional framework for housing:

- "The Government is responsible for the coordinated implementation of housing development policy throughout the country.
- "The housing construction programme shall be drawn up by the Ministry of Public Works, Transport and Housing on the basis of evidence submitted by interested bodies in the public administration and local councils, in accordance with the legally approved urban and regional planning documents (art. 67).

The Housing Act also echoes the sentiments of many local officials by emphasizing quite strongly the role of government in providing social housing for disadvantaged groups. It also defines tenant-landlord relationships and establishes the legal framework for condominium associations.

Central Government

In 1992, the Romanian Government adopted the **Guiding Principles for the National Strategy for Housing**, which stated broad objectives for establishing market mechanisms and providing a social safety net for disadvantaged households. The major activities promoted by these Guiding Principles include:

- (a) The maintenance and rehabilitation of the existing housing stock;
- (b) The development of a legal and institutional framework for a housing finance system;
- (c) The improvement of housing management;
- (d) The development of a private rental sector;
- (e) The construction of new housing;
- (f) The completion of unfinished units; and
- (g) The development of infrastructure.

The primary housing responsibilities of the national public institutions, most of which are part of or related to central Government, are:

- (a) Developing and implementing specific housing sector policies;
- (b) Developing and implementing a strategy for the sustainable development of human settlements;
- (c) Creating an institutional framework for housing;
- (d) Creating an environment for the functioning of the real-estate market;
- (e) Developing the necessary mechanisms for the development of the housing sector;
- (f) Ensuring safe and secure housing;
- (g) Enforcing urban planning and housing regulations and the uniform application of legal provisions.

These represent the governmental remit in providing the necessary leadership and framework for Romania's national housing sector. The list includes very different activities, and therefore demands well-balanced cooperation between the various central administration institutions with specific responsibilities. This means that not only the Ministry of Public Works, Transport and Housing, but also the Ministries of Finance, Justice, Employment and Social Solidarity, and the Central Bank have to be involved when housing matters are considered on national level.

The Ministry of Public Works, Transport and Housing (MLPTL) handles construction, housing and urban matters and dates back to 1862. As well as preparing the relevant legislation, the Ministry currently has responsibility for providing ministerial services, and the principal management and planning functions in the country in its area of responsibility.

MLPTL has the following major housing subdivisions:

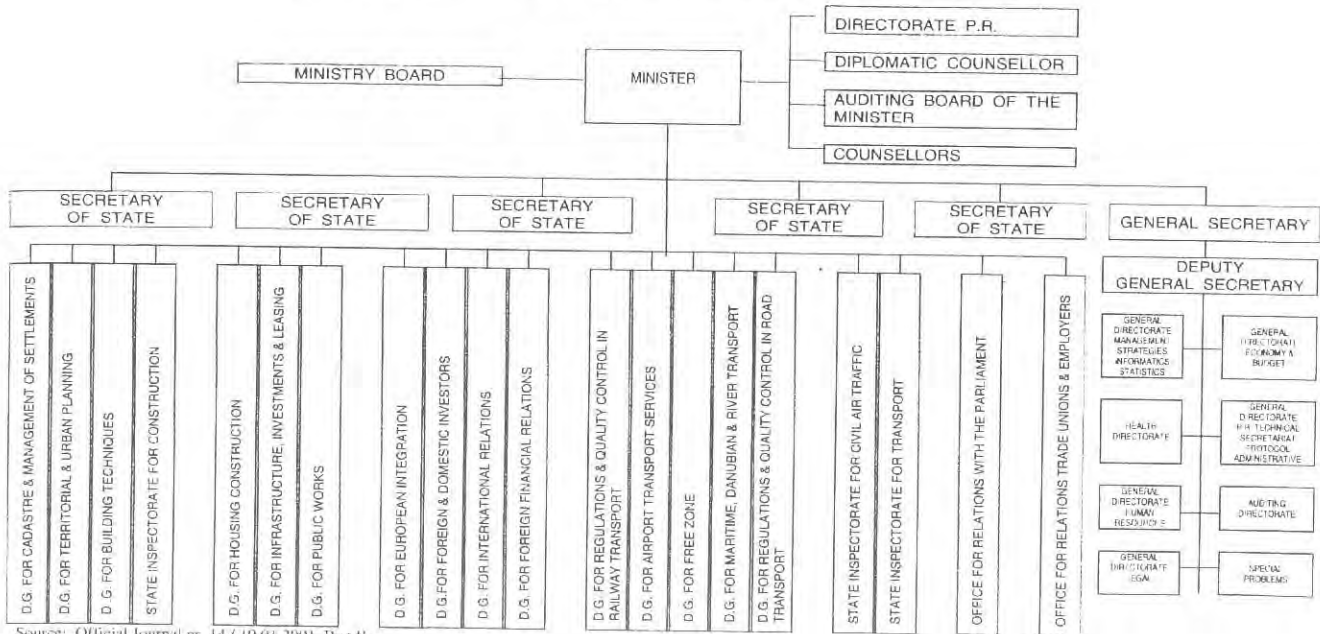
- The General Directorate for Housing Construction;
- The General Directorate for Urban and Territorial Planning;
- The General Directorate for Real Estate Cadastre and Urban Management;
- The State Inspectorate for Construction and Urban Development.

In addition to these subdivisions, MLPTL is responsible for State quality control during the whole lifecycle of all buildings. This obligation is carried out by officials of the State Inspectorate for Constructions, Public Works, Urbanism and Land-use Planning (newly institutionalized in 1995 through the Act on Quality in Construction 10/1994; art. 20 and 30). State inspection of construction in Romania extends back to 1864, and its present role is to control the bearing capacity of buildings, the stability of structures, and their seismic performance. The service is government-appointed and financed, and accountable directly to MLPTL, and not to the local authorities. Being independent from local management structures, inspectors can use relevant measures even – or especially – when no building permits have been issued: a critical issue at present, especially for housing.

In preparing and implementing its national housing strategy, the Romanian Government has received wide international assistance, both technical and financial. The funds provided have been used to sponsor seminars and workshops on a variety of housing topics. Housing-related

assistance has been provided by the United States Agency for International Development (USAID), the British Council, EU PHARE, and the World Bank.

Figure XIX. Ministry of Public Works, Transport and Housing



Source: Official Journal nr. 14/7 10.01.2001, Part 11

National Centre for Human Settlements

In 1991 (Government Decision No. 515) the **National Centre for Human Settlements (NCHS)** was established, mainly to formulate a national habitat strategy, aimed primarily at ‘an adequate habitat for everyone’ and the identification of mechanisms to achieve this. NCHS is a specialized department within the MLPTL and reports directly to the Prime Minister, while the Minister of Public Works, Transport and Housing is its chairman. The membership of this Centre is composed of the director-generals of 21 different departments and ministries. With this membership NCHS is in a unique position, not only to create a strategic cross-government approach to the many challenges facing the housing sector in Romania, but also to ensure that the resulting policies and proposals are implemented. It has no mainstream dedicated resources to implement its policies and its function is restricted to policy generation and guidance.

NCHS has taken the lead in representing Romania in international relations in the field of housing, ensuring the relevant contacts with the Committee on Human Settlements of the Economic Commission for Europe and with the United Nations Centre for Human Settlements in Nairobi. The very first task of NCHS was to compile, within a few months of its foundation, the guiding principles for the national strategy for the United Nations Habitat Agenda. So far, NCHS has prepared the National Housing Strategy setting out the general principles for a market-orientated housing sector in Romania, and also the national report for the 1996 Istanbul Habitat Conference. This is essentially a broad statement of ‘habitat principles’; but at the present time, these have not become - nor are they sufficient in their own right to constitute a national housing strategy. However, the principles do provide a general direction for housing and the environment in the absence of other, more specific, national housing policies.

Following the prescriptions of the Housing Act, all NCHS activities involved only central Government representatives. However, in 1999, some non-governmental organizations (NGOs), the Federation of Municipalities, the Federation of Towns, the Federation of Communes and the Habitat Group, applied to join the Centre. Nonetheless, a wide range of organizations representing different interests in housing remain unrepresented in this national forum.

The absence of practitioners' representatives within NCHS must be viewed as a significant weakness, at least when looking for an explanation for its limited success to date. As positive reactions to the international Habitat Agenda, and as expressions of aspirations for a future for housing in Romania with which the vast majority of the population could easily identify, the output from NCHS has undoubtedly been welcomed and praised. However, it suffers from insufficient information on the realities of the housing situation in the country, as reflected in this report. The national strategy documents pay very little attention to how they are to be implemented with the limited resources – human, financial and institutional – at the country's disposal. They also appear to reflect an inadequate analysis of the urgency, scale and nature of the very real problems facing practitioners day by day.

National Housing Agency

The National Housing Agency (NHA) is a public-interest institution, created in September 1999 to stimulate new housing construction, and the rehabilitation and consolidation of existing buildings. At present, its main objective is new housing, currently considered to be most important and explicitly mentioned in the Romanian Government's programme for 1997–2000.

The agency has a National Coordinating Council of 13 members, and a Board of 7 members. The total staff of the NHA is currently 60; but when implementing its current business plan the staff should be doubled. It will act through a central administration and branches throughout Romania. Each year, the NHA management has to report to Parliament on its activities.

The NHA represents cooperation between the State, the commercial banks, and the potential clients for new homes. It proposes housing-related financial products for the Romanian market and manages their use as packages (see chapter V). It also acts as a consultant: compiling technical, economic, legal and financial reports on aspects of homeownership. All these activities are well covered with a system of contracts and professional advice provided for the clients.

Urbanproiect

Urbanproiect is the short title of the **National Institute of Research and Development for Urban and Regional Planning**, which offers expertise in spatial planning at all levels – national, regional and local – and also deals with the complex problems of urban development, housing policy, and the special needs of local government in urban and regional development. The specialists of the Institute have been involved in projects for:

- The spatial planning of the national territory;
- Regional studies and spatial planning for counties;
- Urban development;

- The sustainable development of the built environment;
- Urban housing, including performance indicators for the housing sector, and the rehabilitation of large housing estates;
- The transfer of know-how, mainly for housing-related competencies to local authorities.

INCERC

The National Institute for Research and Development in Building and Construction Economics (INCERC) was founded in the 1950s, and today its research has won international recognition. Its main fields of activity are, *inter alia*, earthquake engineering, building rehabilitation, structural stability and durability, energy saving and insulation, and professional training. These all have practical relevance for the national housing sector.

B. Local authorities

The changes which have taken place in Romanian society are not the result of organic change and constant development, but rather a complex interaction of economic and social forces with very strong policy direction from central to local government. The basic administrative units are counties, municipalities and communes. Romania is divided into 41 counties plus the municipality of Bucharest. Each of these units has its own local council, as do the municipalities and communes into which each county is divided. Bucharest is divided into urban quarters, each with its own council. Consequently, there are nearly 3,000 directly elected mayors and councils, 265 are in cities.

The scale of this local administration and the rate at which it has had to change since 1990 inevitably raise questions as to the adequacy of the necessary skills and competence. Certainly, the pace of change in society suggests an acute lack of understanding of local government responsibilities. According to a survey published in Bucharest Business Weekly on 15 May 2000, 85 per cent of French entrepreneurs who have started a business in Romania found the local authorities "uncooperative". Some 30 per cent of those questioned gave "bureaucracy" as the main reason for the lack of cooperation, while 16 per cent simply deemed the officials in question "incompetent".

The powers and duties of local authorities are laid down in legislation. According to art. 119 of the Constitution their powers are based on the principle of local autonomy and independence. They are, however, highly reliant upon central Government, not least for subsidies and funding controls. The national Government also appoints each county's Prefect, who represents national interests.

Regional bodies

The Law on Regional Development in Romania (151/1998) created eight development regions (fig. IV). The main aims of regional development policy are to:

- Decrease the existing regional imbalance;
- Harmonize the institutional framework to correspond to EU membership criteria;
- Balance central government policy for sectoral development with regional and local resources and the need to stimulate local initiatives; and

- Stimulate cooperative links between authorities for interregional, internal and international projects.

To achieve the goals stated above, this Law establishes the relevant institutional structures:

- The National Council for Regional Development;
- The National Agency for Regional Development; and
- The National Fund for Regional Development.

The Fund finances the programmes using money from either the State budget or international sources, whereas the Council – regional board representatives – decides general policy and the Agency implements it.

The development regions were established by voluntary cooperation among the counties, and have no legal status as administrative units. County councils do not have direct responsibility for housing and regional strategy pays little attention to local housing-related issues. This may represent a missed opportunity, when “regional” projects – particularly spatial strategies – are being drafted without housing being taken into account either as part of the economic development infrastructure or as a potential beneficiary within wider development planning. Current regional planning for the Bucharest city region, for example, recognizes that more land is needed for housing, but provides little evidence that existing housing issues are being taken into account.

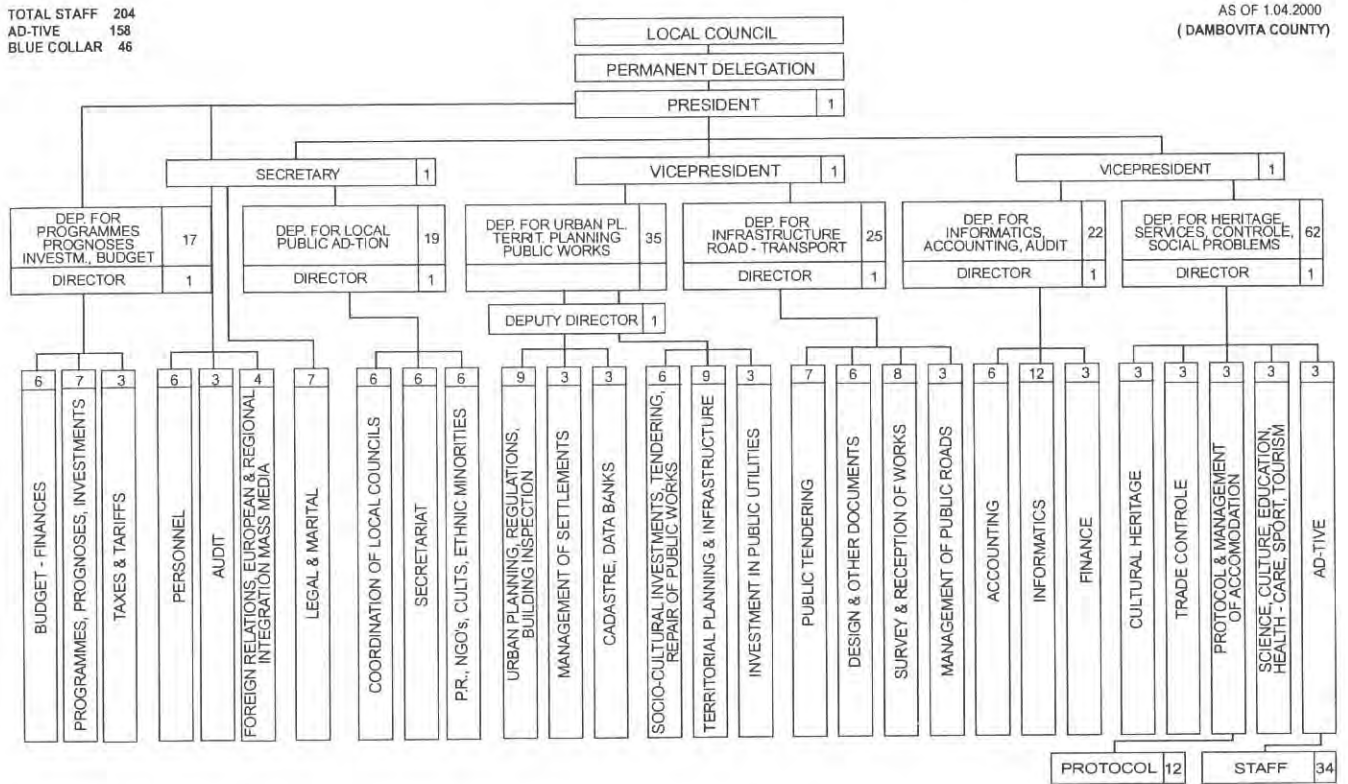
Local councils

The powers, duties and responsibilities of local authorities are laid down in parliamentary acts. Recently, the Government transferred considerable obligations to the councils, a move “unprecedented in Romanian history” (Oxford Analytica Brief, 10 May 2000). This was an attempt to restructure the local authorities into institutions which are better placed to deal with local housing problems among other things. Currently the competencies of local councils in housing-related issues are to:

- Develop, implement and monitor local policies according to the general principles of national policy;
- Monitor the local housing market by careful evaluation of supply and demand;
- Facilitate access to housing for specific categories of families and individuals, and establish their own priorities;
- Secure special funds for new housing for socially disadvantaged individuals and households;
- Provide land for new housing;
- Develop land for new housing, providing the basic infrastructure;
- Allocate land in local government ownership to social housing;
- Finance the development of social and emergency housing from local budgets;
- Provide technical assistance, finance and consultancy for the consolidation of the housing stock against seismic damage;
- Support urban renewal and rehabilitation policies, including housing;
- Implement specific programmes to support local action and community management.

Figure XX depicts the organization chart of a randomly selected county showing its major fields of activity and the hierarchy of responsibility.

Figure XX. Dambovita county council



Source: Ministry of Public Works, Transport and Housing

A look at the organization chart (Fig. 3.2) reveals that councils have departments to plan investments and construction in all of its phases. They are also in a position as a public body to fulfil their obligations regarding property ownership. This is true of most municipalities and counties, but not of the communes much larger in number. It is normal for the communes to buy services from their county council. Additionally, municipalities are still responsible for providing most of the utilities through local companies.

At the same time, it would appear to be normal for councils to have no “housing” department or office directly and fully responsible for all housing issues. Even the letting, management, maintenance, sales and purchases, and utility provision of a council’s own housing stock are likely to be in the hands of different departments. Land zoning, infrastructure provision, building permits, and other functions related to housing outside the council’s stock are similarly dispersed among administrative departments. Regardless of the capability of a council’s staff, there is normally no institutional structure grouping all the elements of the local housing situation which can provide a clear picture for decisionmakers; yet this is indispensable if councils are to exercise properly their roles strengthened by the delegation to them of greater responsibilities.

A city praised as one of the leading housing authorities offers an illustration. It has a register of the thousands of households requiring new homes. This register is used effectively as a waiting list, with a fatalism reflecting the inability of the council to offer homes to more than a few dozen households each year. Despite relevant data being collected through administrative procedures, there are no analyses available to indicate the urgency of the need of those on the register, nor their financial circumstances, nor the suitability of the property currently occupied by others. There are therefore no data to feed into the local property and land development plans. Not surprisingly, local housing strategies are effectively unknown in Romania.

It is important to emphasize that, in addition to their obligation to manage public properties, local councils also have responsibilities in private sector housing: they have to provide site infrastructure, and building inspection and check whether the existing housing stock is fit for habitation. Specifically, local councils are responsible for the creation of a general urban development plan (landuse) for their municipality or commune, which has a lot to say as to how these issues can be tackled; the plans are then checked by MLPTL and submitted for approval to the local authorities. The plans should provide for the medium-term development of the area, including land zoned for new housing, redevelopment, infrastructure provision, and so on. Yet there are no indications of any assessment of future housing need or demand which can influence the scale of land provision for future housing, and the Ministry does not seem to expect it.

Urban renewal is the responsibility of local councils, but, since they lack the funds, they cannot undertake large (or even small) regeneration projects. Again, this appears to be a sufficient reason to ignore the need for renewal in urban development plans, and for it not to be expected by the Ministry. There are still no reliable incentives to channel private funds into urban renewal and housing modernization. It is tempting to see this as a consequence of so little attention being paid to the problem.

C. Private individuals and associations

'Romania's economy is a free market economy' (Constitution, art. 134) and private individuals – more properly households, in the context of housing – have been institutionalized as consumers within that free market, and as such are expected to make their own choices based upon their personal preferences in order to achieve their personal levels of satisfaction. Property rights and their concomitant responsibilities are also granted to the individual and are critical aspects of the institutional environment.

At the same time, the Government has responsibilities towards the individual. Through formal organizations, and with the help of other institutional actors, the State as the supreme public institution has to set up a legal framework for society, and which also has to clarify the role and performance of all the individual actors. All the numerous housing-related laws passed in Romania during the last decade of the 20th century have gradually created the framework for the new institutions in society.

In Romania, individual households have been seen as the key actors in assuring the quality of housing services acceptable to every single inhabitant in the country. As individual actors – real or potential property owners - households have been viewed as the perfect and only solution for taking decisions to maximize their own housing utility. However, the observer of

Romania today cannot fail to be struck by the lack of experience of households in playing their role.

The most radical change has been for former tenants of public housing, and particularly those in apartment blocks, who are now owners of apartments in condominiums. These households may have over 20 years' experience in their apartment block's tenants' association, but though their present status may seem similar, it is fundamentally different. There are strong indications that many of them have not yet fully understood the change of the 90s. These households were individuals for whom the State was an abstract and impersonal landlord and institutional owner responsible for the property. Now these same households have become the real legal owners of the property and their role is very different: they are apartment owners and joint owners of the building structure and common areas. In other words, the owner-occupiers of nearly half the dwellings in Romania (i.e. those in condominiums) have become property owners without any preparation or warning to help them fully assume their new responsibilities and, where necessary, change their mentality. It is clear that these marked changes in attitudes also require educational institutions and action.

Responsibilities of the property-owning household

There are two major institutional relationships which officially bind each single property-owning household:

- Legal obligations created by society giving full responsibility for the property; and
- Contractual obligations to private sector organizations which provide households the different services affecting housing quality.

The 1995 Law on construction quality establishes the major duties and responsibilities of all the parties involved. These duties distinguish between the owners and the occupiers of buildings. However, since some 94% of Romania's housing stock is owner-occupied, most households have to respect both types of duties. As owners they have to:

- Organize due maintenance and repair for the building;
- Update the technical record book for the building, handing it over to any new owner;
- Act on any official recommendations on the status of the buildings;
- Strictly follow the design documents compiled by professionals when carrying out any type of construction work;
- Ensure that all the work done to the building respects the regulations;
- Respect all regulations when using the building.

As users – but also as administrators of the facilities – they have to:

- Carry out all the maintenance and repair work required by the occupation contract;
- Carry out all the officially recommended work required to improve the structure;
- Implement recommendations on the status of the building as indicated in the technical book;
- Inform the public authorities (State inspection service) of any technical accidents in the building.

In short, both these lists require the owner-occupier to use highly skilled professionals to manage and maintain the blocks properly. The Housing Act (art. 35), states that '...in those dwelling houses with more than one dwelling, the owner is responsible for the proper functioning of the dwelling of which he is the sole owner, or which is held in common.'

Owners' associations in condominiums

Housing management, tenants' associations and utility companies

Under the former communist regime, municipally-owned management companies were responsible for repairs to and maintenance of State-owned housing, and had contractual arrangements with tenants' associations for private properties. This system has gradually broken down over the past decade as management organizations' subsidies have been withdrawn, leaving them to 'face the market'. Some of these organizations have gone bankrupt, others have split up. A large number have been absorbed by other ventures during privatization, whilst yet others have moved into more lucrative markets, such as new construction at the very 'top end' of the market or the very limited State-funded construction business.

The 'condominium-type' associations, now a legal obligation for homeowners in multi-family units (see chap. IV), should become essential to the management of multi-family units. However, their functioning and actual number are open question.

A precondition for a successful organization is a clear target and/or collective interest, and the transformation of individual actors into institutional ones has often been initiated by the recognition of common problems. By privatizing blocks of flats in Romania and selling them to sitting tenants, the State created the conditions for the new owners to identify their mutual interests, and hence to engage in the joint management and maintenance of common spaces, structures and facilities. "For this purpose, the owners shall form an association with the capacity of a legal person", as the Act states; and the Act's definition of an owners' association is a non-profit-making company for improving and managing the block.

Under the Housing Act, condominiums may be managed by natural or legal persons, associations, public agencies, or specialised companies. In each case, however, the management is to be appointed by and under the control of the joint owners, in whose interest it operates. The major obligations of the housing manager of a multi-apartment block are to:

- Administer the goods and funds;
- Prepare the contracts with all suppliers of services;
- Inform all inhabitants in the block of the regulations governing their cohabitation;
- Represent the owners' interests in contracts signed with the public authorities; and
- Fulfil any other legally contracted responsibilities.

The first version of the Housing Act required owners' associations to be established in all privatized blocks within 12 months from the date at which the legislation came into force. This deadline was omitted from later enactments, even though these associations are still considered the only recognized institutional entity for the blocks of flats. According to the official guidelines published by the Ministry (MLPTL), the benefits, for the owners, of creating owners' associations are:

- The association will act as a legal person on the market-place, representing the owners as a body;
- Each owner (representing the household) can participate in planning the work on the block, or any investment, and judge the effectiveness of these expenditures;

- All owners have the right to check the financial status of the association, to vote for different priorities, budgets, and financing options for services, or on regulations to be applied on the premises.

The same guidelines also stress that ownership entails certain responsibilities and restrictions:

- Every owner and household is singly and collectively responsible for the technical repair and quality of the building and for any jointly accepted obligations;
- In sharing the block and common spaces, all residents have to follow the relevant rules and regulations guaranteeing normal social relations; and
- All obligations are subject to contract, and every party has to be informed of their cost (otherwise the parties are not responsible for them).

Despite these advantages, the number of owners' associations is still relatively small and they are not playing the role expected. It has been suggested that they number about 8,000— i.e. about 20% of the condominiums. There is in fact no reliable information available about the number of associations, not even for Bucharest. This shows just how little the Government and authorities are interested in these owners' associations and their activities; yet their success or otherwise could prove to be the single most important factor in determining the future of the country's housing stock.

Problems shared by households living in condominiums – the poor condition of apartments and their technical services, and the need for a common approach to the utility providers – have been identified and highly publicized in the Romanian media. Yet, there is no great enthusiasm for forming active owners associations to tackle these problems directly within the condominiums. The following have been highlighted as the major reasons for this relatively low level of interest:

- The official procedure for registering an owners' association is lengthy and complicated;
- The real benefits the association can offer them are not very clear and understandable for most households, who liken them to the former tenants' association;
- The change of status from tenant to owner was rapid for most individuals and, more importantly, was undertaken without much consideration of the consequences; hence, generally speaking, many new owners do not realize just how much their circumstances have changed.

Currently the role of the owners' associations is still limited, sometimes restricted to that of representational bodies when negotiating – especially with the utility companies - the payment due for the quality of services provided. Most owners' associations manage the blocks themselves since it is cheaper to do so. Although the official guidelines recommended a comprehensive housing management service, this has rarely emerged in practice. The housing manager is usually a retiree - a volunteer – willing to collect payments from residents of the block: he is certainly not a professional. Consequently, this activity hardly represents the professional service and responsibilities required by the relevant acts. The result is shortfalls in the activity of the owners' associations, especially regarding compliance with the requirement for an annual report on incomes and expenditure. What is more, when associations plan or undertake construction, repair work, or similar structural alterations to their blocks, they do not always apply for the necessary building permit.

Many commentators expressed a belief that the owners' associations would be as successful as the relatively well organized tenants' associations of the past. However, if this were true, it should have been evident already. Moreover, these two types of association are not really similar, and the roles of their members are totally different, especially in terms of the legal responsibilities of the individual household. Tenants' associations can never be simply turned into owners' associations without a change in the mentality of individuals.

The picture is even more complicated when not all of the households in a block are owners— i.e. when some are tenants. The Housing Act actually provides for this possibility by recognizing tenants' associations also. Their role, as stated in the law is: to '...represent their interests in relation with the owners as well as with any other natural or legal persons' (art. 37). However, this very general statement proved to be insufficient to protect individual tenant households, so Emergency Ordinance (40/1999) was issued to provide them with additional protection.

Contractual relations of the households to the private sector

Contracts are one of the major means of formalizing the relationships between the institutional elements in the market economy. Traditionally, homeowners had to contract directly with the utility companies for services – heating, water, electricity, rubbish collection, gas, telephone, cable TV, etc. - this list may differ considerably depending on the locality. (In Romania 96.7% of all dwellings are connected to an electricity supply, whereas only 11.4% in rural and 87% in urban area are connected to a water supply and sewage.) Each of the service companies has its standard contracts covering the basic obligation to provide the service and maintain the installations. Often the beneficiaries must pay for the services they are offered, even if redundant and whatever their quality, or be fined.

The utility companies have prepared new standard contracts for apartment blocks with registered owners' associations; yet, in most buildings, the former contracts with individual owners are still valid. The key difference between individual and association-based contracts is that, in buildings without registered associations, the owners cannot file legal claims. So, registering the ownership of the flat and the owners' association can be an effective tool for dealing with households not paying their charges. Anyhow, households can turn to the State Office for Consumer Protection to seek remedy for poor service.

The rapid and massive privatization of housing in Romania has not been supported by a similar privatization of the support and service systems needed for privately owned housing units. In practice, the old district-based utilities and service companies largely enjoy a monopoly situation, although the Office of Competition supervizes the tariffs for basic services. There are now no municipal housing maintenance companies to act – even temporarily – as buffers between suppliers and household-consumers. So difficult local problems are transferred from the local to the national level, and the single service users find themselves facing large and powerful service providers.

D. Private sector organizations

In its market-based approach, Romanian housing policy relies on private-sector companies to provide the major services for all households. The private commercial organizations in the housing market fall into one of the following:

- Financial institutions providing mortgages and housing loans;
- Entrepreneurs in the construction and property market;
- Municipal utility companies;
- Consultancy and research companies.

In any developed economy, most households rely on the private sector to provide housing. At the same time, normal competition has to guarantee the quality and affordability of these services.

Financial institutions

The whole banking sector is developing and changing. This sector is dealt with in more detail in chapter V in terms of its role in the economy and in providing housing finance. The banks have a wider institutional remit, however, to help provide relevant finance instruments and a more conducive environment for a contract-based service economy for housing services, and for the arrangements between households and owners' associations. For example, meeting the terms of a contract will be easier if consumers pay their dues. For this reason, extending the banking infrastructure to every settlement and household would be extremely beneficial. In addition to the traditional banking system, new private initiative-based financial institutions have emerged to serve the Romanian housing sector.

The Community Financial Institution (CARA), founded with support from the Cooperative Housing Foundation (CHF) (see below) in 1998. CARA is established under Romanian law (122/1996) as the equivalent of the credit union in western democracies: a community financial institution offering members both depository and lending services. Its capitalization is based primarily on members' deposits. CARA is an association organized around the collective membership of small business and homeowners' associations with whom CHF has worked in partnership. The CARA lending policy is geared to individual home improvements.

The Romanian Loan Guarantee Fund (FRGC) is a commercial institution targeting the new middle class seeking new homes for owner-occupation. The beneficiaries will be Romanian citizens, and the first development schemes are currently under way.

Construction sector companies

The Law on Quality in Construction (10/1995) determines the role of all the different building professions and companies in Romania. The construction industry is based on private entrepreneurship and plays the key role in housing by producing buildings and the necessary infrastructure. In addition to 'traditional' construction work, the sector covers the development of technology, civil engineering, and also repairs and maintains built structures. All these areas are experiencing technological changes which also affect society – an aspect which requires all relevant information to be collected and properly analysed.

The construction industry has been influenced by significant changes since public developers dominated housing construction in the early 1990s. During the transition period a large number of small construction firms appeared on the market being either of private or mixed ownership. By 1998 the share of private and mixed ownership construction had increased to 97.5% and the relatively large number of small companies created the preconditions for normal market competition. (table 11).

Table 11. Construction companies by ownership and size, 1995 - 98

Distribution by type of ownership	1995	1996	1997	1998
TOTAL	8288	5494	8042	8263
incl. State	520	370	236	204
private	7675	5010	7656	7943
Mixed	93	114	150	116
Distribution of private companies by number of employees				
very large (1000+)	22	21	21	19
large (500-1000)	37	45	46	44
medium (100-500)	382	365	426	425
Small (50-100)	323	300	397	424
very small (-50)	6911	4271	6717	6986

Source: Ministry of Public Works, Transport and Housing.

At the same time an analysis of turnover (the construction work done) on the construction market reveals that in spite of a decrease in the number of State-owned construction companies their share in turnover increased more rapidly than that of the private sector (table 12). This shows that they are still relatively strong on the construction and property market.

Table 12. Construction companies turnover, 1997 - 98

	1997		1998	
	Turnover in billion lei	Share in %	Turnover in billion lei	Share in %
TOTAL	26093.5	-	33858.8	-
By State-owned companies	3244.1	12.4	6009.8	17.7
By private companies	19088.7	73.2	26417.2	78.0
By mixed companies	3760.7	14.4	1431.8	4.2

Source: Ministry of Public Works, Transport and Housing.

The data on the construction output of the past decade shows that there have been ups and downs (Table 13). A marked increase in volume during 1994-96 changed to a steep fall in the construction sector at comparable prices. According to the EEDB Executive Summaries, in the first nine months of 1999 the sharpest declines were reported in construction, where output fell 15.1%.

Table 13. Role of the construction sector and its output (1990 - 99)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Share of construction in GDP (in %)	13.1	9.4	10.7	9.5	10.7	12.0	12.6	9.1	8.7	7.8
Current prices in billion lei	112.4	208.2	642.4	1900.1	5341.7	8691.2	13791.4	22860.5	29367.5	40825.2
Compared to 1990 in %	100.0	73.5	76.9	85.7	110.6	125.2	129.8	98.1	80.4	70.6

Source: Ministry of Public Works, Transport and Housing.

In recent years the share of construction work in GDP has fallen below 10%, but interviews and data provided on the construction sector do not include data on the amount of renovation work done. It is not possible, then, to plot the structural changes in the construction sector – the general trend in countries in transition has been a marked increase in the amount of reconstruction undertaken to improve the quality of the built environment.

Nor is here any information on the activities of specialized maintenance companies on the construction market. Most construction companies may have the necessary technology and know-how, and they can also work on well balanced contractual schemes and do repair work. But in the longterm they cannot guarantee reliable planned maintenance for the built environment, including the national housing stock, since the basic economic incentives for construction and maintenance work are different.

The construction sector is also closely related to the utilities companies. Since they operate the service lines, these companies are responsible for repairing these engineering facilities, and carrying out the necessary work on them. Electricity and gas companies are State owned. Water and sewage, and district-heating companies are managed by the municipal authorities which dictate these companies' operational policy. The lack of financial resources means that the major problem for these companies is covering development costs. The general opinion reflected in interviews or reports, is that the services provided by these companies are of 'poor quality'. The quality of housing already suffers from this, but it will become a critical issue in the longterm and influence the Romanian housing sector. For more details about these companies, see the descriptions of the activities of the professional bodies below.

Research institutions

All housing sector institutions –be they public or private – require reliable background information on demand for housing. There are two research institutions undertaking surveys in the housing sector, in particular looking for household preferences.

The Centre for Urban and Regional Sociology (CURS) is a private research agency where research activities are carried out in the following four departments:

- Public opinion polling;
- Sociological research in housing, urbanism and community development;
- Marketing research;
- Advertising and audience research.

CURS is the only Romanian institution participating in the European Network for Housing Research (ENHR). The most important housing-related research projects have been:

- 'Habitat social indicators' (setting indicators for measuring housing quality, environment quality, housing stock and the type of housing desired);
- A 'social map of Romania' (looking for interrelationships among housing, demography, urbanization, social structure, inter-ethnic relations, and the population's political behaviour) it is the most important work of CURS in community development;
- 'Romanian village revisited' a study about villages in Romania.

The Research Institute for the Quality of Life was established in 1990 and today has a wide range of scientific cooperation in its main fields of research, i.e.:

- *Quality of life.* Special attention is paid to development in the population's living standard, income and consumption patterns. Starting in 1990, its "Diagnosis of the Quality of life" has been conducted annually, on representative national samples;
- *Social policies.* It undertakes comparative analyses and evaluations of the social policy adopted and issues prognoses of the effects of a certain social policy; it also investigates alternative solutions for Romania's social and economic problems.

Two housing-policy-related surveys were carried out for the Ministry of Public Works and Territorial Planning in spring 1999: 'Housing need in Romania' and 'A perception of local problems and housing need in Romania'.

E. Non-governmental organizations

In democratic societies non-governmental organizations (NGOs) play an important role in solving problems of public interest. They are the 'new actors' and as institutions have to develop their own skills. Potential activities can be encouraged or discouraged by the society, but their institutional role cannot be dictated by law.

Their strength and their importance for society are earned by representing certain organizations or social groups as fairly as possible, offering professional advice, expertise and help. The NGOs active in the housing sector can be classified as:

- Citizens' initiative and interest-based associations;
- Professional bodies representing the interests of different business communities related to housing; or
- Other organizations representing the public sector and promoting awareness of housing issues.

Citizens' initiative-based associations

Households active on the housing scene may have very different interests and so they wish to defend them in society. In most cases they are concerned with property ownership and rights, and with other rights commonly accepted in civil societies. It is mainly the desire for adequate housing services which mobilizes the different groups.

The Civic Action Foundation (FAC) is a non-governmental and non-profit organization that was established in 1989. Its aim is to promote human rights, democracy and civic values through cultural activities. The Foundation includes the **Resources Centre for Condominium Associations (CRPAP)**, which has the following goals:

- To create well informed and organized condominium associations, which will help structure civil society;
- To provide a model for other associations;
- To collect and systematize information on life in apartment buildings;
- To train condominium associations managers.

The Centre systematized information on fair procedures for condominium associations, on proof of ownership and on the technical documentation defining the condominium, and they have established a permanent information kiosk for citizens. The Centre provides assistance for setting up condominium associations and solutions to the current problems encountered by associations.

(relationship with their own members, with the local administration, with the utilities providers, etc.).

At the citizens' request, the Centre's activity has been extended through weekly seminars on:

- Legal news about condominium associations;
- Ownership and safety in the apartment buildings;
- Silence and public order observance;
- Assistance for setting up and operating condominium associations;
- Facilitating the relationship between associations and the local authority;
- Facilitating the relationship between associations and local service providers.

These free seminars are intended for the representatives and members of condominium associations in Bucharest. Counsellors from Bucharest City Hall and decisionmakers from the companies providing local services are invited to these meetings, as are representatives of the companies interested in offering their services to associations. The Centre is fully self-funded and is dependent of the projects initiated and approved since it is funded by different international organizations supporting citizen involvement in community life. Funding has been received from PHARE and SOROS and also from the Foundation for Civil Society Development.

Professional bodies

Professional bodies are institutions representing the interests of professionals employed in either the public or the private sector. A professional would like the field of activities he is representing to have excellent prestige and a good image in society. This demands 'fair play' and respect for the relevant principles of competition and competence. These professional bodies, then, should be considered reliable partners in solving any of society's profession-related problems.

In this context national housing policy creates a framework for households to attain their individual aspirations and solve their problems. When households take housing decisions and fix their preferences they always require professional advice and reliable and affordable services. Households which own property –and have to meet legal obligations – are mainly faced with construction and built-environment-related problems. Furthermore, since the housing unit and the land related to it might well be the household's most valuable asset, real-estate and property-related advice and services are also required.

Consequently professional bodies have a multi-fold role to play in society and for households:

- Advising central and local government when preparing legal acts and strategic development plans for housing;
- Stating the 'fair norms' of action for private companies providing housing-related services for private individuals.

Their position, then, is mainly one of an intermediary between the State and the private sector and between the central State authorities and the local population. Professionalism is the

word to describe their independence when dealing with the problems of differently motivated actors on the housing market.

The Romanian Association of Real Estate Agencies (ARAI) was officially recognized in 1995. Today it has links with several international associations. Its aim is to:

- Identify and solve the problems of the property market;
- Issue professional and ethical standards;
- Focus on training;
- Improve its public image.

Government Ordinance No.#3/2000 created a **National Union of Real Estate Agencies (UNAI)** in Romania. All property companies wishing to continue on the property market have to join this association and the Ordinance lays down the rules for private-sector companies. This shows that this union represents certain government interests in the field. Membership of this union entails following special courses for representatives of local property companies, giving it a clearly defined role in developing professionalism.

In this way, central Government is using the voluntary sector to prolong its direct control over housing programmes.

The National Association for Managers and Professionals in Local Public Services in Romania (ANPPGCL) founded in 1990, was the first non-governmental organization created after the revolution. Today the Association has 230 corporate members and represents the main autonomous administrations and specialized trading companies, as well as specialized services in town halls and county councils. It now includes 35 other specialized research and design units, equipment, outfits and materials suppliers, as well as contractors selected from companies working with the municipal management units.

In accordance with its statutes, the Association acts to maintain, support and protect its members professional interests. An association of professionals and managers, it represents the specialized companies in Romania and was created to solve the problems that can arise in public services, communal administration and housing, and to coordinate present and future needs and concepts in this specific area.

The Association has the following goals and objectives:

- It represents its members in relations with Parliament, the Government of Romania, ministries, and other central and local public administrations;
- It represents its members in relations with trade union confederations or federations;
- It negotiates collective work contracts with the unions that represent local public service employees;
- It initiates consulting and promotion activities with the entities legally involved in reconciling standards and norms with public requirements and members' interests;
- It undertakes studies, designs, technical and specialized examinations, and offers consulting services to its members;
- It provides specialized assistance in the transformation of the autonomous regies into joint-stock companies and subsequently in their privatization.

As a professional organization:

- It contributes actively and efficiently to the development of all areas and activities of local public services;
- It initiates and carries out measures for developing and improving the professional skills of its members by its own means and through higher education institutions;
- It supports technical and scientific progress throughout local public services and ensures environmental protection;
- It ensures the exchange of information, communication and cooperation in its field of interest through its specialized Bulletin;
- It promotes the development of specific data-processing ;
- It organizes conferences, symposiums and exchanges of professional know-how through different publications and teaching.

The main activities of the Association's members are:

- Water supply;
- The production and distribution of district heating;
- Local passenger transport;
- Sewage and waste-water treatment;
- Urban refuse collection and disposal;
- The management, maintenance and repair of State-owned housing;
- The maintenance of streets, gardens, greenhouses, public facilities, etc.

The Government Department for Local Public Administration has given the Association a mandate to draw up criteria for the examination of management candidates, and test candidates in accordance with the provisions of Law No. 66/1993. The Association has proposed ideas to improve the organization and operation of local public services, and to help prepare them for privatization. In 1997-98 the Association was directly involved in drafting the Municipal Services Bill, which is now before Parliament.

The Association has established several national professional committees: the **Romanian Water Association**, the **National Committee of the Romanian Heat Producers and Suppliers**, the **National Committee of Sanitation, Hygiene and Urban Environment Protection**, and the **National Dwelling Committee**. The major goal of the last one – created at the end of 1999 – is to ensure an optimal background for collaboration between NGOs and central and local administrative bodies, so as to support the local units and organize and improve collaboration between the Association's members and experts in design, repair, rehabilitation, consolidation and housing-fund administration.

Romanian has many professional associations and each has or can have some input for housing.

The General Association of Engineers in Romania (AGIR) is an apolitical, fully independent, professional organization, with legal personality. It dates back over 100 years and at present represents and defends the social and professional interests of engineers in Romania. AGIR is a federative organization with speciality-based societies and local branches. In accordance with its statutes, AGIR has to strengthen the authority and prestige of the engineering profession.

The National Association of Romanian Valuers (ANEVAR) was founded in 1992 and since 1996 its members have started real-estate valuation, and so become part of the business community. The Association promotes professionalism through training schemes and membership standards. Today ANEVAR is recognized internationally. Its assessments are in line with European valuation standards and accepted by the banking sector when granting funds.

The Romanian Association of Construction Entrepreneurs (ARACO) represents the interests of the large number of construction companies. **The Association of Management, Consulting and Technology in Construction (CMCTC)** represents those professionals who manage construction activity and advise the client on costs. **The Association for Promoting Fast Technology Housing (APROCOR)** – founded in 1999 – promotes alternatives to classical ways of building from the point of view of price and seismic resistance.

All these associations have different memberships and histories, but they cover very specific areas of the built environment. The know-how provided by these associations will be helpful in developing national housing strategy and implementing its guidelines.

Other actors on the housing scene

The Romanian National Centre for Sustainable Development (NCSD) advocates sustainable development. It does not emulate government work nor exercise executive or legislative authority. Its role is to catalyse action by others. The Centre has been successful in grouping an impressive number of Romanian institutions when compiling the National Strategy for Sustainable Development in 1999. The document, however, does not attribute a clear role to housing in sustainable development.

The Federation of Towns, the Federation of Communes and the Federation of Municipalities mobilize the local authorities for joint action, especially in developing utilities programmes, but also in solving planning issues.

Habitat for Humanity International (HFHI) is a non-profit, international and ecumenical Christian housing service. It seeks to eliminate poor housing and homelessness, and to make decent shelter a matter of conscience and action. There are three HFHI affiliates in Romania, in Beiuş, Arad and Cluj-Napoca, mainly in the Transylvania region.

HFHI activities in Romania do not have a very long history, but has completed about 20 houses in Beiuş, and during one single year some 10 houses were built by the Cluj-Napoca affiliate. HFHI does not accept government funds for the construction of new houses or for the renovation or repair of existing houses. It does accept government funds for the acquisition of land or houses in need of rehabilitation and for streets, utilities and administrative expenses, so long as the funds come with no conditions that would violate the organization's principles or limit its ability to proclaim its Christian witness.

Cooperative Housing Foundation/Romania (CHF) is a non-profit international development organization for communities, habitat and finance. It has been active in western Romania since 1994, targeting multi-faceted development, integrating alternative credit mechanisms, small and medium-size enterprise development, and quality-of-life improvements for low and moderate-income families. Since beginning operations in Romania, CHF has worked

with 16 local organizations and disbursed over US\$1.4 million in loans to local businesses, homeowners' associations, non-governmental organizations and agricultural cooperatives.

Conclusions

The current chapter has tried to list and analyse the roles of most of the institutional groupings involved in Romania's housing sector. In addition to the description of the current roles of the central and local authorities, considerable attention is devoted to other organizations, in particular to those based on individual initiative or private-sector entrepreneurship. The chapter makes it clear that some organizations have appeared only recently, so that their roles in the Romanian society, and sometimes even for themselves, are not yet very clear.

The housing sector and its problems are the collective responsibility of any society. They require a clear understanding of the issues, effective action by the actors-institutions and coordinated interaction in meeting the goals planned.

In much broader terms it is never possible to answer the question –does the national housing sector have the right set of organizations? Different countries have different everyday problems and priorities to solve, both strategically in the long term, and in the short term too. So the institutional framework has to be flexible and able to change step by step as results are gained and new goals modified. It is important, however, for all the organizations in the institutional environment to integrate and acknowledge the role of the others in attaining the common nationally accepted goals.

Consequently, in this chapter we have tried to find out whether there are reliable and adequate relationships to ensure the efficient and effective delivery of affordable housing that meets commonly accepted standards in Europe.

Decentralization has been the leitmotif in Romania, where the major housing issues were quickly devolved to local and individual levels. At the same time decentralization has to be backed up by action to train and inform the institutions and individuals who have to continue with roles, very different as far as obligations and responsibilities are concerned, from those of previous periods.

A general understanding of housing issues and their resolution is today essential for the development and building of new dwellings. Information on developing new sites and building new housing is relatively well managed throughout the public administration and the private sector. There are, however, no reliable data on improvements to, and the action and funds needed to keep the existing stock habitable and the institutions which could take responsibility for these activities are lacking on the Romanian housing market.

The central authorities have formulated general principles for a national housing policy and the appropriate guidelines to implement it. This was done without sufficient consultation with the numerous organizations that actually build, finance, sell, let, manage, repair or maintain the homes in Romania. Many of these organizations have (re-)mobilized themselves only recently and are ready to be accepted as social partners by the central authorities in the housing sector.

The national Government considers homeownership as a universal, and the only effective, way of achieving national housing policy objectives. It has been supported by a general awareness that it permits reductions in public expenditures on housing, and in the obligations and responsibilities of the public authorities in this sector.

Implementation of the preferred housing strategy in Romania is fully based on homeowner participation – based on interest, mentality and willingness. But currently the financial weakness and dependency of most homeowners means that they can be manipulated either by the State or by the private sector.

The housing stock – despite its ownership – can always be considered the national property that any society needs for its own sustainable development. Housing quality is a term implying legal, economic, social and technical aspects. Hence it follows that only cooperation among institutions with relevant professional competence will produce housing meeting nationally and internationally required quality standards.

Currently the demand is for a more intensive management service in housing, especially in its multi-ownership sector. The importance of this function for society is not widely appreciated.

IV. LEGAL FRAMEWORK

A. General legal provisions for housing

Legal developments during 1990-2000

The development of a legal framework for housing was one of the reforms adopted to facilitate the transition to a market economy and was a key component in changes the housing sector. Romania has been relatively successful in providing the housing sector with a logical system through complementary statutory and policy documents.

The Romanian legislative system consists of:

(a) **Laws** in three categories: constitutional, organic and ordinary. Laws can be drafted as bills by the Government or members of Parliament, or as an initiative backed by at least 250,000 citizens. They are debated in the Senate and the Chamber of Deputies. After being adopted by Parliament, they are promulgated by the President within 20 days of their adoption. The Ministries may issue regulations and/or standards, to provide guidance on the implementation and enforcement of laws within their areas of competence;

(b) **Decrees**, issued by the President of Romania, in accordance with his constitutional prerogatives;

(c) **Government resolutions and ordinances**. Resolutions are issued by the Government, to regulate the execution of laws. Ordinances are issued on matters pertaining to statutory laws, through a special enabling law by Parliament. Ordinances come into effect on issue, but are subject to final approval by Parliament. Under special circumstances, the Government may issue Emergency Ordinances, which come into force only after submission to and adoption by Parliament.

All legislation comes into force as published in the "Official Gazette".

Housing is governed by legislation in the areas set out below:

System of legislative acts

Privatization of State-owned dwellings and further construction work on uncompleted blocks:

- Law 61/1990 - the sale to the population of dwellings constructed with state funds;
- Law 85/1992 - the sale of dwellings and building space for other purposes paid for by State funds and other public organizations;
- Government Resolution 441/1991 - further construction work on uncompleted blocks;
- Government Resolution 383/1992 - amendments on Government Resolution 441/1991; and
- Government Resolution 678/1999 - further construction work on uncompleted blocks.

Restitution of nationalized dwellings:

- Law 112/1995 - settling the legal status of dwellings taken over by the State.

Ownership of buildings and dwellings:

- The Housing Act (Dwellings Law) 114/1996;
- Emergency Ordinance 44/1998 - amendment of the Housing Act;
- Law 145/1999 - amendment and extension of the Housing Act; and
- Emergency Ordinance 22/2000 - amendment and extension of the Housing Act.

Social and other rental housing:

- The Housing Act 114/1996; with amendments and extensions in
- Emergency Ordinance 40/1999 – tenants' protection and rent-setting.

Regulation of the development process:

- The Land Fund Law 18/1991;
- Law 169/1997 - amendments and extensions of the Land Fund Law;
- Cadastre Law 7/1996;
- Law 54/1998 - land transactions;
- Law 33/1994 – land expropriation for public use; Law 219/1998 - land leases (concessions);
- Law 1/2000 - restitution of the property rights to agricultural land and forests;
- Law 50/1991 (republished) - authority and measures for housing construction;
- Law 10/1995 - the quality of construction; and
- Government Resolution 525/1996 - approval of general urban planning regulations.

Financial aspects of the housing sector:

- Government Ordinance 19/1994 - the promotion of investment in housing construction;
- Law 82/1995 - approval of Government Ordinances (including Government Ordinance 19/1994);
- Government Resolution 160/1999 – amendments and extensions of procedures for the implementation of Government Ordinance 19/1994 on the promotion of investment in housing construction;
- Law 152/1998 - the creation of the National Housing Agency and procedures for applying Law 152/1998; and
- Law 190/1999 - mortgage credits for investment in property.

Taxation – housing-related coverage is found in several acts:

- Law 32/1991 V3 (revised) – tax on salaries and wages;
- Government Ordinance 73/1999 - income tax;
- Government Resolution 70/1994 - tax on profit; Emergency Ordinance 17/2000 – value-added tax (VAT);
- Ministry of Finance Order 1026/2000 - applying the zero rate of VAT to housing construction, consolidation and rehabilitation; and
- Law 27/1994 - local taxes and tariffs; Emergency Ordinance 15/1999 - revision and completion of Law 27/1994.

Related legislation:

- Law 69/1991 (revised) – the finance of local public administration;
- Law 189/1998 - local public finance;
- Emergency Ordinance 61/1998 – amendment and extension of Law 189/1998 on local public finance;
- Law 213/1998 - public property and its status; Government Ordinance 3/2000 - the organization of real estate agents' activity;
- Government Ordinance 29/2000 - thermal insulation of the existing building stock and the promotion of thermal energy conservation; and
- Law 35/1991 - the status of foreign investments.

Constitutional rights

On 8 December 1991 Romania's new Constitution came into force. It confirms the separation of powers and the fact that "Romania is a democratic and social State governed by the rule of law, in which human dignity, citizens' rights and freedoms, the free development of human personality, justice, and political pluralism represent supreme values and shall be guaranteed". Justice is rendered in the name of the law. Judges, appointed by the President of Romania, are independent and subject only to the law. The promotion, transfer and sanctions against judges may be decided only by the Superior Council of the Magistracy.

Romanian citizens are guaranteed the right to establish their domicile or residence anywhere in the country, to emigrate and to return to the country. Domicile and residence are inviolable. The law permits abrogation of this inviolability to execute an arrest warrant or a court sentence; to assure a person's life, physical integrity or assets, national security or public order; and to prevent the spread of epidemics.

The Constitution guarantees the right of property. The law protects private property irrespective of its owner. However, the Constitution also states that private property may be expropriated in the public interest, with compensation paid in advance. The public authorities are entitled to use the subsoil of any real estate but must pay compensation to its owner (compensation should be agreed with owner, in conformity with the law or customs). Assets acquired legally may not be confiscated.

Foreigners and stateless persons may not own land. However, foreign individuals and legal entities may lease property and, inter alia, plots of land. According to Law 35/1991, foreign investments can be used for the purchase and construction of buildings, but not where they are for residential use, except where they are ancillary to non-residential buildings.

The Housing Act

The Housing Act (114/1996 and subsequent) sets out (art. 67) the role of the Government in housing. This Act also lays two major obligations on the Government in the institutional framework for housing:

- The Government is responsible for the creation of housing development policy for the whole country.
- The house construction development programme is to be drawn up by the Ministry of Public Works, Transport and Housing on the basis of evidence submitted by local councils and other interested public administration bodies, and in accordance with the legally approved urban and regional planning documents.
- In addition, the Housing Act (114/1996) lays down the following two principles which are relevant to national housing policy:
 - Free and unrestricted access to dwelling is the right of every citizen; and
 - Housing (construction, use and management) is in the national interest and represents a major long-term goal for the public and for both central and local government.

The Act extends its action over Romanian citizens, in that it:

- Regulates the social, economic, technical and legal aspects of housing construction and utilisation;
- Defines and develops the typology of dwellings;
- Prescribes the development of house construction;

- Determines the rules for renting dwellings;
- Establishes procedures for the management of dwellings, and rules for the organization and functioning of homeowners' associations.

Types of dwelling

The following terminology is used in the Housing Act:

- *Public housing* - dwellings with subsidized rent allocated to individuals or families whose financial position would not otherwise allow them access to market rent dwellings;
- *Official residence* - a dwelling for public officers or the employees of certain institutions or businesses, allocated under the employment contract; it can be financed from State or local authority budgets, or by businesses; it is built in accordance with legal provisions and on land owned by the State, local authority or business; it may be sold with the approval of the Government;
- *Intervention dwelling* - a dwelling for employees of businesses who, by their employment contract, perform activities or jobs requiring their presence permanently or in case of emergency, inside or in close proximity to the business premises; it is built under the same conditions as those stipulated for official dwellings and with the aim of supporting the business; it may not be sold to the tenants;
- *Protocol residence* - a dwelling for persons elected or appointed to certain posts or public positions, exclusively during their term of office; it is property of the State;
- *Emergency dwelling* - a dwelling intended as temporary accommodation following natural disasters or accidents, or where homes have been demolished to permit the construction of public utilities, or rehabilitation work which cannot be undertaken while homes are occupied; it is financed and built under the same conditions as public housing; in extreme emergencies, unoccupied dwellings in the public stock may be declared emergency dwellings by the local council; and
- *Holiday residence* - a dwelling temporarily occupied as a secondary residence, for rest and leisure.

B. Privatization and restitution of housing

Privatization (sale of rental housing owned by public authorities and State enterprises, including unfinished blocks)

Romanian legislation in the 1960s and 1970s allowed the sale of state-owned dwellings to private citizens. However, a massive impetus has been provided by an active privatization policy since 1990. Decree-Law 61/1990 enabled the privatization of housing units built with State funds by selling them to tenants who could make a downpayment and sign the purchase contract backed by a loan. Persons not citizens of Romania wishing to settle in Romania could purchase a housing unit with foreign currency. Legally, repatriated Romanian citizens had priority if they purchased a dwelling with foreign currency.

Ownership is guaranteed by the purchase contract and covers both the apartment and the right to use the adjoining land. Credits were expected to be guaranteed through a legally secured mortgage on the property. One important issue is that dwellings purchased under this Law are exempt from real-estate tax for 10 years. The Law imposes some renting or resale restrictions on the new owners, but establishes no mechanism to monitor or enforce these, and also provides that the dwelling can be repossessed when loans are not repaid.

The sale of dwellings goes through real estate agents and/or specialized agencies. Annexes to the Law determine different sales prices depending on whether the dwelling was

constructed before 1 January 1977, between 1 January 1977 and 1 January 1989 or after 1 January 1989. The Law stipulates a standard 25-year loan with a 4% annual interest rate from the Savings and Deposits Bank for the purchase. Young married couples benefit from a 30-year loan with a 2% annual interest rate.

The privatization of dwellings unfinished or not yet allocated to tenants is governed by Law 85/1992. The Law has subsequently been clarified through Government Resolutions 441/1991, 383/1992 and 678/1999. Local authorities are required to identify and monitor the stock of unfinished buildings. They also have to organize public auctions for the sale of these dwellings, in which the starting price must cover the costs incurred up to each dwelling's stage of development. The purchasers also receive the right to use adjoining land or are allowed to lease it. The amounts received from the sale of dwelling units should be used for priorities, such as reimbursing credits taken to do the work. Creditors under development contracts receive compensation directly according to the value of work executed. The resources remaining after credit reimbursement should be used for the financing of further housing construction.

The Law allows the purchase of unfinished dwellings only by physical persons - citizens of Romania or others with legal residence in Romania. It excludes the sale of luxury dwellings or diplomatic residences. Families already owning another dwelling are excluded from benefiting from these provisions.

Dwellings can be sold by instalments, the first payment being 10% of the agreed purchase price. The sales agency is expected to guarantee payment by mortgaging the dwelling. Monthly payments for the total amount are planned over a maximum of 25 years, with an annual interest rate of 4% (2% for people under 30 years of age). In the case arrears of the agreed instalments, the customer is to pay an annual interest rate of 8%. The dwelling cannot be resold or altered, without the prior agreement of the sales agency until the mortgage has been repaid. As with the purchase of properties by tenants, default in loan repayments leads to eviction; in neither case, however, are there statistics available on how often this occurs.

Construction is to be completed within a maximum of 12 months following the date of receiving legal title to the new property. However, the number of uncompleted blocks is still high - see data on uncompleted blocks in chapter II.

Restitution of nationalized housing

Law 112/1995, adopted before the Housing Act, covers property which was formerly in private ownership and then nationalized. The law covered restitution to the former owners (physical persons) or their heirs of such assets nationalized after 6 March 1945. Persons eligible for restitution had to make a written request (documents confirming their status as owner or heir) within six months from the date of the Law entering into force. The restitution procedure should take no more than 95 days, and the claimant may appeal a decision within 30 days.

Six months after the Law came into force, tenants of dwellings which had not been restituted to ex-owners or their heirs could opt to purchase them according to the provisions of the Housing Act. There are no data available on the number of restituted housing units, nor on how many dwellings have been needed for tenants evicted from restituted properties. (See also chapter I)

Restitution can be made in kind if the beneficiaries already live in the restituted property as tenants, or in cash (compensation) where the dwelling is occupied by another household. Together with property received in kind, the ex-owners or their heirs also receive the right to adjoining land. Where the housing property is in a multi-floor apartment building, the ex-owners or their heirs receive the appropriate share of common property. Ownership shares are proportional to the constructed space.

The maximum level of compensation is set according to the average salary, reported by the National Commission of Statistics, for a period of 20 years, calculated at the date of compensation. The compensation (by the Ministry of Finance from extra-budgetary funds) is to be paid within 24 months of the valuation. If the value of the restituted dwelling is higher than the amount calculated, the owner does not pay the difference.

Tenants living in the same apartment as the former owners or their heirs benefit from State protection. Where the former owners or their heirs lived with other tenants until 22 December 1989, they become the owners of the whole of their restituted property. The rental contract is extended for a period of five years from the date of the definitive decision to reconstitute. Tenants can be evicted during this period only on condition that they are offering suitable alternative housing: e.g. receiving a new dwelling from the landlord or local authority.

C. The legal framework for owner-occupied dwellings

Ownership of buildings and dwellings

Real estate can be legally owned by: Romanian citizens, repatriated Romanians, persons wishing to settle in Romania but who are not citizens, economic entities, and local authorities.

Real estate registration

The registration of property rights in Romania has a long tradition, dating back to the Civil Code of 1864 and other normative acts, but it was applied only in the Ardeal part of Romania. Law 7/1996 on Cadastre superseded the relevant acts and cancelled some provisions of the Civil Code. It established a new unitary system – with complementary technical, legal and economic elements - to ensure the identification, registration and monitoring of all land and other real estate assets, regardless of their use and ownership status. As such, the Law meets general European requirements.

The legal aspect of the cadastral system is achieved through owner identification based on ownership right and publication. The right of ownership to a building or dwelling is registered in the land book, together with any legal facts relevant to the real estate in the area, as stipulated in the Law. The complementary registration of all legal real estate facts in the land book is not legally obligatory. Land book offices effect registration under the law for each settlement.

The land book has a title indicating the settlement number and name, and is formed of three parts:

- i. Description of the building (housing unit);
- ii. Registration of ownership rights; and

iii. Registrations of any divisions of rights, etc. (mortgage, and real estate privileges and income assignment for a period longer than three years, sequester, etc.).

Management and maintenance of owner-occupied housing

Before the Housing Act of 1996, responsibility for housing stock management was stipulated in Law 5/1973 on the status, organization and functioning of tenants' associations. Concurrently with the enforcement of the Law, the State enterprises providing housing stock management were also reorganized.

The Act stipulates that the management of dwelling houses is the responsibility of the owner, and it states that the owner may delegate management to physical or legal persons, associations, public agencies or specialized businesses. The responsibilities of the housing managers are described in chapter III. Nothing is said about the maintenance of individual houses in rural areas.

In multi-apartment houses the owners should establish homeowners' associations (HOA) having the capacity of a legal person, with the main purpose of ensuring effective housing management. Initially the law stipulated the forming of associations within 12 months of its coming into force, but later this provision was excluded by amendments in 1998 and 1999. The Law makes detailed proposals regarding these associations: setting-up and registration; constitution; responsibilities of owners; activities; executive board; control of income and expenditures. However, there are no restrictions on the organization of an association (for example, they could be constituted over a group of buildings to assist efficient management; or services could be contracted independently from suppliers by each homeowner).

The typical organizational structure of an association is:

- The general assembly of homeowners;
- The president of the association (represents the association and assumes certain obligations in the name of the association, represents the association against third persons including actions against a tenant or homeowner);
- The executive committee (represents the association in building management and use);
- The auditing committee (this function may be delegated to another legal or physical person).

Following amendments, the Law allows an association to be constituted on the decision of at least half plus one of all homeowners. The association can be constituted for the whole building or for only one part of it. The subsequent membership of other owners, who were not present at the constitutive assembly, can be achieved by simple written request.

A general meeting of an association is to be organized once each year, at least. In special cases a meeting can be convened by the executive committee or a group of HOA members holding at least 20 per cent of the real estate. Decisions require a simple majority of the members voting personally or through a representative.

The association must have a bank account. All homeowners have to pay in advance their share of the budget for common expenses. With the approval of two thirds of members, a special amount for miscellaneous common expenses can be collected. The association imposes a penalty on each homeowner if payment of common expenses is over 30 days in arrears. The association can sue any homeowner who has not settled within 90 days (See also chapter III).

By law the association:

- Approves and amends the income and expenditure budget as well as any sinking fund and collects regular and special contributions from homeowners for common expenditure;
- Imposes penalties in the case of late payment of maintenance contributions;
- Hires and discharges employees to ensure the good administration and functioning of the building;
- Acts in law on behalf of the associated owners, to protect their interests in the building;
- Concludes contracts and assumes obligations in its own name or on behalf of the associated owners;
- Manages, maintains, repairs, replaces and modifies the common parts of the building;
- Approves or amends decisions on rules and regulations;
- Monitors the condition and performance of the building;
- Keeps the building's technical logbook up to date;
- Exercises other functions conferred through association agreement or a homeowners' vote, etc.

The executive committee prepares and presents to the homeowners' annual meeting the annual budget to cover all expenditures for the maintenance and proper functioning of common property, according to law. This requires a majority of the homeowners' votes. If homeowners agree, the committee calculates the necessary amount for the creation of a sinking fund for special repairs and improvements.

D. The rental housing sector

The legal framework for rental housing is provided by the Housing Act 114/1996. This law provides for all types of rented dwellings: including official and intervention housing, emergency dwellings, and social housing.

The renting of dwellings is based on a written contract between the landlord (public or private) and the tenant, which has to be registered with the local fiscal body. The law prescribes how rent levels are determined: "The rent paid for a dwelling shall cover the expenses relative to management, maintenance and repairs, land and building taxes, the cost of investment according to the period established in compliance with the legal provisions, and the profit, which is negotiated by the parties". The law also stipulates conditions for the contract's cancellation. However, the tenant may be evicted only on the basis of court order. Until an eviction comes into effect, the tenant is required to pay the rent provided for in the contract.

Tenants may sublet dwellings with the approval of the owner. Tenants have the right to form and join tenants' associations, which will represent them in their relationships with the landlord and with any other natural or legal persons.

Government Emergency Ordinance 40/1999

This was brought in as a consequence of an increasing number of problems associated with the restitution of dwellings. It established protection for tenants and determined rent levels. Thus, rent contracts for housing units are valid for five years - a provision which applies in cases where dwellings are subject to restitution to former owners or their heirs. A tenant's non-observance of the Emergency Ordinance allows the owner to apply to the court for non-conditional eviction of the tenant and payment of damages and interest. Similarly, the owner's non-observance of the Ordinance's provisions can result in the prolongation of the rent contract prior to the signing of a new contract, and the owner is not able to evict the tenant for non-payment of the rent. The two parties can also agree freely to extend the contract for a longer period.

A contract is not extended:

- For tenants who themselves have become owners;
- If tenants refuse to take another housing unit offered by the former owners, their heirs or the local authority;
- If a tenant has sublet or modified - partially or totally - the use or internal structure of the dwelling, without the owner's prior approval.

Owners may also refuse to extend the contract if:

- The dwelling is needed to accommodate family members (only if they are Romanian citizens or persons resident in Romania);
- The dwelling is to be sold as a result of legal action;
- The tenant has not paid the rent for at least three months.

Local councils are obliged to offer suitable accommodation within one year to tenants who lose their homes in this way - as to anyone with a right to social housing - when the average monthly gross income per family member is lower than the national average. The landlord is required to request an alternative dwelling in the same settlement or elsewhere, so ensuring, with the tenant's approval, a minimum living space of 15 m²/person. The tenant need not accept if the conditions offered by the owner do not correspond with those stipulated in the Ordinance.

Rent levels are determined by this Governmental Ordinance, giving a monthly tariff by category - settlement, zone, etc. - and calculated in accordance with the criteria for local taxes and fees, applying a coefficient to the basic rent. The basic monthly rent is updated on 31 January each year, depending on the annual inflation rate. The maximum rent for public or private housing units (including office dwellings and hostels for the employees of commercial and State organizations) cannot exceed 25 per cent of the family's monthly gross income, or of the national average, whichever is the lower. Tenants are required to inform the owner of income changes (conditions where the landlord can request additional information on a tenant's family income are not foreseen in the legislation). Where a tenant is recognized as eligible for social housing, the maximum rent equals 10 per cent of the family's monthly gross income, calculated over the past 12 months: the difference with the property's nominal rent is then subsidized by the local authority.

New rental contracts are registered with the local authority. Contract termination and evictions due to disagreements over rent increases are prohibited: any disputes between the

parties are submitted to the courts. Homeowners whose property is occupied by tenants paying a smaller rent than the one calculated by the Emergency Ordinance are exempt from real estate and land taxes for that property during the period of the rental contract.

Public housing

The Housing Act created a new concept of “public housing”, owned by the local authorities, but not subject to sale to the tenants. It can be created by new construction (zoned accordingly in town plans) or by the purchase and rehabilitation of existing buildings. The present tendency is for local authorities to simply purchase dwellings on the market and let them at social rents.

The law stipulates minimum norms for floorspace and facilities. It also specifies renting to families with low disposable income and who benefit from social security. The tenant’s contract is for five years, with the possibility of renewal on the basis of written proof of income. The law also specifies the contract’s provisions and conditions of cancellation.

In allocating public housing, the local authorities have to give priority to specific groups: young married couples (each < 35 years of age), young people leaving social care establishments (after 18 years of age), first and second-degree disabled persons, other people with handicaps, pensioners, veterans, war widows and others. At present, overall priority is given to persons losing their homes through restitution. The law stipulates the kinds of family and person who cannot benefit from public housing.

Public housing is financed from local budgets in accordance with Law 189/1998. The State assists in the construction of public housing by transfers from the national budget. Individuals or businesses may also assist in the construction of public housing through donations or financial aid.

E. Legislation regulating the development process

Land ownership

Romanian legal entities and individuals are eligible for land ownership through Law 18/1991, amended in 1997, and Law 54/1998 guarantees their title to the property. Foreign or stateless persons are not eligible. Romanian citizens who live abroad are eligible to obtain any kind of land plot in Romania.

Transactions in land within built-up areas is relatively free of restrictions, subject to agreement between seller and buyer. Outside built-up areas, transactions are subject to the pre-emption rights of co-owners, neighbours and tenants. If someone with a pre-emption right has not manifested a willingness to exercise it, the plot can be put up for sale. Local councils are responsible for handling requests land purchase requests.

The establishment of land ownership rights in agricultural production cooperatives is based, under Law 18/1991, on a minimal contribution of 0.5 ha of land per person, and approximately 10 ha per family, in arable equivalent. The restitution of land ownership rights in these areas is made under the Land Fund Law 1/2000. The former owner receives the residual, a

minimum of 10 ha, but not more than 50#ha. In cases where the restitution cannot be made in full, the owner receives compensation for the difference (the Law does not stipulate a limit). The Law makes various provisions for particular circumstances, such as where cooperative members that received land in ownership did not contribute more than 0.5 ha, where land has buildings on it, or where members had moved to other settlements. Plots for the construction of individual houses can be included in the new private property at the owner's request. The Law provides exemption from land tax for three years for individuals whose land ownership right has been constituted or restituted.

Land lease

The leasing of land plots in public ownership for under 49 years is possible under Law 219/1998. This addresses the problem of land ownership for non-citizens of Romania; and the status of lessee is open to any Romanian or foreign private individual or legal entity. Land plots are leased through public auctions (open or by pre-selection) or through direct negotiations. The lessee is required to deposit a fixed amount settled in the contract within 90 days of its signing.

The contract shall be ended:

- At the end of the lease period;
- In the national or local interest, in which case the lessor shall pay advance and fair compensation;
- In the case of infringement of contract obligations by either party, including compensation payments;
- At loss of the good leased due to *force majeure* or in the case of a real impossibility on the part of the lessee to use it;
- In the case of termination by one of the parties, when compensation is paid.

Lease contracts are registered in the land registers. The Law does not stipulate the specific conditions of use of leased land plots.

The Law stipulates the size of plots for housing. For example, in urban settlements the plot must be 150-300 m² for buildings with one to six apartments, and in accordance with the urban plan for buildings with more than six apartments. In rural settlements, the plot must be up to 1000 m² for a detached house, but for a holiday house it can be as small as 250 m².

Building regulations and development control

Law 50/1991 laid down that constructions must be authorized by county councils or the General Council of Bucharest. The local administration must provide documentation covering the design, execution and functioning of construction, with respect to urban and regional development plans. The authorization is issued for construction, reconstruction, modification, extension and renovation work of any type. The Law imposes penalties on those developing without authorization (in specific cases imprisonment from three months to three years, and fines from 2 million lei to 20 million lei).

Law 10/1995 stipulates the duties and responsibilities of all actors in the development process (investors, designers, manufacturers, construction owners, public inspectors, planners and so on) and the sanctions for infringement. The provisions of this Law are applied to every

category of construction – new, modernization, consolidation and repair - but it foresees (art. 2) some exceptions including one or two storey tenements, villages and temporary constructions. Therefore, a large number of individual houses are excluded from quality construction control.

The Housing Act stipulates standards for public housing construction, such as minimum floorspace, and requirements for kitchens, bathrooms, etc.

It is unclear to what extent new construction costs are increased by statutory controls, but, as in most countries, developers in Romania quote excessive bureaucracy as a problem. Though intended to protect public interests, the procedures for obtaining a building permit are much too complicated, redundant and time-consuming.

The General Urban Planning Regulations (GUPR) approved by Government Resolution 525/1996 govern urban planning. The Regulations are an integrated system of technical and legal norms governing land use. They establish the procedure for planning and executing development on land within and outside built-up areas, and impose restrictions on subsoil resources, water, landscape value, protected natural areas, and natural and technological risks. Regulations exclude housing in the close vicinity of pollution from emissions, loud noises and vibration (airports, industrial zones, busy roads, etc.). Norms are established for the positioning of rooms, access, parking, and open space. The Governmental Resolution approving GUPR stipulated the formulation of general urban plans for the whole country within 18 months, and local councils are supposed to allocate funds for preparing them.

All settlements must have a development plan. This consists of a map-based plan that classifies land uses into zones and includes a set of planning and development control policies. The development plan provides a foundation for urban and regional planning, and many local authorities are currently drawing it up. However, neither in law nor in planning practice is there any direct or obvious link between regional, or strategic economic development and the supply of land for housing. Land is allocated for housing development according to the current population structure, the volume of applications for land registered at the town hall, or simply to land characteristics. Sites for housing development are prioritized depending on their location in the context of the development plan. No special provisions are made in the planning process for public or social housing for special needs.

F. Legislation regulating the financial aspects of the housing sector

State support for housing (new construction, renovation and house purchase)

Government Ordinance 19/1994 with its amendments prescribed State support (from State and local budgets) for housing construction. Seven groups of the population are entitled to a single subsidy varying between 500,000 lei and 30 per cent of the dwelling's contract purchase price. Under the 1999 amendments the main support has to come from local budgets. Unfortunately, there are no data on the number of dwellings built under this Ordinance.

The same mechanism is provided in the Housing Act. It stipulates that four population groups should benefit from State subsidies:

- Young married couples, each aged up to 35 on the date of purchasing the dwelling;

- Participants in the 1989 Romanian revolution and their families;
- Persons skilled in agriculture, education, health, public administration, as well as clergymen and others supported by local councils, who settle in a rural area

The subsidy - within the limits of budgetary provisions, and depending on household income - can amount to 30 per cent of the purchase price at the time the dwelling is contracted. The remainder, after the initial minimum compulsory downpayment of 10 per cent, can be paid in monthly instalments over 20 years. These conditions are available to a purchaser once and only if he does not already own a dwelling. The owners of new dwellings are exempt from building tax for 10 years after the dwelling is purchased.

A key feature of State support in the housing sector should be the thermal insulation of apartment buildings and district heating systems (see chapter II). **Government Ordinance 29/2000 on the Rehabilitation of the existing stock and the promotion of energy conservation**, provides for responsible public institutions, a national energy saving programme, a system for the issue of thermal certificates for buildings, and funding and tax incentives for homeowners.

It offers a State support to legal entities and individuals undertaking energy-related rehabilitation and the technical upgrading of buildings and associated installations. This support will involve free information for consumers, fiscal facilities for certain categories of users, and recourse to specialist agencies. Those willing to work on their own apartment buildings will benefit from tax exemption on presentation of the energy certificate for the building issued after approved improvements in thermal insulation. Moreover, five years after the Ordinance's coming into force, the sale and purchase of dwellings without an energy certificate will be prohibited. Unfortunately, the Ordinance is vague about the provision of funding for the work, although it does declare that funds may come from the following sources:

- Allocations from the budgets of municipal and county councils;
- Homeowners' own funds (e.g. associations' sinking funds);
- Funds from energy-supply companies;
- Funds from companies providing heat and hot water to upgrade distribution systems in apartment buildings and to install meters;
- Direct funding from public bodies to upgrade their own properties.

Legislation on mortgage loans and financial institutions

Banking law applies in cases of foreclosure, which means in practice that the lender would have to go to court to foreclose, and, if the court decision is favourable, supply the evicted borrower with alternative housing. Although this is a socially supportive measure, it is proving an impediment to institutions which might otherwise be willing to lend money for housing. However, it is a good argument for more social housing to be built for those evicted.

Several government resolutions from 1990, 1991 and 1992 provided the mechanism for housing loans. The traditional source for a construction loan is the Savings and Deposits Bank. The Romanian Government channelled resources through this Bank specifically to facilitate housing construction or purchase. Now, some of these resolutions have been rescinded.

The Law 190/1999 on Mortgage Credit for Investment in Property enabled the introduction of a conventional mortgage loan. According to this Law, the credit banks, the

National Housing Agency, the Savings and Deposits Bank, and other financial institutions (including any special mortgage funds) are authorized to grant mortgage credits. Romania has no special law on mortgages, but some valid provisions can be found in the Civil Code, and these, following traditional mortgage practice, are reflected in the present Law. (For more details on this, see chapter V.)

National Housing Agency (NHA)

The National Housing Agency is a public interest institution, established by the National Housing Agency Act 152/1998 for the coordination of financial resources in housing construction. "The aim of the National Housing Agency is to create financial packages and attract management resources for the construction, purchase, rehabilitation, consolidation and extension of dwellings, including for rent".

It is important to note that the Agency is not a financial institution: it is a 'manager-mediator' between bank, developer and individuals. The Agency concludes five types of contract, between:

- Client (applicant) and NHA (2 contracts),
- NHA and developer,
- Client (applicant) and developer, and
- Bank, client (applicant) and NHA.

(See also chapters III and V for further details.)

Taxation

Romania does not yet have a tax code, although such a code is mentioned in the National Medium-term Development Strategy for the Romanian Economy. This stipulates *inter alia*: "to ensure the effective and efficient implementation of the tax system, a code of tax procedure and a tax code (including the integration of all the tax regulations dispersed throughout Romanian legislation) will be introduced".

There are several legislative acts at general fiscal level: Law 32/1991 V3 (revised) on salary tax; Government Ordinance 73/1999 on income tax; and Government Resolution 70/1994 on profit tax. In accordance with Resolution 70/1994, the tax on profits - including those of construction companies - was 38 per cent; but it has since been reduced to 25 per cent. It should be noted that under Law 35/1991 foreign investments in construction are exempt from profit tax for a period of five years from the starting of construction. This provision applies to legal entities entered in the Trade Register before 1 January 1995, and no longer applies to other persons since that date. Romanian businesses which invest in the construction of official, public and emergency dwellings benefit from a 75 per cent profit tax reduction for the relevant fiscal year.

Taxes on real estate and built-up land are determined by Law 27/1994 on Local Taxes and Fees and in Emergency Ordinance 15/1999. Local authorities administer these taxes, paid every year by the owners of buildings. For public housing stock, the tax is paid by those

managing the buildings. The real-estate tax for buildings owned by individuals is calculated at 1 per cent of the market value per year. The tax on built-up land is recalculated each year as a rate per square metre, according to category (areas A,B,C,D). It varies currently from 2,400 lei in

area A (municipalities) to 150 lei in area D (villages). The land tax is paid also by the owners, save where the land is needed for certain authorized activities. Borrowers, according to Law 152/1998 are exempt from land and real-estate taxes until the loan is repaid. Law 27/1994 also levies taxes on the issue of certificates, notifications and authorizations required in the construction process, and these taxes differ according to location and land use (e.g. housing construction enjoys a 50 per cent discount on authorizations).

Value-added tax (VAT) is regulated by Law 145/1999 and Government Emergency Ordinance 17/2000. These set a zero rate on the construction, upgrading and rehabilitation of dwellings. More detailed procedure is presented in Ministry of Finance Order 1026/2000.

Conclusions

Romania possesses a legislative framework that regulates activity in most housing sectors. The mechanisms and instruments are strongly market-economy oriented and were created within a short period of time. There are certain defects which need to be rectified.

The great number of legislative documents relating to land are not clear on how to obtain land for construction, its ownership and cost. A new law on public property is being drafted. It will address the problems of public action in acquiring land for development which are at present an obstacle to the development of new housing. However, the implementation of the new system of property registration is slow and the proposed legislation does not include an enforcement mechanism.

Despite legal provision, uncompleted housing blocks are still a major problem after 10 years.

Although the legal framework for homeowners' associations (HOAs) was approved in 1996, there appears to be a general ignorance of their advantages among new owners. In spite of several modifications and simplification of the law, the universal creation of properly functioning HOAs is far from complete. A remaining problem is that the Housing Act does not cover relations between co-owners (individuals and legal entities) in a building.

The housing services' supply sector is neither covered by legislation nor regulated.

Although the legislative framework establishing the National Housing Agency and mortgage credit mechanism is in place, the instruments themselves are not developed.

Improvements in taxation, with the granting of tax benefits over several years, created favourable conditions just when local authorities found themselves without resources to build housing.

In short, the success in passing legislation which empowers action is not matched by legislative or other measures which ensure its implementation.

V. FINANCIAL FRAMEWORK

This chapter starts with an overview of the role of the housing sector in the national economy, which is followed by a more detailed, three-dimensional description of the current situation in Romania. The three dimensions are the three main financial forces shaping the housing sector: the affordability of housing (**sect. B**), public spending (**sect. C**) and private lending (**sect. D**). In other words, this part describes the context of housing finance from the perspective of the private household, the public sector and the corporate (banking) sector. The final section is devoted to a short account of how current financing conditions affect the “reality” of the housing sector.

A. Housing and the national economy

In 1998 the construction sector contributed 5.3% to gross domestic product. In the same year the value of construction work for residential buildings (under contract, including maintenance and current repairs) amounted to 2,899 billion lei - 8.8% of the total value of contract construction work (see **table 14**). Investment in construction hovered around 40% of total investment between 1993 and 1997, reaching 44.5% in 1998 (US\$1.7 billion). In 1999 investments were financed mostly out of the developer's own (56%) or non-banking sources (22.9%). Bank credits contributed 11.2% to investment financing, while subsidies and State and local budgets accounted for 9.9% of investment funds¹⁷

Table 14. Construction work under contract by category of object, 1998 (million lei, current prices)

Category of object	Value of construction work
Total	32,950,245
Residential buildings, of which:	2,898,788
Single household	1,837,273
Multi-household	1,061,515

Source: National Commission for Statistics, Romanian Statistical Yearbook 1999 (electronic version).

The share of housing investment in gross national product is small, far below EU levels and generally lower than that in other central European countries (see **table 15**). This reflects the low housing output, although it should be noted that a significant share of new housing construction is believed to be unauthorized and, therefore, not statistically registered (estimated at around 20% of the total)¹⁸.

¹⁷ Country Note – Romania, Organisation for Economic Co-operation and Development (document prepared for Workshop on Housing Finance in Transition Economies, held in Paris, June 2000).

¹⁸ Ibidem.

Table 15. Housing investment as a percentage of GDP in 1995, 1997 and 1998

Country	1995	1997	1998
Czech Republic	0.7	1.4	1.5
France	4.6	4.8	4.5
Lithuania	0.7	0.5	0.6
Netherlands	4.8	4.8	4.6
Poland	0.5	1.0	1.1
Slovakia	2.5	2.9	3.5
Romania	0.9	n/a	0.8

Source: Calculation based on National Commission of Statistics data and Bulletin of Housing and Building Statistics for Europe and North America, United Nations 2000.

During the 1990s, the public sector's share of the construction industry diminished. In 1993 construction work by publicly owned companies accounted for 64.3%, against 30.2% by private enterprises. In 1998 the picture was quite the reverse, with the private sector accounting for 74.7%¹⁹.

In the aftermath of the 1989 revolution, there was a decline in public investment in housing, as the State ceased its direct support of housing construction. The public sector's share in housing investment is now far smaller than that of the private sector, a tendency illustrated by the break-down into the main financing sources of completed dwellings (see **tables 16 and 17**). If unauthorized construction output were taken into account, the proportion would be even more in favour of private investors.

Table 16. Authorized housing construction by main financing source, 1991-98 (number of dwellings)

	1991	1995	1997	1998
Total	27,958	35,822	29,921	29,692
of which:				
Public funds	21,520	8,970	3,494	2,915
private funds	6438	26744	26149	26550
of which:				
Households	6,498	26,583	25,878	26,298
Private companies	0	161	271	252

Source: Country Note – Romania, prepared for Workshop on Housing Finance in Transition Economies held in Paris, June 2000, Organisation for Economic Co-operation and Development.

Table 17. Authorized housing construction by main financing source, 2000 (first quarter)

	Completed dwellings (number)			Structure (%)	
	Q I 2000	Q I 1999	QI 2000 - QI 1999	Q I 2000	Q I 1999
Total	2,701	2,127	+574	100.0	100.0
of which:					
public subsidies	105	60	+45	3.9	2.8
private funds	2,524	2,019	+505	93.4	94.9
of which:					
Households	2,524	1,987	+537	93.4	93.4

Source: National Commission of Statistics, Press Release No. 28/2000.

¹⁹ Calculation based on Romanian Statistical Yearbook 1999 (electronic version), National Commission for Statistics.

The above trend reflects not so much the rise of the private sector, but rather the very limited involvement of public authorities in housing construction, on both national and local levels. The municipalities, which are by law responsible for providing housing, are not to be blamed for this, however, since the necessary resources have not accompanied the new responsibilities.

The role of the housing sector in the national economy could also be appreciated by analysing consumption figures in the national accounts. To this end, estimates of:

- The consumption of housing services (in monetary terms, as rents, or as imputed rents in owner-occupied dwellings), and
- The consumption of utilities by households (electricity, gas, etc.)

could help to judge the weight of the housing sector in the Romanian economy. However, detailed analysis of that kind would make sense only if comparable international data were readily available, which is not the case. For the purpose of this report, then, it can only be concluded that, while Romania has a substantial housing stock for the size of the country (see chapter II), the volume of housing-related consumption seems very limited. It would certainly need to be adjusted for the generally poor quality of the stock; and the very restricted access to utilities - especially in rural areas, where almost half the housing stock is situated - also drags down the consumption figures.

B. Factors affecting demand for housing

Investment in housing is largely a function of demand. The demand for housing is often identified with the housing deficit, i.e. the number of housing units necessary for all the households in a country. However, this kind of demand should be considered as potential demand and, in a market economy, the category of potential demand has a very limited use. This is particularly the case where the public sector is not normally expected (or in a position) to provide the supply of housing sufficient to meet this demand. So in cases such as Romania, housing investment will be a function of actual (effective) demand from the households which are able to enter the market. Nonetheless, the impact of government policies on the size of this demand should not be underestimated. It can vary considerably among countries and over time; but it should always be considered as an important factor affecting housing investment. Of course, the public authorities can still be a direct supplier of housing in the market and so affect investment volumes.

Housing deficit numbers are not very helpful. While in quantitative terms it is clear that Romanian society is not heavily under-housed today, prospects for the future are debatable. Demographic projections show that the Romanian population will shrink considerably over the next decades. On the other hand, average household size will probably diminish due to the ageing of the population and the change in social patterns. Bearing in mind that part of the existing stock will have to be demolished and that new construction output is low, the situation is very likely to change in future years.

The situation is much clearer with qualitative deficits. The survey data show that the density of housing is the most important problem for the public²⁰. Another driving force for new housing demand in Romania – though less evident in the survey data – can be the quality of the

²⁰ Results of the survey on demand for housing in Romania conducted by the Research Institute for the Quality of Life in 1999.

existing housing stock. The relatively poor quality and standards of many of the panel blocks built during the communist era and the lack of renovation and modernization of older stock could drive the population away from their present dwellings in search of more sustainable housing. This last factor will also create a demand to upgrade the existing units. Along with the transition and economic growth, housing consumption models will most probably evolve towards those typical of developed western countries, which again can create potential demand for new housing. "Keeping up with the Jones's" already seems an important motive for households which declare great housing needs.

Potential demand for housing in Romania is not easy to assess. As illustrated in chapter II, there is a quantitative shortfall in some areas of the country, and a qualitative shortfall almost everywhere. These shortfalls are likely to grow significantly in the future unless radical action is taken. Even though this potential demand for housing seems to be rising, effective demand is seriously restricted. The key issue here is the affordability of new housing or rehabilitation work, which derives from the relationship between income and cost, each of which is itself affected by a set of factors. However, there are barriers to effective demand other than affordability.

On the demand side, the dynamics of household incomes throughout the 1990s generally reflected the ups and downs of the Romanian economy, as shown in table 18.

Table 18. Real salary index (previous year = 100)

Year	1992	1993	1994	1995	1996	1997	1998
Change	87.3	83.2	100.1	111.9	109.4	77.4	103.5

Source: National Commission for Statistics.

Very low or negative growth in real salaries, starting from a low base salary at the beginning of the decade has adversely influenced the general affordability of housing for most Romanians. Nor is the structure of household expenditure conducive to mobilizing funds for housing investment: in 1998, in households of employees, 67.6% was spent on food, beverages and clothing. The expected future increases in utility bills will further reduce the affordability of housing investment, as will taxes. Most homeowners are exempt as yet from property tax (0.3–0.5% of the book value – US\$ 50 per 50#m² a year); but this exemption will expire soon. Arrears also dramatically affect the value of the property as an asset that can be liquidated or used as collateral, and whole blocks can be cut off from access to finance in this way.

On the cost side of the affordability calculation are the high prices in the construction sector. This can be attributed to:

- The high cost of building materials, resulting from the monopolistic position of newly privatized and consolidated domestic producers, coupled with protection of the internal market by high tariffs on imported materials;
- The restricted supply of land for new housing construction, resulting from
- Unresolved restitution issues,
- The undecided ownership status of plots,
- The little land left within urban areas, where access to infrastructure would be relatively easy, following earlier policies of compact development,

- Planning restrictions on extending built-up areas in areas with development pressure, combined with restricted access to infrastructure for potential building plots due to the austerity budgets in local government, and
 - Bureaucratic and lengthy procedures in the planning/building process, some of which entail high administrative fees;
 - The high cost of credit for developers or building companies; and
 - An undeveloped market in land or property, with little competition, (allegedly) high profit margins, and a suggestion that speculators may be hoarding land to keep prices high.

Prices of new dwellings (standard small apartments) hover around US\$ 300–400/m², roughly two or three times higher than the average annual income of a household. In view of the above, buying a newly built apartment or house is beyond the means of most Romanians.

Another income-related barrier to effective demand is the restricted access to housing finance. This is due to the fact that Romania does not have a developed market-based housing finance system. As a result, prospective homeowners or those willing to refurbish their property have a very limited market offer. While the options that would best suit their needs are simply not available, a more obvious reason why access to housing finance is restricted in Romania is the price (interest rates) of this kind of financial product. The Government has been taking measures to make housing more affordable and improve access to housing finance for certain target groups of potential homebuyers (see section C).

Effective housing demand in Romania may also be hindered by non-income-related factors. One that should be mentioned here is consumer preferences, which may be directed to other goods, like cars or other durables. Between 1993 and 1998 the number of cars per 1000 inhabitants increased from 76.2 to 118.8 (i.e. by 65%)²¹, and the car market is still growing despite the low growth in real incomes. Since the cost of a car can be comparable with housing investment expenses (especially with buying and upgrading existing dwellings), this trend could be taken as indicative of consumer preference. That, however, would be to ignore the distortion that might be due to inadequate access to housing finance, and to the historically derived misconception of the value of housing.

C. Public spending on housing

As seen in the previous chapter, housing provision is the general responsibility of the local authorities, so it is to be expected that the State will provide the necessary financial resources and other instruments so that the authorities can comply with any legal requirements in this area. In government budgeting terms, the border between central and local investment in housing is unclear. However, it can safely be assumed that whatever public housing construction is going on in municipalities will be subsidized by the State. Private borrowing by the local authorities is possible though, as yet, very uncommon; since the risks associated with collateral and income streams would be too great for banks at present.

The State budget for the year 2000 planned expenditure of 143,755 billion lei, of which 1,097 billion was to be spent on housing (0.76%). Other housing-related expenses included 1,200 billion lei to be transferred to local authorities as co-financing for infrastructure projects in

²¹ Source: Romanian Statistical Yearbook 1999 (electronic version), National Commission for Statistics.

international assistance programmes, 317 billion lei for paving roads and other infrastructure in rural areas, 45 billion lei for completing urban development plans, 14 billion lei for implementing the cadastre system, and 1,300 billion lei as heating energy subsidies²².

The last of these items – larger than State investment in housing itself - is the most significant, in view of the poor energy efficiency of most apartment blocks, and the expected marked rise in utility costs. Utility subsidies go mostly to the utility companies to cover some of their losses from price controls and arrears in payments. Households are compensated for increasing heating tariffs by the so-called "winter subsidies".

Apart from direct subsidies, recent amendments to the Law on Value-added Tax provide for 0% VAT on housing construction. The reduced rate was originally meant only for the National Housing Agency, but was finally extended to all housing construction.

Local authority budgets are made up mainly of the local share of national income tax plus subsidies from the State budget. Independent sources accounted for 24.7% of total local government revenue in 1998 and, since 1993, the local authorities have tended to increase their own revenue and to depend less on their share of income tax. Government subsidies remain fairly stable, however, due mainly to the increase in transfers for local investment in public amenities. In 1999, housing-related expenditure constituted 37% of total expenditure²³, but the budgets themselves generally decreased in real terms and in 2000 they were expected to be 75% of the 1999 figures in real terms.

Despite housing-related spending being such a large item in local budgets, the authorities are not able fully to meet the needs of the local communities, at least in quantitative terms. The reason for this is that expenditure is either non-investment or on general infrastructure. In the city of Brasov, for example, the waiting list for municipal housing has 15,000 households on it, representing a large part of the city's 310,000 inhabitants. Although the waiting list is not solely composed of those in serious need of housing, the number reflects the extent of the community's unsatisfied housing aspirations, and the real level of overcrowding in the existing stock. The Brasov budget for the year 2000 totals 400 billion lei, but only 17 billion lei (4.25%) will be spent on providing dwellings to those in need²⁴: sufficient merely to construct or purchase several dozen apartments.

Given the local authorities' small budgets, most housing investment is financed or co-financed from central budget programmes. Housing activities for which budget funds were allocated in 2000 were:

- Housing loan interest subsidies,
- The National Housing Agency's scheme for pump-priming new construction,
- Subsidies for social housing construction,
- Subsidies for the completion of unfinished buildings,
- Consolidation of properties damaged by or in danger from earthquakes.

²² Law on the State budget for year 2000.

²³ Based on data published by the Ministry of Finance at www.mfinante.ro.

²⁴ Interview with the Brasov city hall officials, 22 July 2000.

Interest subsidies

The programme of subsidized housing loans for young couples was operational in 1997-1999 and attracted about 11,000 households. The last budget allocation was in 1999, and since 2000 no new entrants have been allowed into the system. Under the legislation, young households (preferably white-collar employees in rural areas) were offered long-term fixed rate (15%) loans to purchase their first dwellings, and the age limit for eligibility was 35 years. The loans were disbursed through the State Savings and Deposits Bank, and the State subsidy covered the difference between the fixed rate and the adjustable market rate charged by the Bank. The minimum downpayment was 30% of the property value and was also covered by the budget grant. Most purchases in the programme were for existing dwellings, which are distinctly cheaper than newly built flats. Since one aim of the programme had been to stimulate construction, in 1999 the policy was amended to stipulate that 70% of the loans had to be used to finance the purchase of newly built housing.

National Housing Agency

The policy shift from using government funding to bring down the price of housing to using it to stimulate new construction output is continued in a new government programme of affordable housing construction by the National Housing Agency. The programme, which was launched in September 1999, is the Agency's first venture.

The Agency is supposed to provide Romanians with decent housing, and the programme to relaunch new housing construction is the Agency's first activity to this end. Financial resources for the programme come from an international credit of US\$ 300 million granted to the Romanian Government, which will be transferred to the Agency as a State budget allocation. Apart from public subsidies, the Agency's income will derive mostly from interest on loans, bank deposits and government bonds. The Agency is also allowed to issue medium- and long-term bonds, guaranteed by the State.

The Agency acts both as a developer and a loan-funding institution. As developer the Agency approves contractors, supervises construction and finally sells the units to eligible households. To qualify, the prospective homebuyer has to fill in an application form and send it to the Agency, which preselects the eligible applications and forwards them to the bank (Romanian Commercial Bank, chosen on a tender basis). The bank analyses the applicant's ability to repay and issues a so-called "solvency certificate". The applications with solvency certificates are returned to the Agency, which finally decides which applicants will get a dwelling. The beneficiaries are selected according to a number of criteria divided into three groups:

- Loan parameters,
- The applicant's personal situation, and
- The applicant's credit history.

Applicants score points against the various criteria. The points, however, are not simply totted up, it is the highest score for any criterion in any group that counts. The higher the number of points, the higher the applicant is on the list. The point scoring criteria are summarized below:

Table 19. NHA criteria (as of May 2000)

<i>Criterion</i>	<i>Number of points</i>
Credit parameters	
Downpayment (for applicants under 35 years of age)	
• First 10% of total loan	10
• Every additional 2%	+ 2
Downpayment (applicants over 35)	
• First 20%	10
• + 2%	+ 2
Loan term	
• 10 years	30
• + 1 year	- 2
Applicant's situation	
• Married	10
• One-parent family	8
• Single with a dependant	3
• Single without dependants	0
• Additional dependants (/handicapped dependants)	2 (/3)
• Applicant handicapped	10
• Applicant's dwelling destroyed by natural disaster	40
• Does not own or rent dwelling	25
• Evicted as a result of restitution	10
• Evicted as a result of retirement from service	10
• Rents a dwelling with less than 6 m ² per person	10
• Rents a dwelling with 6.1–8 m ² per person	5
• Evicted as a result of court decision	5
Credit history	
• Takes out a loan for the first time	15
• Took out a loan but defaulted (and was evicted as a result of court decision)	5

Source: National Housing Agency.

The Agency puts the construction work out to public tender. The contractors have to provide their own designs and financial packages. The designs have to use traditional materials and conform with EU thermal insulation standards. The period of construction cannot exceed 12 months. The construction cost limits are also fixed by the Agency. The maximum profit margin for the contractor is 5%. The final price is stipulated in the contract and includes a fixed estimate for inflation, which is an incentive to finish construction quickly. Apart from the contract between the Agency and the building company, the individuals have separate contracts with the building contractor, because, as owners of the land, they have an equity interest as actual investors. In multi-household buildings, no construction can begin until 70% of the apartments have been presold.

There are arrangements which keep the prices of NHA dwellings lower than market prices. The Agency is obliged to make arrangements with the respective local authorities to support its housing schemes. Under such arrangements, for example, serviced plots of land are provided free of charge by the authority. The legislation stipulates that the final beneficiary is

granted the ownership or the right to use the land for the entire life of the building on preferential terms. The beneficiary will also be exempt from property taxes during the loan repayment period and the cost of issuing the building permit is covered by the NHA.

The NHA will also act as a creditor to selected applicants. Legislation enables the Agency to grant mortgage loans from its resources to investors (individuals and legal entities) and to general contractors. These loans are supposed to be offered at belowmarket interest rates. The loan is funded from the Agency's resources, but, as the Agency is not a financial institution, the actual credit contract is concluded between the customer and a bank, which has a cooperation agreement for this purpose with the Agency. The bank is a representative of the Agency in relations with the borrowers just as the Agency represents the customer in relations with the building contractor. The terms of the NHA loans as of July 2000 were as follows:

- Duration of up to 20 years,
- Minimum downpayment of 25% of the value of the property,
- Denominated in euro,
- Interest rates starting from 7% for individuals and 10% for legal persons,
- Equal instalments throughout the repayment period,
- Mortgage on purchased property as collateral, and
- No court decision required to repossess the property in case of default.

In mid-2000, some 300 apartments were under construction, and completion of the first 60 dwellings, in three 4-storey blocks in Brasov was scheduled for the end of the year. The Agency also granted 110 loans for the purchase of existing dwellings.

Social housing

A new social housing construction programme was initiated in 2000, financed from an international credit line of US\$ 340 million, of which US\$ 280 million is to be spent on infrastructure construction in rural areas and the remaining US\$ 60 million on public rental housing. The projects funded by this loan, which are to be built to strict quality standards, have to be approved by the Ministry of Public Works, Transport and Housing, after which the Government will invite tenders from building companies, which also have to offer a financial package. The subsidy cannot exceed 60% of the construction cost and will be paid to the municipality once the construction is completed. The success or otherwise of this initiative will almost certainly depend upon the ability of the local authorities to ensure that financial arrangements prior to receipt of the subsidy can produce affordable housing for those in need cost-effectively.

Further social housing is financed exclusively from local budgets. Usually local authorities use their own funds for the purchase of existing dwellings – i.e. buying back former social housing - to replenish their stock. In Bucharest, however, the City Council prefers to build new dwellings, even when it is not supported by the State budget. The reason is that new housing will be safer and better insulated than the 25 to 30-year-old dwellings available. Recently, newly constructed social units in Bucharest outnumbered purchased ones by a factor of 3.

Usually, no special funds are allocated in local budgets for renovation, which has to be financed from rents collected by municipal housing management companies. As a consequence

– and because of the authorities' relatively low revenue –they are not investing sufficiently in repairing and maintaining their stock. Therefore, as in the private sector in general, the overall standard of the housing stock is declining with time.

Unfinished buildings

There is a programme aimed at completing the blocks of flats which had been started by the Government before 1990 and never finished due to the subsequent withdrawal of the State from direct housing provision. The problem was particularly acute in Bucharest, where some 25,000 dwellings had been left unfinished. The completion work started as early as 1990 and was carried out mostly by the local authorities. In 1994, Ordinance 19 was adopted to provide for central government assistance for completion; and special funds were set up locally to raise capital for completion. The funds are made up of proceeds from the sale of finished dwellings, matched by central budget subsidies. In Bucharest, the local administration had completed 10,000 units by the end of 1993, and then a further 10,000 under Ordinance 19. The programme is now slowing down, with fewer than 500 units expected to have been finished in the year 2000.

Consolidation

Romania being an area of major seismic activity (see fig.1.1), built structures need to be resistant to earthquakes and respect certain safety standards. Unfortunately, some of the existing – especially older – housing stock does not do so. The Government is addressing this issue through a consolidation programme. Two kinds of activity are financed through the programme:

- The identification of the most endangered structures by technical analyses,
- The actual consolidation work.

A number of buildings have already been identified as class 1 endangered and tender procedures to select contractors started. Budget allocations for consolidation are relatively low. In Bucharest, only 12 consolidation projects were being prepared in July 2000. Assistance is transferred either as grants or interest subsidies for families with above-average incomes, who can obtain loans to finance the consolidation work.

D. Mortgage markets

As in other central and east European countries, the financing of housing investment in Romania relies almost exclusively on investors' cash resources and informal lending (from family or friends). Some financing comes from the government programmes described in section C. Long-term growth of investment in housing requires, however, an effective market-based housing finance system, which can be defined as the institutional and legal arrangements in the financial market which are intended to provide access to finance for housing-related investment. Three basic models of housing finance system can be distinguished in terms of the way the capital is raised by the lending institution:

- Commercial bank model – loans funded from short-term deposits (present universally on a bigger or smaller scale),
- Contract savings model – loans funded from long-term deposits of other participants in the system (distinct local variations in countries like Germany, France or the United Kingdom),

- Secondary market model – loans funded on the capital market through different types of securities issued against existing loans (basic in the United States and Denmark, very strong in Germany and the United Kingdom).

It is by no means certain which of the three systems will prevail in Romania. Commercial bank lending is only just beginning to develop, and a legal base for secondary market development has already been adopted. Additionally, there are indications that contract savings institutions (German *Bausparkassen*) are interested in entering the Romanian market. Still, there are some basic macroeconomic, institutional and legal requirements that the economy and the banking sector will have to meet before any housing finance system can be established in the country:

- The inflation rate has to be relatively low, though not necessarily one-digit, or
- With higher inflation rates, the economy would need to present good prospects for them to fall;
- Basic institutions guaranteeing a true market economy, and especially a market-oriented banking sector, including a strong, independent central bank with a successful record of supervision over credit institutions;
- A reliable system for the confirmation of title to property; and
- The means for the housing aspirations of households to be transformed into effective demand for housing finance.

Inflation

Compared to most central and east European countries, Romania was much less successful in curbing the high inflation typical of the early stages of economic transition. Over the 1990s prices proved very volatile, and although in 1996 inflation was brought down to 32.3% (from 136.7% in 1995), it rocketed up to 154.8% in 1997. The subsequent inflation rates were 59.1% in 1998 and 45.8% in 1999. With such high and volatile inflation rates, it comes as no surprise that housing finance systems are developing slowly in Romania. However, recent economic policy statements, such as “The National Medium-term Development Strategy of the Romanian Economy”, show a determination to improve the macroeconomic indicators and create better conditions for the development of the housing finance in Romania. The Government planned an inflation rate of 25% in the year 2000. Success in doing so would certainly open good business opportunities for those interested in lending for housing in Romania. The level achieved is estimated to have been 43.5%, which means that this foundation of sound housing finance is still a matter for the future.

Inflation affects housing finance mostly through interest rates, which are decisive for the affordability of housing loans. Unsurprisingly, interest rates are fairly high and volatile. Table 20 illustrates the development of average lending and deposit rates offered to non-bank customers in 1997 and 1998.

Table 20. Interest rates for non-bank customers in 1997 and 1998 (% a year)

Month	Lending rates		Deposit rates	
	1997	1998	1997	1998
January	53.2	59.8	39.0	36.3
February	69.7	62.0	58.7	40.1
March	108.0	62.1	96.6	40.6
April	112.7	60.7	94.9	39.6
May	109.0	57.4	87.5	38.2
June	91.4	53.2	73.8	34.3
July	69.0	48.5	47.4	32.4
August	52.8	47.0	38.4	32.1
September	49.8	47.9	33.8	33.5
October	48.1	53.0	32.7	37.5
November	50.5	54.3	32.9	40.4
December	55.6	58.9	34.1	42.3

Source: National Bank of Romania, *Annual Report 1998*.

The volatility of interest rates makes housing loans typical adjustable rate mortgages with very frequent adjustment periods. Banc Post, for example, adjusts rates on its housing loans every two to three months.

Table 20 shows another feature of the current interest rate situation, namely the existence of large spreads between deposit and lending rates, usually between 10% and 20%. This can be seen as symptomatic of the high risk entailed in the lending business (and consequently the tendency for banks to invest in lower risk Treasury bills, which in addition are offered at favourable rates). It may also indicate inefficiencies in banking sector operations; however, this situation is likely to improve, as the legal environment for banking activities is improving and the banking sector is being privatized and restructured.

Banking institutions

At the end of 1998 there were 45 banks in Romania, with total net assets of 130,500,000 billion lei. The number of banks is indicative of the fast development of the banking sector since 1991, when there were only eight banks in Romania. Most banks are newly established medium or small private banks (Romanian, but with foreign or domestic capital), or branches of foreign banks. Only one bank (CEC) is wholly owned by the State, although the State is the majority shareholder in the few big banks, and the Government has already declared plans for their privatization.

The sector reacts quickly to the general performance of the country's economy. The upsurge of inflation in 1997 affected the banking system's key financial indicators; and in 1998, the ratio of non-performing loans rose to 54% (from 43% in 1996), half of which were not properly collateralized. It should be noted, however, that if problem banks are excluded, risk credit ratios are much more favourable. However, this phenomenon mostly concerns lending to companies; lending to households is much less risky. However, though increasing, lending to households is still low: at the end of 1998 it represented 5% of all credit, of which overdue credit

accounted for only 3.3%²⁵. Although bad loans affect individual banks' financial standing, the sector as a whole does not seem to be in danger of collapsing, thanks to the well-developed and prudent regulatory framework of the National Bank of Romania, and its effective bank licensing and supervision policies.

The banking sector shows strong prospects of development and competitiveness, including in lending for housing business. Lending for housing purposes is one of the objectives of a number of existing banks²⁶:

- Romanian Commercial Bank (majority State-owned, big),
- Romanian Bank for Development (privatized, medium),
- CEC (State-owned, medium).
- Banc Post (privatized, small),
- Bank Ian Tiriuc (private, small),
- Bank Transylvania (private, small).

The above-mentioned banks offer market-rate loans for housing purposes. However, their operations in the housing market are fairly limited. If we discount CEC, which until recently offered subsidized housing loans, credit for housing purposes forms a very small portion of banks' total assets (1–2%). The terms of the housing credit product currently offered to individuals by the Romanian banking sector can be illustrated by the example of Banc Post.

In August 2000, Banc Post was offering two types of housing loan, and was about to introduce another type. The three are:

- The short- or medium-term loan for buying and/or upgrading properties (2–5 years),
- The long-term construction loan (up to 15 years),
- The mortgage loan (new product).

The basic difference between the construction loan and the mortgage loan is the way the credit is collateralized. Until recently the banks could not accept the property that they were to finance as collateral. With the construction loan, Banc Post accepts as collateral real estate other than the property being purchased, the value of which has to be 25% higher than the loan plus annual interest. Banking Law rules apply to foreclosure, which means in practice that the lender would have to go to court to foreclose, and, if the court decision were favourable, supply the evicted borrower with alternative housing – a socially supportive measure, which unfortunately hinders the lending of money for housing construction. In contrast, the mortgage loan granted under the Law of 1999 can be secured by the purchased or constructed property being financed. Repossession of the collateral is effective at 30 days' notice without any judicial procedure nor the need to provide the borrower with another dwelling. Presumably, the other terms of a mortgage loan will not be very different from existing products, that is:

- Interest rates – adjustable (in the case of a mortgage loan - under the Mortgage Credit Law - rate adjustments have to be related to certain reference indexes approved by the National Bank of Romania),
- Minimum downpayment – 20% for purchase and 30% for construction,
- Borrower's effort ratio – monthly repayment of principal and interest not exceeding one third of net monthly household income,
- Loan currency – Romanian lei or selected foreign currencies.

²⁵ All data concerning the performance of the banking sector come from the 1998 Annual Report of the National Bank of Romania.

²⁶ Source: The Prospects for housing finance in Romania, prepared by the Urban Institute for USAID East European Regional Housing Sector Assistance Project, December 1999.

An effective housing finance system requires an adequate supporting infrastructure, including property valuation and credit information systems. For property valuation, cooperation has been established between the banking sector and the leading association of property valuers (ANVAR) (see chapter III). ANVAR has prepared valuation standards approved by the National Bank of Romania and the Securities Commission. ANVAR has also trained 400 credit officers in the major banks. The nationwide database for property values is currently operated by ANVAR; but it has now been recognized that the service should be established on a business basis, which ANVAR neither wants nor is able to do. Romania does not yet have credit bureaux to provide banks with a prospective borrower's credit history, but a register of loans over 200,000 million lei is available at the National Bank of Romania.

The Romanian banks are clearly open to innovation in housing finance, as can be seen from a new mortgage insurance scheme to be launched by a group of banks. Apart from the obligatory insurance of mortgaged property (a requirement under the Mortgage Credit Law), the banks intend to introduce optional insurance for loan repayment, which can be used to relax credit contract terms for certain groups of borrowers. The target group is middle-income borrowers well able to repay, who are interested in good-quality housing. The Mortgage Guarantee Fund (modelled on the existing Romanian Loan Guarantee Fund) will be established with the interested banks as shareholders. The Fund's major source of capital will be the international markets. A programme is planned for US\$ 500 million worth of mortgages over 10 years (15,000 properties), and will be preceded by a pilot financing project for 60 homes. Before any guarantee will be issued, the Fund will approve the lender, the borrower and the property. The insurance premium will be 8% of the value of the mortgage, amortized over 15 years of the mortgage life. Due to credit risk sharing, the innovation should bring about lower interest rates on mortgages, and possibly a relaxation of other loan parameters, such as the minimum downpayment.

Housing loans in Romania are currently funded from short-term deposits, despite chapter VI of the Mortgage Credit Law allowing alternative funding, namely the issue of mortgage bonds against existing mortgages. The implied secondary market for mortgages seems, however, a very distant option, since the system would require a more elaborate regulatory framework than exists at present, and would still need to be worked out. Moreover, the banks have not yet been able to build suitable mortgage portfolios.

Right to title

One of the crucial issues for the development of housing finance is clear ownership rights for any real estate subject to market transactions, supported by an effective and reliable title registration system. Part of the legacy of communist rule in Romania is the countless claims to formerly nationalized real estate. It will probably take a further decade to sort out this issue. In the meantime, the unclear status of land and buildings will continue to inhibit the development of mortgage financing, because it excludes a large portion of the real estate market which is considered too great a risk for potential mortgage lenders. The Government is currently working on the country's cadastre system, one function of which will be the legal confirmation of titles to property.

Creating effective demand

As mentioned in section B, restrictions on effective demand for housing are mostly income-related. New dwellings are too expensive for many people but existing units are more affordable. Similarly, the accessibility of housing finance itself can depend on the type of the product that is for sale. Under present conditions, and reflecting the level of interest rates and income distribution among the population, the potential market for adjustable rate mortgages is very restricted; and this is mostly due to the very high cost for a borrower of the initial phase of loan repayment. The dilemma currently facing most would-be house buyers in Romania is: to reduce the loan repayment/household budget ratio to a level acceptable to the bank, the loan has to be smaller, and this pushes the would-be purchaser towards cheaper property (for example, an existing unit instead of a new one). But even then, for most households, it also requires a larger initial downpayment, which they cannot afford.

Models for addressing this problem have been developed successfully in other countries. For example, in Mexico and Poland, banks have approached the need to make loans available to lower-income groups by introducing mortgage plans which distribute the burden of loan repayment in a way that is far more tolerable to the borrower. One such is a dual-indexed mortgage, in which the interest rate and monthly payment amounts are based on two different indices (repayments usually follow the movement of wages in the economy). The DIM product technology is fairly complicated, but the example of Poland shows that it can be absorbed even in the early stages of transition.

E. Typical financing structures

Private housing construction companies

In Romania 90% of all new housing construction is financed from private funds. The public sector from rental housing construction. The National Housing Agency's programme and other government programmes directed at owner-occupancy are responsible for only a fraction of newly built owner-occupied dwellings.

The construction of single-family housing in rural areas is usually managed by the prospective owners without any public assistance. In contrast, new homes in urban areas are usually offered by market-based developers. Unlike some publicly supported construction programmes, described in detail in **section C**, private-sector housing projects do not entail sophisticated financing patterns. The initial project capital, which is sometimes funded from a short-term loan, buys the land and covers the administrative costs of the necessary permits. Before any actual construction work starts, the developer pre-sells some or all of the dwellings to be built in order to obtain finance for the construction work. A standard initial instalment for prospective owners is 15% of the agreed purchase price of the property. Instalments are indexed to a foreign currency, typically the United States dollar, and customers often offer to pay much more up-front to protect against the effect of inflation on exchange rates. Such prepayments can then be treated as credit to the developer and bear an annual interest of 10%. Late payments, however, will be treated as credit to the customer, for which the developer will charge something like 14% a year. The development company is additionally insured against losses as a result of late payments. The money for instalments can come either from the purchaser's savings or from

a loan. As indicated in the previous sections, housing investment is still financed primarily with cash.

The funding of housing-related infrastructure

The municipalities are responsible for providing access to sewerage and water networks, while national utility companies provide other types of infrastructure. While funds for large-scale infrastructure projects, and some infrastructure in rural areas, can attract international assistance – e.g. programmes mentioned in **section C** - the financing of service provision in urban areas is problematic. The limited investment capacity of local authorities and utility companies forces the providers to seek investment capital elsewhere, or to fail to meet their obligations. Typically, therefore, if they are to develop housing on a piece of land, developers will have to finance the construction of the infrastructure networks themselves. As they cannot own the infrastructure, they have to transfer it free of charge to the relevant utility companies, which implies ultimately a cost to be borne by the final home-buyer. The situation for commercial housing developers is about to become even worse, since municipalities are now obliged to dedicate funds primarily to infrastructure for land to be used in NHA projects.

Maintenance and renewal

The Romanian tenure structure is heavily biased toward owner-occupation. Normally, this might be expected to have a positive effect on the finance available for maintenance and renewal. However, this is not the case in Romania, since most owners are not rich. The financing of renovation is particularly problematic in the multi-family stock, whose owner-occupiers are the result of either restitution or the “give-away” privatization process. In particular, the common parts of the multi-family buildings often need serious repairs or modernization. The joint-owners’ ability to pay for proper maintenance, let alone dedicate additional resources to renovation work, is very restricted. For organizational and cost reasons a loan for this purpose is an even more distant option. Currently, the State does not offer any subsidies to owner-occupiers to solve this problem. There are micro-finance schemes using international resources; but their scope is very restricted. On the other hand, the market for refurbishing individual dwellings seems to be blooming, giving employment to a multitude of petty entrepreneurs. This kind of renovation is increasingly financed by bank credit.

The situation in rented stock seems no better. Rental housing is mostly in municipally owned stock. Rents are regulated by legislation. According to the Housing Act, rent should cover “maintenance, repair, taxes, return on investment”, which, if applied, would provide sufficient income to landlords. However, the rents cannot be raised above a legal ceiling of 25% of the household’s income. This level is deemed to be economic, and to yield an income stream able to cover the expenditure recognized in law as necessary; however, given the relatively low incomes of current tenants, it is usually insufficient for proper maintenance and repair.

The situation is even worse in the social housing rental stock, whose tenants can be charged no more than 10% of the household’s income. Legislation places the same responsibility on landlords to ensure the upkeep of the properties, but assumes that the difference between rental income and expenditure can be covered from the local authority’s budget. The authorities find that other urgent priorities prevent this, which implies that the social housing stock will be deteriorating even faster than in the private sector.

Up to 1999, when rent levels were adjusted to catch up with general price inflation, rents in Romania were symbolic, and amounted to 300 lei/m² per month. Currently in Bucharest, they range from 7,000 lei/m² in zone I to 2,000 lei/m² in zone III. Around 40% of non-social rental stock in the city falls under rent controls (i.e. is subsidized). Social housing in Bucharest forms a very small portion of the stock and is allocated to the poorest families. In the year 2000 only about 4 billion lei were allocated for repairs to public stock in the Bucharest municipal budget.

SUMMARY AND RECOMMENDATIONS

Overview

Romania is a country in transition from a socialist planned to market economy. At present, it is experiencing a number of significant housing problems. The country also faces several major challenges to action over the coming years, and a failure to address these adequately is likely to result in the housing problems growing to insuperable proportions.

Set against this negative background, there are some promising signs for the future. Over the past few years, the Government – primarily the Ministry of Housing and Planning – has become increasingly active in the formulation of housing policy, and has taken various initiatives in housing issues. Nonetheless, however essential and effective these might be, they are not sufficient to deal with the scale and complexity of the country's housing problems.

One positive initiative by the Government was its request to the United Nations Economic Commission for Europe for this country profile on housing. This reflects an honest appraisal of the situation, acknowledging that Romania might benefit from an objective external view of its housing situation. In this same spirit, the profile aims at an entirely honest description and assessment of the housing situation in the country: its problems, the effectiveness of measures taken to date to address them, and the options for future action.

Perhaps the greatest danger facing the country's housing is a failure to recognize the scale and complexity of the issues. This is exacerbated by the fact that recent housing initiatives do appear to be beneficial, but in a very narrow area. There is a danger that this success might distract attention from all the other issues not yet being addressed, leading to complacency by those in authority, and the public who are keen to see real progress, which in turn might prevent action until it is too late. The request to the United Nations Economic Commission for Europe can be taken as clear evidence that the Romanian Government is not complacent about the current situation, and will welcome its attention being drawn to all the areas which need it.

Strategic priorities for housing policy

To focus this study, it was essential to identify the objectives of Romania's housing policy. There is no shortage of strategies, policies and legislation in which aspirations for the country's future housing are set out; and, yet, these aspirations have produced few concrete objectives or practical measures. It therefore became imperative to assess the concrete housing issues facing the country and its citizens, and for their implicit problems to be tackled by policy and action. This led to one of the key conclusions of the study, namely that there is a marked difference between the material circumstances of housing in Romania and current official priorities.

Public expenditure on housing

Judging by the size of budget allocations, housing is neither a national nor a local political priority. This reflects the attention being given to more urgent and politically sensitive issues, and the tight budgetary policies necessary if EU applicants such as Romania are to comply with the Maastricht criteria. More significantly, the prevailing view in official circles – at least at the national level – appears to be that the only major housing problem requiring

government intervention is the need to "kick-start" the market in house purchases: all else can be left to market forces.

Despite the relatively low level of direct budget allocations for housing, considerable public resources can actually be seen to flow indirectly into housing. This takes a variety of forms. Some reflect the fact that not all areas are market-oriented: as for example real expenditure in subsidizing utility services; or the opportunity costs of artificially low public rents, State land provided free for development, and tax-free periods following privatization. More hidden is the relatively unrecognized enormous depreciating asset value of the country's housing stock due to insufficient investment in maintenance and repair - a loss for both state and private owners. This again reflects the lack of appreciation of market values which would come from a well-established market.

Public spending on housing is also poorly targeted. The strategy for public investment in housing in other countries usually follows policies:

- To stimulate investment among elements of the population who otherwise would not invest in housing,
- To provide housing (or services) to those who are not in a position to afford suitable housing (services) in the market.

Within the strategy, investment is usually targeted on those housing sector areas which need priority due to the urgency or intensity of their need. In Romania, in contrast, the main focus of current public expenditure is the National Housing Agency, whose activities apparently do not concentrate on those areas most in need of government investment. For example, the NHA is undoubtedly building new good-quality dwellings, which are sold at reduced price to customers without checking whether they can afford to (or intended to) buy at market prices or not.

Poor targeting is also evident in the allocation of subsidies to the public rental stock and utilities, when the subsidy (of either rents or utility bills) is applied across the board irrespective of the household income. Basically, the rental stock is subsidized through rent controls, which is commonly recognized as an obsolete method. Even though the public rental stock in Romania is very small by any European standards - which means that rent controls do not greatly interfere with the owner-occupied sector - it can still hinder the growth of the private rental sector, limit the housing mobility of tenants, and - most importantly - adversely affect the physical condition of the rental stock to which it is applied.

Additionally, there are evident gaps in housing expenditure policy. There are no readily available subsidy mechanisms in cases of massive natural disasters which destroy substantial housing stock. Yet Romania is endangered by both floods and earthquakes. Recent experience indicates that ad hoc measures to enable reconstruction or provide alternative permanent housing usually entail delays and highly inefficient public spending.

There is also no policy for ensuring that the housing authorities can provide enough adequate shelter for homeless people, as described in more detail below. Romania lacks supply-side subsidies. An insufficient supply of land for housing construction, with adequate infrastructure, pushes costs and prices up. Responsibility for infrastructure was transferred to the local authorities, but local budgets cannot support the task.

Actions aimed at improving housing conditions could generate additional resources, in what could prove to be a "virtuous circle". For example, a greater taxable base for public investment could be created in the building material and construction industries through massive increases in turnover from the necessary repair, renovation and new construction work. More use of economic rents and utility charges could service loans raised for commercial investment. A more secure housing market combined with better appreciation of asset value could stimulate and justify increased private investment by homeowners.

The housing market

The environment for housing finance is steadily improving (both in institutional and macroeconomic terms), but this started from a very low base; and there is still only a very rudimentary market-based housing finance system in Romania. Macroeconomic conditions will hinder the development of housing finance in Romania in the years to come. How long they will do so depends on the sustainability of the present macroeconomic policies. The prevailing strict budgetary and monetary policies are both conducive and obstructive to the development of the housing sector: conducive in the long run in bringing stability; and obstructive in the short run due to the need for cuts in expenditure and high real interest rates.

The Romanian loan market is dominated by the few commercial banks, which fund housing loans from short-term deposits. The supply of housing loans is limited in both scale and variety for both individual home-buyers and private residential developers. Public spending always interferes with markets; and the government-sponsored programme of relaunching new housing construction through the NHA is no exception. It creates unequal competition, since NHA projects are basically directed at the same customer as those of private developers and the NHA enjoys special privileges and ultimately a price advantage over private developers. If adequately capitalized, the NHA can crowd out the competition in the market, bringing business success, but not necessarily to the real benefit of market development.

The National Housing Agency

Created by the Government to work to a policy agenda, but under market conditions, the NHA can be seen as a way to "privatize" housing policy. The NHA has been assigned tasks which are typically performed by governments. There is nothing intrinsically wrong with this approach, but, in the Romanian context, it poses certain risks to housing policy effectiveness. The risks can be characterized in the following scenarios:

- **Policy.** Early success in delivering on objectives in one area of operation - whether factual or window-dressing - could easily lead to a strong perception of the effectiveness of the Agency's operations. This might lead decisionmakers to assume that this effectiveness will apply to whatever the Agency undertakes, and reinforce a tendency to believe that such an agency working through market mechanisms is the only way to address all housing problems. One consequence might be to give the Agency a free hand, not only to implement, but also to formulate, all housing policies. Consequently, the NHA could develop by default into the only agent on the housing policy scene. Since Romania lacks certain important policies at national level (see below), this kind of autonomy for a market-oriented body without political direction could be very risky.

- **Practicalities.** The Agency was apparently devised as a self-perpetuating “investment machine”, in which, having been set up with its initial public capital, funds revolve and generate ever more private funds. However, this is likely to prove false: because the funds will almost certainly not revolve fast enough to meet any demand substantial enough to start meeting Romania’s housing needs. Misplaced trust in the ability of this model of financial engineering to deliver could lead the Government and Parliament to limit or completely cut off public funding at a time when further input is required. Equally, if the NHA became a major (or the only) channel for transferring public funds into housing construction, its funding requirements might divert most or all public money available for housing away from other schemes that meet other needs.

System-built apartment blocks

A large part of Romania’s housing stock consists of blocks of apartments constructed by the State using various forms of system building. The vast majority of these apartments have been sold into private ownership, a measure which enjoyed widespread support at the time, reflecting the population’s strong preference for owning their home.

A number of major problems have been identified in connection with these apartment blocks:

- **Physical.** A small but significant number of blocks suffer from major structural problems. The vast majority are very poorly insulated, causing major discomfort and endangering health and even life in both the heat of summer and cold of winter. Poor insulation together with badly maintained internal and external infrastructure for utility services lead to high wastage and costs in provision. One fundamental issue is that there has been no survey of these physical conditions, and therefore there is no firm knowledge of their scale and extent, nor of the costs of rectifying them.

- **Institutional.** The ownership of the blocks was fragmented into multiple ownership of the separate apartments within condominiums, including continuing public ownership where tenants were unable or unwilling to buy. This situation has been further complicated by the letting and subletting of some apartments. The handling of building work, payments for utility services, and other matters of common interest to condominium residents depends on the effectiveness of their homeowners’ associations. This varies considerably and has no firm legal basis.

- **Economic.** After meeting their everyday living costs, few households owning apartments have sufficient disposable income left to contribute to the costs of cyclical maintenance and minor repairs; and even fewer can save for major repairs to their buildings. As a consequence, the general condition of the apartment blocks can be expected to deteriorate, rendering an increasing number unfit for habitation. A significant minority of households (typically older people on fixed pensions) cannot afford even to meet their heating and other utility bills and their tenure can only be maintained if the State-owned utility companies are subsidized and tolerate arrears.

- **Financial.** Although the ownership of an apartment represents a real financial asset, the general lack of maintenance and repair can easily imply a significant risk for any potential

private investor, making it relatively difficult for homeowners to raise mortgages in a poorly developed financial market. There is also little public funding available for homeowners.

- **Social.** Many households are investing money in improving their own apartments. However, investing in the jointly-owned building structure or utility infrastructure is often impossible because either some resident households cannot afford to contribute or because cooperation within the homeowners' association, if there is one, is poorly developed. The situation is being exacerbated as those who can afford to do so are moving out of the apartments to purchase newer and/or better quality properties. This can be seen as the first stage of a social polarization, which will lead to an increasing concentration of poorer households in these apartment blocks. Unless these issues are addressed, Romania faces the prospect of emerging ghettos of poorer households literally trapped as owners or tenants of unsuitable properties that they cannot afford to maintain.

Older family houses in urban areas

While not experiencing the same problems of shared responsibilities as the new owners of apartments in condominiums, the residents of older family houses do share the economic and financial limitations of those living in apartment blocks. Equally, although the physical condition of their homes tends to be better than that of apartment blocks, its maintenance and repair has been typically neglected for decades, and therefore also represents a major challenge. In short, additional investment into this sector of the housing stock is needed to avoid its further deterioration. An additional problem for many residents in this stock is the threat of losing their home through claims for restitution by the former owners or their descendants.

Rural housing

The nature and condition of the rural housing stock is very varied, and care must be taken in generalizing. There are nonetheless extreme cases of unfitness, typically associated with poorly maintained traditional timber and earth structures.

Rural housing problems are even more associated with poor energy efficiency, the inadequacy and cost of utility provision other aspects of the physical infrastructure, and poor commercial and social amenities in rural settlements. In other words, it would be more appropriate to speak of the housing dimension of the complex of problems generally besetting rural areas in Romania, rather than rural housing problems.

New housing produced by the market

Since the housing market in Romania is not well developed, it is not surprising to find new market generated construction to be very limited. Nonetheless, its quality is generally acceptable: the problem is rather the selling price which limits accessibility to a relatively very small portion of the population. This price is governed partly by the inefficiencies associated with obtaining serviced building sites, and partly by the cost of finance, materials and construction in an as yet insufficiently developed market economy. The efforts made to introduce innovative building methods and materials to produce new homes at lower cost have not been generally welcomed by potential customers. Although attributed by commentators to an

inherent conservatism, this could equally reflect disillusionment with system-building methods used for apartment blocks in the 1960s.

New social housing

The construction of new social housing is currently negligible. This can be attributed to the lack of public funding, or to the stifling of debate on the subject due to the received wisdom that there is no actual need for more social housing. Nonetheless, there are signs of tension which will resurrect this issue: not least a growing number of evictions and increasing homelessness, but also the mismatch between households and their living space, or between households' income and their increasing housing costs. Emergencies like earthquakes and floods are another reason for keeping a significant public housing stock, which would reduce the volume of instant expenditure should a disaster occur.

Conclusions and recommendations

Despite the scale of the housing problems facing Romania, effective solutions are possible. They will, however, demand considerable immediate action by the State. In other words, the free market alone will not be sufficient to deal with the country's present and future housing problems.

Romanian will need to make much more funding available for direct investment in housing. This could be found by redirecting resources currently wasted as indirect funding for housing-related issues. However, the State cannot realistically be expected to meet more than a small proportion of resource requirements, and the need for State action covers much more than investment. Considerable private investment must be made available to deal with housing problems over the next years. This private investment must come not only from corporate commercial sources, but also, to a large degree, from ordinary households in the country. So the Romanian Government has a very clear and significant role in developing and maintaining a suitable framework for encouraging, facilitating and helping direct private investment into housing so as to solve the various problems. This will require a better understanding of the housing sector and, on this basis, a strategic approach going well beyond the current expressions of intent, and setting out clear plans and programmes to achieve the objectives. It is hoped that this report will provide a practicable and appropriate basis for this understanding and strategic approach.

This country profile makes a number of recommendations to the Romanian Government, drawn from the analysis and conclusions in the various chapters. In the schedule below can be seen an embryonic strategy which is recommended by the UNECE team of experts:

General Approach of the National Government

The overriding need is for the Romanian Government to recognize the scale, extent and complexity of housing problems in the country. Consequently the Government will need to be committed to much greater active intervention in the country's housing markets than at present, if it is to improve the effectiveness and efficiency of market operations. If the political will for this change is lacking, the implementation of all other recommendations will be ineffective.

Moreover, certain aspects of the current situation require immediate intervention by the Government to prevent the situation getting out of control.

Without in any way wishing to question the importance of market forces in dealing with many of Romania's housing problems, the experts feel that the Government will have to recognize that a very large proportion of its citizens will not be able to get satisfactory housing conditions without financial resources from outside normal markets. So further commitment will be needed to ensure the future provision of better targeted public funding. It will also probably need to be much greater than at present.

The Government is advised to pay more attention to the potential role of the housing sector in the economic development, which is one of the country's priorities. On the one hand, housing construction, repair and maintenance can be major contributors to economic activity and employment. On the other, the availability of decent housing in the right location and at the right price for the economically active population is a key component of the country's infrastructure.

Particular attention needs to be given to strategy, policy and plan formulation at all levels, with the lead being taken by the national Government. Specifically, strategic documents must be seen as the beginning, rather than the end, of processes, with far more care taken both in considering how plans and policies are to be fully implemented, and in ensuring that implementation is monitored and achieved. Specifically, the various potential stakeholders in implementation need to be involved in strategy formulation, to maximize its chances of success.

General Actions by the National Government

Legislation

Legislation on local authority finance should be revised so that funding for the housing sector and its related infrastructure becomes a priority for local administrations.

The draft laws on land-use planning, local public utilities and property restitution, which are currently before Parliament, should be approved and implemented as quickly as possible.

Romania should adopt legislation regulating financial support from the budget to persons who lose their dwellings in natural disasters. In emergencies, the State should be able to react quickly and offer subsidies (cash grants, low-interest loans, interest subsidies, State guarantees, special purpose insurance schemes, etc.) to individuals for the reconstruction of their homes, or to municipalities to acquire social housing for the victims. Support is particularly important in rural areas, where access to alternative housing is restricted, and where it is unlikely that the property lost is insured.

The Government should consider the need for legislation to support and/or enforce the wider housing role for local authorities recommended below.

The Law on the status of foreign investments should be amended to include a new clear provision on foreign investments in the construction of new dwellings so that Romanian developers do not suffer disincentives.

The legislation on the completion of unfinished buildings financed from State or local budgets should be modified so that sale at a symbolic price is possible. This would both help bring about speedier completion and permit new dwellings to be made available at lower prices or rents.

The Cadastral Law should be completed, making provision for obligatory registration. In the Law, registration terms should be clarified.

The acts relating to sites for new housing construction - e.g. Land Fund Law, Law on Public Property and its Status, Law on Leases (Concessions), building permits and building regulations - need to be reviewed and possibly consolidated with a view to removing obstacles to effective and efficient development. The current dispersal of legal provisions hinders the transparency of access to development sites.

The provisions of the Law on Quality in Construction should be revised to extend its provisions to apply also to one- and two-storey buildings, as this large segment of the stock is currently exempt from quality control.

The Housing Act should be extended by provisions covering the following:

- The organisation and obligatory registration of homeowners' associations;
- The regulation of relations between different owners in condominiums, especially regarding their efficient and effective management;
- The contracting of services from public utilities in different ways (e.g. by homeowners' associations for the whole building, or by homeowners and other residents directly).

The chapter of the Housing Act on "the renting of dwellings" should be extended with a new provision establishing an owner's right to receive information annually from the tenant on the net monthly income of the latter's household when it pays a social rent.

The Housing Act should be extended to give the developers of social housing the right to transfer these dwellings - after the tax exemption period of compensation - into the category of "free dwellings", which can then be sold by developers at market prices. This measure would be an incentive for legal entities and individuals to invest in social housing. In the present circumstances, and in order to attract private capital to the construction of social housing, these dwellings' status as "social housing" should be maintained for 5-10 years.

The Law creating the National Housing Agency (NHA) should be amended to exclude conflict with the NHA fields of activity (see arts. 1 and 2).

The draft of the Law on Local Public Utilities should be extended to include the regulation of:

- The metering of cold and hot water, gas and heating in buildings; and
- The contracting of services from the public utilities.

Institutional

A quango responsible for housing policy development (such as a restructured national centre for human settlements) should become the coordinating body and forum for the various players in the housing sector. This forum would need to be fully open to any of the institutions interested and involved in the improvement of housing conditions in Romania. One of its key aims would be better communication between organizations and authorities at different levels, permitting a partnership which could improve housing sector agendas and this would stimulate a positive future housing policy.

National priorities for housing need to be set out clearly, and a proper understanding of national housing issues should be promoted through information and debate. They should be made public and supported through the relevant institutional structures and resource distribution.

Education, training and promotion

As a priority, there should be a recognition of the need to address the mind-set of the new generation of private owner-occupiers, many of whom still feel that the repair and maintenance of their property is a duty and function of the local authority or housing maintenance company. Once this situation is accepted, the new owners have to be educated as to their responsibility to invest in their own property to protect its value, as well as to ensure its primary function - that of shelter.

Support is also needed for the continuous professional development of national and local staff in housing, planning, surveying, engineering, and other related professional disciplines, to revitalize the skills and performance of the entire housing sector.

The Government should support technical assistance schemes for banks to train their personnel in mortgage designs, for example allowing deferred payments in the initial phases of loan repayment. Such alternative designs could work in the present inflationary environment in Romania, and could be successfully used to make mortgage affordable to moderate-income households without the need for State subsidies.

Public utilities

The practice of allocating public grants to service supply companies should be replaced by a new system of targeted financial support for socially vulnerable households to help them pay for public utilities.

Homelessness

The Government should consider launching a programme to construct shelters for the homeless. Even if it is not the most pressing need, a small annual expenditure - in the form of matching grants to municipalities or charitable organizations - could avoid very significant problems in the future.

Finance

Tax incentives appear to be a suitable instrument to encourage new house construction but they should be used cautiously. For example, applying a 0% VAT rate to housing construction would have a positive influence on the cost of housing production and on the volume of investment in the sector; and for this reason the Government should give this serious consideration. However, once the lower rate were introduced, it would be politically difficult to raise it in the future, if the need were to arise. In any case, European Union regulations require that the lowered VAT rate cannot be less than 5%. The same kind of cautionary qualification applies to other tax incentives.

Property tax exemption should be provided for owners (through the homeowners' associations) who invest their own funds in the rehabilitation of multi-storey residential buildings.

Increased funding will be needed to support the increased housing activities by local authorities as recommended below. The Government will need to facilitate this, providing resources directly if necessary; and there is scope for local authorities to be enabled to raise funding themselves through higher rents, local taxes, land sales, charges for infrastructure provision, and so on - or any combination of these. However, these must be handled sensitively so as not to solve one problem by increasing local households' affordability problems.

A more supportive framework of assistance is required for the new homeowners created by privatization. Although undoubtedly involving strengthening the management of locally based owners associations, ensuring their access to micro-finance will also be essential.

General Actions by Local Government

Local authorities need to adopt a different, proactive approach to housing, in which they accept their role and responsibility in ensuring the satisfactory quality of their citizens' housing. This is an extension of - rather than a replacement for - their present landlord role. Above all, each local authority needs to gain a clear picture of the local housing situation, and to create a practical strategy for present and future problems.

Among other things, the authorities will need to embrace the need to get involved in the search for solutions for unfit and declining stock conditions in the owner-occupied sector. This would most appropriately be pursued in the framework of general urban renewal and rehabilitation policies.

A key requirement will be to monitor local housing markets, and to gain a greater understanding of them as they evolve. The authorities cannot solve all, or possibly any, problems alone, and will need to work in partnership with others. They will therefore need to harness market forces as far as practicable, and to ensure that they are not inadvertently working against them.

A useful partnership for the authorities will often be with the local communities, including the groups of households in the owners' associations in condominiums. Here and elsewhere,

they could develop programmes to support local action and community management and hence use the potential for self-help and the investment of residents' own financial resources.

Local authorities will find that, in accepting the need to facilitate the access of vulnerable groups to suitable housing, there is a need to anticipate future needs rather than rely on the needs manifesting themselves. They will, of course, need to provide funds for new social housing; but, to use these effectively, the housing should be planned and designed to match the nature of the special needs.

New Housing Construction and NHA

If subsidizing new home purchases is to continue as a policy, substantial funds should be channelled to the municipalities for the construction of housing-related infrastructure. With growing demand, the restricted supply of serviced land for housing construction is one of the most important factors in generating higher costs and prices. Supporting the supply side of the housing market is crucial if measures to stimulate demand for housing are to be implemented at the same time. Most demand-side subsidies will have been wasted if the newly generated demand causes price increases when combined with insufficient supply. The NHA housing construction programme does avoid this problem, but only because of the existing situation, in which the subsidy is in fact free access to development land.

The subsidies and other benefits accruing to the NHA represent a great price advantage over other developers. The NHA should avoid the risk of taking – or appearing to take – advantage of its statutory powers to compete with private developers in the same housing market. NHA involvement in the production of new housing for sale should target those segments of the housing market which are unable otherwise to attract sufficient finance. To do otherwise creates a great risk of using considerable public resources for little net benefit to the general housing situation. NHA resources should be directed to those areas of housing where the need for investment is not satisfied by private investors (e.g. social housing, or rental housing in general, consolidation, renovation). This shift would also allow the local authorities to tackle the real needs of the sector and allocate public resources more efficiently.

The statutory framework for the operation of the National Housing Agency should be revised as follows:

- By introducing sunset clauses into the Law on the National Housing Agency; the operational objectives of the NHA should be clearly stated and, after the achievement of these (or after a stated period of time) the programme should be phased out or privatized;
- By redesigning socially oriented criteria for applicants to the NHA programme (e.g. introducing maximum income eligibility caps) and giving these criteria more weight;
- By introducing further restrictions on the selling of newly built NHA dwellings by their owners.

Unfitness within the Housing Stock - Condominiums

The Ministry of Public Works, Transport and Housing should complete its assessment of the condition of the housing stock and quantify the investment needed to meet minimum standards. The results should then be fed directly into the policy-making process to inform the creation of a national strategic framework within which this problem can be tackled. This



framework will need to direct and resource the necessary measures at both national and local levels, and ultimately ensure that appropriate action is applied to each building. In most cases, action will need to include repair, modernization, remodelling, and even reconstruction to deal with existing unfitness. In all cases, arrangements will be needed to ensure that future problems do not arise through further negligence:

- By organizing cyclical maintenance and due repair,
- By periodically inspecting buildings, and maintaining a technical passport for each,
- By ensuring the appropriate use of buildings and equipment,
- By informing the public authorities of technical accidents,
- By creating and operating a sinking fund to cover future maintenance and repair costs.

Sustainable housing requires professional management. Yet, current government policy involves reliance on the enthusiasm and activity of inexperienced inhabitants, which simply cannot guarantee it. Changing the present inadequate situation will probably require in each case some form of cooperation between governmental, voluntary, and private institutions to create effective management arrangements. It is recommended that the local authorities assume the role of facilitating these partnerships, receiving support from the government and other bodies interested in regenerating this key element of the national housing scene.

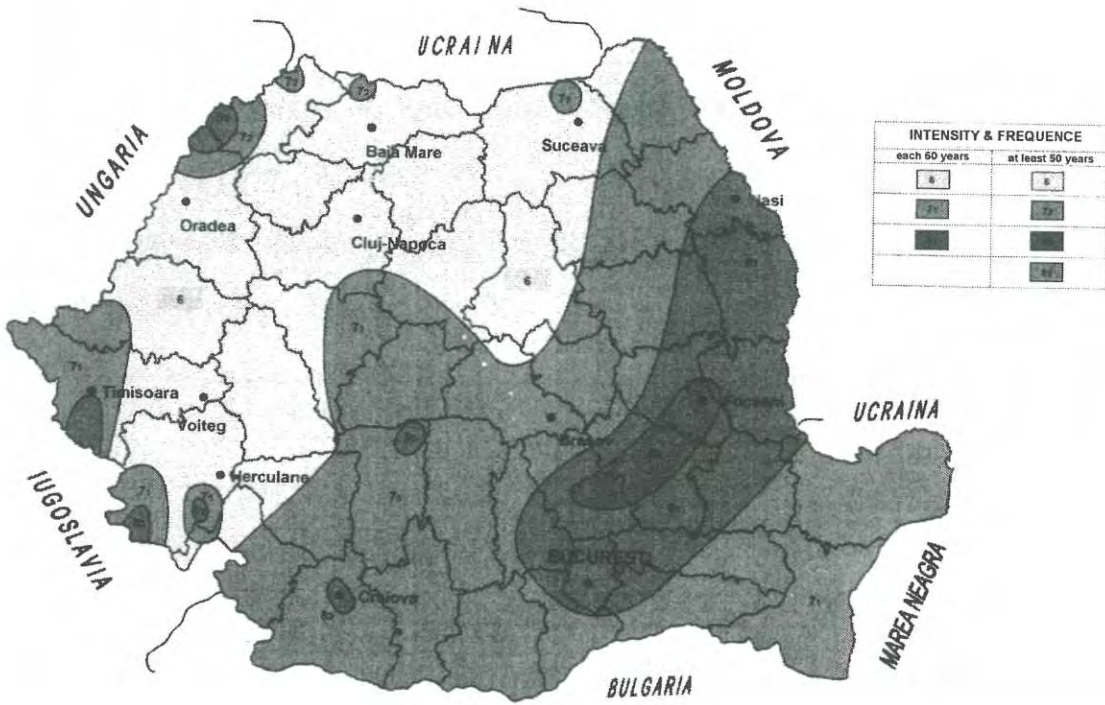
Highest priority should be given by the Government to raising public awareness of the need for the regeneration or reconstruction of the existing stock. More specifically, change is needed in the mentality of homeowners if they are to engage actively and fully in trying to improve their own situation.

General housing for rent

The Government should acknowledge the need for additional rented housing to accommodate new future households not yet able to afford homeownership. Social housing will be needed in any case to deal with the growing problem of evictions, and the need for temporary accommodation for tenants from buildings undergoing renovation, etc. Where this need is unlikely to be met by a supply of suitable housing, a strategy should be developed to create such a supply, including with public funding if necessary. The general strategy of the NHA should be redirected towards the construction of social housing or other dwellings for rent.

Rent controls should be lifted or at least decentralized and relaxed. As a form of subsidy to tenants they should be replaced by housing allowances offered to low-income households in all kinds of tenure to cover overall housing costs. It should be possible to do this without increasing the budgetary burden on the State, and possibly with a significant reduction of this burden. At the very least, it should ensure a better targeting of resources. A housing allowance regime could also be extended to cover the service charges of the utility companies - this would help them improve performance and reduce the burden on the State of covering their losses.

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