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## Introduction

1. This report summarizes the main findings of the round-table discussion on Romania's housing sector, held in Bucharest from 12 to 15 October 2002. The round-table served as a follow-up to the Country Profile on the housing sector of Romania, which had been prepared in July 2000 by a team of international experts (ECE/HBP/124).
2. During the two years that have passed since the experts' visit, a number of activities have been implemented to improve the housing situation. The Government of Romania, therefore, initiated a round-table discussion to bring together once again all the parties that had been involved in the country profile, including the international experts. The aim was to assess the developments in the Romanian housing sector during the past two years, to evaluate the implementation of the recommendations given by the experts and to discuss future strategies for the Romanian housing sector in the light of the developments. As the time available for the round-table discussion was limited, the observations and recommendations from the international experts are not based on a comprehensive review of the housing sector in 2002, but rather on their selective observations of the current programmes and progress.

### **I. THE COUNTRY PROFILE ON THE HOUSING SECTOR IN ROMANIA PREPARED IN 2000**

#### **A. Objective and methodological approach**

3. The objective of the country profile on Romania was to act as a mirror and spotlight for the Government, allowing it to review its own policies from a new perspective, to provide an independent strategic analysis of Romania's housing sector and to provide pointers for new or changed actions in the future in pursuit of strategic objectives.
4. The methodological approach involved the establishment of a comprehensive overview of the physical (natural environment, existing housing stock), political (housing policies), economic (national economy, levels of income), social (demographics, consumption patterns) as well as institutional contexts.
5. To this end two missions took place. The first, an exploratory mission, took place to collect information, identify relevant partners, compile data and establish first observations. The second, a research mission, took place to closely review current policies and strategies, identify problems and challenges, establish a prognosis for the future and make recommendations.
6. In preparing the assessment of the housing situation, the historical background was taken into account, above all the legacy of the communist regime, which had had an impact not only on the physical structure of housing but also on its ownership and on the attitudes of the inhabitants. In addition, the transition process had left its mark in particular with its large-scale privatization and the ensuing general resistance to State involvement.
7. In evaluating the outcome of these developments, the experts chose to look at the situation of the housing sector from the viewpoint of sustainability. The sustainability of the

housing sector has a great impact on the overall sustainability of an economy, as the housing stock is not only a key national asset but also the biggest asset of households and individuals. Housing is also part of the social infrastructure needed to ensure the mobility of labour and both the construction and building material industries can make a substantial contribution to GDP and job creation.

8. The sustainability of the housing situation is therefore paramount. The experts first examined the sustainability of the physical condition of the housing stock by taking into account the typological profile of the housing stock, the comparative age profiles of the housing stock, the comparative dwelling space standards, the potential misfit between dwelling and household sizes, and the availability of household amenities. In addition, the need for consolidation, repairs, maintenance, remodelling and modernization was looked at.

9. The question was whether access to housing could be sustained in the future, in particular in regard to deteriorating housing stock conditions, the limited capacity of financial re-sourcing of work by private households or by the State, the restricted supply of affordable rented housing for poor or vulnerable groups, the costs of utilities and the unresolved issue of restitution. In this context the availability of mortgages and loans, development land and real estate was examined, since the potential volume of new housing supply greatly depends on the existence of adequate financing instruments.

10. Sustainability was also looked at from the legal and institutional point of view, including the skills and expertise available, housing management and maintenance by public authorities, private firms and local communities; the quality of the construction workforce and the residents' ability to "do it themselves".

## **B. Main findings of the Country Profile**

11. Keeping the key issue of sustainability in mind, the main concern stated by the experts in 2000 was the lack of an overall strategy for Romania's housing sector at that time. The Government response to the complex housing situation was very much focused on single issues, such as promoting homeownership. In addition, the recognition of the potential roles of local government and other partners was relatively weak and responsibilities were generally poorly defined. The lack of clarification of responsibilities and the narrow focus on individual issues hampered the development of an integrated strategic approach and the commitment to coordinated implementation.

12. This lack of an overall strategy was also reflected in the inefficient targeting of public spending. Public spending was not targeted at the population most in need of it. For example, the allocation of subsidies to the public rental stock was applied across the board irrespective of income. In addition, the activities of the National Housing Agency (NHA), which at that time was the main focus of public expenditure, did not concentrate in those areas most in need of government investment.

13. In this context, the experts saw the danger that, for instance, the Government-sponsored

programme to relaunch new housing construction through NHA might interfere with the market in a negative way by creating unequal competition since NHA projects were basically directed at the same kind of customer as those of private developers, while NHA enjoyed a price advantage over private developers.

14. In addition, NHA was increasingly charged with tasks typically performed by the Government, such as formulating housing policy. It was recommended that tasks like these should stay with the Government; as an agency working through market mechanisms was not appropriate to address all housing problems and provide policy guidance.

15. The experts also saw the necessity of paying more attention to social housing as they felt that this was an issue of increasing importance, in particular taking into account the growing problem of evictions. In this context it was recommended to redirect the general strategy of NHA to cover also the construction of social housing.

16. In addition to the general lack of an overall strategy and the growing issue of social housing, the key challenges, according to the international experts, were the condition and suitability of the existing stock, the lack of finance and the poorly developed markets and market demand. The experts believed that these problems jeopardized the sustainable future of Romania's housing sector.

### **C. Recommendations by the international experts in 2000**

17. In this context the experts made some important recommendations:

(a) First, to increase the leadership role for the national Government, including giving greater priority to housing as a key determinant of the quality of life, investing in housing as a key economic factor, committing to an active role for the State in intervening to make the market work and developing a strategic approach to housing with a clear vision of the desired objectives and involving all government levels;

(b) Second, to make changes to the legislative and institutional set-up with particular regard to development sites and infrastructure, the local authorities' role in housing, the technical quality and maintenance of buildings, residents' associations in condominiums, the threat of eviction, the coordination of strategy and action, and the refocusing of NHA;

(c) Third, to strengthen education and training in a variety of areas, including raising the awareness of apartment owners regarding their responsibility for maintenance, and the value of their homes as an asset to be enhanced and used, and the professionalization of housing activities, including management and the construction industry;

(d) Fourth, to undertake changes related to the financing of housing, including the switch from supply-side subsidies to targeted demand-side interventions, to undertake changes in the taxation/mortgage system for private households who invest in construction and refurbishment, to introduce a new financial (fiscal) regime to support local authorities' roles in construction and housing management, to redeploy NHA resources so that they are used only to facilitate the building of housing that would otherwise not be provided;

(e) Fifth, to undertake actions in regard to the existing housing stock, including a

complete survey of conditions, leading to a differentiated, strategic approach to action that might entail the repair, remodelling, modernization, demolition or replacement of housing, as well as the movement of households. The active involvement of local authorities and NHA should be sought in this;

(f) Finally, in regard to future housing supply, the experts recommended the production of a robust forecast of need and demand, which would support a consideration of the future of the existing stock, the sustainability of the current system of homeownership and the potential future role of renting.

## **II. DEVELOPMENTS IN ROMANIA'S HOUSING SECTOR SINCE 2000**

### **A. Formulation of a housing strategy**

18. Since the recommendations by the experts two years ago, a number of concerns raised in the Country Profile have been addressed. Most importantly, the Government has recognized that solving housing-related problems is an important policy objective and it has empowered the Ministry of Public Works, Transport and Housing as the main entity in charge of developing the housing sector. For the first time since 1989 the Government has thus formulated specific objectives for the housing sector and recognized this sector as a top priority.

19. In this context the Ministry has formulated strategic objectives for the housing sector, which aim in particular at:

- Improving the existing housing stock;
- Constructing/ rehabilitating residential areas;
- Improving the legislative, regulatory and institutional framework.

### **B. Developments in the existing housing stock**

20. Developments have taken place mainly within the framework of two programmes: the establishment of financial facilities for the consolidation of multi-storey houses that are at risk in the event of an earthquake; and the programme for building rehabilitation with particular emphasis on minimizing thermal energy loss.

#### **1. The programme for consolidating multi-storey houses**

21. This programme aims at stabilizing and improving the condition of multi-storey houses which have been classified as "first-class earthquake risk" and therefore constitute a public danger. The funds for this programme come from the budget of the Ministry of Public Works, Transport and Housing. Current owners are expected to contribute; however, they receive financial support to enable them to participate. This is provided in the form of interest-free loans with a repayment period lasting up to 25 years. In addition, if the medium net monthly income per family member is below the average national monthly salary (established by the Government), no repayment is required for the period during which this condition holds.

22. In the framework of this programme 115 apartment blocks in Bucharest have been selected to be consolidated, and work has started on 8 of these. Consolidation work has also started in multi-storey buildings included in the first class of seismic risk in the cities of Roman, Tg. Mureş, Suceava, Bacău and Moldova Nouă.

23. Within this activity the Ministry of Public Works, Transport and Housing is cooperating with a number of international bodies for instance to establish the Romanian-Japanese Centre for Earthquake Engineering (in collaboration with the Japanese International Cooperation Agency (JICA)), or to set up the European Centre for the Management of Buildings at Earthquake Risk. It also receives funds from the World Bank for the management of natural disasters and the financing of consolidation work for public buildings at earthquake risk. Moreover, it participates in the European RISK-UE Project, which aims at developing advanced methods for the evaluation of earthquake risk.

24. In addition, consolidation work is being carried out on a number of important public buildings such as hospitals and schools. This work is done by the Ministries in charge, such as the Ministry of Health and Family and the Ministry of Public Administration.

## **2. The programme for building rehabilitation with particular emphasis on minimizing thermal energy loss**

25. This programme also aims at improving the existing housing stock. Its goal is to increase the efficiency in Romania's energy sector, which up to now has been characterized by substantial losses of energy during production, transport and distribution. For example, currently only 43% of the energy produced in Romania for hot water, heating and cooking is reaching the consumer (63% in Bucharest), which leads to a need for high imports of energy resources (gas, crude oil) and high heating costs.

26. Therefore, measures to increase the thermal efficiency of the internal heating and hot water supply systems need to be taken. In this context Government Ordinance No. 29/2000 was passed. It stipulates specific measures for the rehabilitation and thermal modernization of buildings. Based on it, the Romanian Government adopted in June 2002 the following programme of measures for the thermal rehabilitation and modernization of buildings:

Priority no.	Type of the building to be rehabilitated	No. of buildings to be rehabilitated	No. of apartments	Investment volume (millions of euro)	Schedule
1	Block of flats from prefabricated panels built until 1985	15,000	500,000	560	2002-2007
2	Block of flats with mixed structure (reinforced concrete + masonry) older than 40 years	10,000	300,000	380	2005-2010
3	Individual buildings with 2 to 5 apartments (row, semi-detached houses) in urban area	60,000	180,000	360	2008-2015

27. The programme is currently mainly supported out of the State budget, local government funds and funds from private homeowner associations. Additional potential financial resources would be funds from bilateral and multilateral donors, such as the European Union.

28. Proper information and education with respect to the aims of the programme are considered to be essential for reaching the desired effects of the programme.

### **C. Construction/rehabilitation of residential areas**

29. In addition to improving the situation of the existing housing stock, the Romanian Government has engaged in the construction of new residential areas in order to increase access to affordable new housing through the National Housing Agency's two programmes for promoting the construction of social rental housing for young low-income families and the construction of housing for private ownership.

#### **1. The National Housing Agency's programme for homeownership**

30. The purpose of this programme is to create a growing owner-occupied housing stock of European standards through construction financed by mortgage loans. The programme is executed by NHA, whose main task is to facilitate financial agreements and manage financial resources for the construction, purchase, rehabilitation, consolidation and extension of residential units.

31. The programme has experienced strong demand, with over 80,000 requests for participation. Mortgage credits are granted for the construction of new residential units, for the purchase of existing housing, and also for the modernization, consolidation and extension of residential units.

32. The building programme carried out by NHA provides for certain benefits for the participants in the programme such as an exemption from land and property taxes during the term of the mortgage; the establishment of a minimal down payment of only 20% of the total price of the house, and the granting of long-term loans spanning over 20 to 25 years.

33. The schedule for 2001/2002 had been as follows:

Year	Completed units	No. of sites	Financed units	Budget: State budget and private resources (billion lei)
2001	275	8	482	365,0
2002	314	9	1,273	600,0

34. Depending on the overall economic situation and the possibility of obtaining funds from private investors, it is planned to construct 6,782 units on 92 sites during the 2003/2004 period. In this context the Ministry of Public Works, Transport and Housing, together with the National Housing Agency, is currently designing a number of large-scale urban projects, which include the construction of privately owned housing units financed by mortgages. These projects are located in Bucharest (Baneasa district), Cluj (Floresti district), Constanta (Palagu Mare district) and Brasov (Sacele district).

35. At the moment the programme is financed out of Government sources as well as private funds of the National Housing Agency.

## **2. Construction of flats for low-income families**

36. The programme for the construction of flats for low-income families is carried out in cooperation between the Ministry of Public Works, Transport and Housing and NHA. It aims to provide rental units for families that cannot afford to acquire or to rent a dwelling at the current market prices. The programme extends over the period from 2001 to 2004, during which the Government aims at building 40,844 residential units for low-income families, especially young families. The programme was generated by the increasing number of requests from young people needing housing. In January 2001, 157,600 requests for housing had been recorded nationwide.

37. The Ministry and NHA, in cooperation with the local councils, identified 800 building sites with a total area of 632.3 ha, for the construction of social rental housing for young low-income families. By July 2002, the Ministry had approved the feasibility studies for the construction of 17,992 residential units to be built on 288 sites.

38. The housing programme is scheduled as follows:

Year	Completed units	No. of sites	Financed units	Budget: local budgets, State budget and external credits (billion lei)
2001	550	14	7,931	1,819.18
2002	3,532	265	14,832	3,571.49
2003	11,609	270	27,762	9,451.74
2004	25,153	251	25,153	7,846.17
<b>Total</b>	<b>40,844</b>	<b>800</b>	<b>75,678</b>	<b>22,688.58</b>

39. The residential units are built on sites belonging to the local authorities and are to be in their ownership after completion. The local authorities provide the necessary infrastructure (public utilities) for the sites and are in charge of the management of the residential units after their completion.



40. The programme is mainly financed by the government budget (central and local) as well as external credits, including a loan from the Council of Europe Development Bank.

#### **D. Changes in the legal and institutional situation**

##### **1. Institutional and legal changes in regard to the land administration system**

41. Changes in the legal and institutional set-up have taken place in particular in land administration and the development of the real estate markets.

42. After December 1989, the Romanian Government made efforts to re-establish a coherent legal and institutional framework for private property rights in land. Romanian land reform involved three distinct processes: the de-collectivization and re-establishment of private property rights in land; the privatization of State-owned farms and concessions of public land; third, the creation of a new farming structure, including the restructuring of existing large-scale farms in line with the new ownership patterns and the principle of a market-based economy.

43. With a view to the EU accession process, particular attention was and is being paid to cadastral matters, in order to support the technical, economic and legal registration of land and property, to create a free land market, to develop urban and rural infrastructure and to attract foreign and local investors.

##### **2. Overall changes in the legal system**

44. Beyond land administration, a number of additional changes in the legal framework have been undertaken. In 2001, Government Ordinance No. 19/1994, which dealt with housing building investment incentives and public works, was complemented by Law No. 734/2001 and Government Ordinance No. 76/2001 in order to restart the programme for the completion of unfinished apartment blocks. The revision and completion of the legislative and regulatory framework include provisions for subsidizing the cost of housing at its final value, for granting subsidies related to established revenue ceilings, and for using the finished units as social housing or as rental housing for young individuals and families.

45. The existing regulations on reducing seismic risk have been improved and new acts have been passed. Government Ordinance No. 20/1994 on decreasing the seismic risk of the existing building stock has been modified and improved by Law No. 460/2001 together with Emergency Ordinance No. 51/2002. These regulate the consolidation work that homeowners have to undertake to decrease the seismic risk of multi-storey buildings in the highest earthquake risk class.

46. Thermal rehabilitation is regulated by Government Ordinance No. 29/2000 and Law No. 325/2002, which provides an exemption from housing taxes during the pay-back period of a loan taken for thermal rehabilitation. A draft act concerning special measures for the thermal rehabilitation of the multi-storey building stock is under consideration.

47. This is an overview of the legislation most relevant to the housing sector:

	Title of law/ ordinance	Content
1.	Law No. 114/1996 (including subsequent additions and modifications)	Dwelling construction, rental dwellings, including social dwellings.
2.	Government Decision No. 85/ 2001	Homeowners' associations.
3.	Law No. 152/1998 (including subsequent additions and modifications)	The National Housing Agency.
4.	Law No. 190/ 1999	Mortgage credit.
5.	Government Ordinance No. 19/1994	Public works and the extension of housing investment incentives.
6.	Government Ordinance No. 20/ 1994	Seismic risk.
7.	Government Ordinance No. 29/ 2000	Rehabilitation of the building stock and thermal energy savings.
8.	Law No. 112/1995 (including subsequent additions and modifications)	Legal status of buildings transferred to the State after 1945.
9.	Law No. 10/2001 (including subsequent additions and modifications)	Legal regime of buildings expropriated between 1945 and 1989.
10.	Emergency Government Ordinance No. 40/1999	Tenants' protection and rent control.

### III. FEEDBACK BY THE INTERNATIONAL EXPERTS IN VIEW OF THE SITUATION IN 2002

48. The programmes described above, which constitute the main focus of Romanian housing policy today, demonstrate that considerable steps haven already been taken in implementing the recommendations from the international expert team two years ago. Their assessment of the major developments is set out below.

#### A. Assessment of the developments in the existing housing stock

49. In view of the tremendous scale of issues to be tackled with regard to the existing housing stock of Romania, the experts recognize the substantial developments which have taken place, in particular the programmes tackling earthquake risk and thermal energy loss.

50. The programme for building consolidation significantly improves the situation of the existing housing stock. The impact could, however, be further strengthened if, instead of consolidating separate buildings in an isolated manner, the consolidation measures were

supplemented by additional measures in the framework of larger-scale town renewal schemes, attracting private sector funds. This would contribute to the revitalization of a whole neighbourhood, resulting in a corresponding development of the local real estate market and increased willingness on the part of current homeowners to invest in their properties.

51. Similarly, the programme for thermal insulation is well motivated and provides for substantial financial incentives. However, it would also benefit greatly from complementary measures. The thermal energy problem is only one aspect of the complex issue of restructuring and renewing housing condominiums, including their management and maintenance. The programme is undoubtedly of great potential value, but this is limited if it remains an isolated and fragmented measure.

## **B. Assessment of the developments within the institutional framework**

### **1. National strategy and coordination**

52. The experts welcome the changes in the institutional framework, in particular the setting-up of a national strategy, agreed upon with all key ministries. Equally positive is the clear stipulation of the full responsibility of the Ministry of Public Works, Transport and Housing for the housing sector.

53. However, while the Ministry collaborates very closely with NHA in providing different schemes for financing national housing programmes, cooperation and coordination with other actors in the housing sector could still be strengthened. There are a number of institutions involved in housing issues, NGOs as well as private sector organizations. Many of these operate at the local level, which is the most crucial for the implementation of housing programmes. There is still a lack of coordination among these actors, and not all seem to be well informed about what the Government is doing in the housing sector.

54. In this context, the establishment of a national coordinating body for all matters related to housing, which could also be responsible for raising public awareness of housing issues, as recommended two years ago, would still be advisable. The past experience with the Habitat centre could be used in establishing such a coordinating body, which would assist the Ministry in formulating housing programmes based on a national consensus.

### **2. Professional services**

55. An important part of the institutional set-up is the quality of the professional services required within the housing sector. When preparing housing programmes (for social housing, renovation, neighbourhood renewal, etc.) all these should be discussed with relevant Romanian professionals, and international consultants could also be involved.

56. At present, it seems that all the initiated programmes and planned activities would benefit from some closer enhanced consultation with the relevant professionals. On a practical level, for

example, this would mean that the current rapid development of the social housing stock should be accompanied with the training of social workers. In addition, the predicted construction boom will require skilled construction workers and the general improvement of construction quality control. Maintenance professionals will be required for the housing sector, since maintaining properly the now newly constructed apartment blocks will be crucial for their long-term sustainability. Funds and programmes are also required to train homeowners' associations about such issues as maintenance.

57. One method of gradually raising awareness of the problems in the housing sector, and ensuring adequate professional training, would be to include subjects such as urban planning, property management and maintenance in the curricula of several Romanian universities. All these major housing-related initiatives (energy saving, waste management, etc.) should also be addressed in schools. The energy saving programme is a particularly good example of an initiative that require not only physical investment but also a change in attitude among of the population.

### **C. Assessment of the developments in the legal framework**

58. Several changes in the legal framework have taken account of the recommendations of the Country Profile. Of particular note are those which affect the structure and activity of NHA. The basic legal act - Law 152/1998 - has been developed and modified with the effect of reducing the independence of NHA. Consequently, it now pursues its activities within the overall strategy of the Ministry of Public Works, Transport and Housing. In addition, in Government Decision No. 620/2001, the organization of NHA and its activities have been set out more clearly, and to some degree a shift has taken place towards housing construction for population groups in need, in particular through the social housing programme for young people. However, there is little focus on other vulnerable groups such as the victims of natural disasters.

### **D. Assessment of the developments in the financial framework**

59. With regard to the system of housing finance, many of the problems observed in 2000 are still in place. As most housing investment is still financed or co-financed from the central Government's budget, contributions from local budgets seem limited. In general there seems to be no single policy on government subsidies. At present, different subsidy elements are involved in each of the various housing programmes. A comprehensive housing subsidy system would be needed to coordinate budget spending, provide for social equity and diminish the deficit risk in each programme.

60. The capacity of private financing is also still limited and hampered by the restricted possibilities of commercial mortgage lending. The intention to introduce a 'contractual loans' system (German Bausparkassen) seems quite reasonable. It might be a way of making the vital investment by homeowners' into the renewal of existing apartment blocks affordable. It is recommended that this possibility should be further explored.

#### IV. CONCLUSION

61. Since the preparation of the Country Profile in 2000, a number of significant developments have taken place in Romania's housing sector. The programmes initiated by the Romanian Government are important steps in implementing the recommendations of the Country Profile. Of particular importance is the designation of the housing sector as one of the priority areas for the Government, and the empowerment of the Ministry of Public Works, Transport and Housing. Equally important is the, at least partially, refocusing of NHA on social housing.

62. Overall, the experts commend the Government of Romania for the developments in the housing sector. However, there is still much to do and, since the housing sector is a complex area, some new aspects might only become visible during the implementation of any programme. The above recommendations from the experts aim at focusing on some key aspects, and providing suggestions for complementary or alternative measures.

63. The experts hope that the Government's strong involvement in the housing sector will be maintained. The sustainability of Romania's housing sector can be ensured only if continuous investment occurs in the buildings and physical infrastructure, and also in training, education and awareness raising.