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**PROGRAMME OF WORK FOR 2008-2009:  
HOUSING MODERNIZATION AND MANAGEMENT**

**REPORT ON THE REGIONAL WORKSHOP ON INTEGRATED  
APPROACHES IN HOUSING DEVELOPMENT: ALBANIA**

Report by the delegation of Albania<sup>1</sup>

*Summary*

The Committee on Housing and Land Management at its last session in September 2006 welcomed the organization of a workshop on Integrated Approaches in Housing Development to be held in Albania in 2007 and requested the delegation of Albania to prepare the programme for the workshop. This workshop was carried out in framework of the Regional Capacity Strengthening Programme of the Stability Pact and as a follow-up to UNECE guidelines on condominiums, social housing and housing financing, all of which focused on countries in transition.

The workshop took place from 4 to 6 July 2007 in Tirana and was organized and hosted by the Housing Policy Department of the Ministry of Public Works, Transportation and Telecommunication of Albania\*. Financial support was also provided by UNECE.

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<sup>1</sup> With the assistance of Ms. Tsenkova, housing expert.

\* The document was submitted after the official deadline for submission of documents (17 August) with the agreement of the delegation of Albania.

## **I. INTRODUCTION**

1. The workshop on Integrated Approaches in Housing Development in Albania held in Tirana from 4 to 6 July 2007 was organized by the Housing Policy Department within the Ministry of Public Works, Transportation and Telecommunication (MTATT) of Albania and under the auspices of the Stability Pact, UNECE and the United Nations Human Settlements Programme (UN-Habitat). It brought together international experts, policymakers from Montenegro and Kosovo and Albanian government officials as well as representatives from municipalities, commercial banks, and local non-governmental organizations to discuss policy solutions to some of the most pressing housing problems in the country. A representative from the International Finance Corporation also took part in the workshop.

2. Albania has a particularly unique housing market, both formal and informal, which since the early years of the transition to a market-based economy has reshaped Tirana and other large urban centers in a profound way. In the context of rapid urbanization, a large informal entrepreneurial sector has managed to absorb a major increase in demand for housing in urban areas and allow access to significant housing assets to low and middle income families.

3. This phenomenon of largely illegal housing construction in peri-urban settlements, in addition to the privatization of State-owned housing, has led to a high share of homeownership which, given the income prospects in Albania and the country's gross domestic product (GDP), might not be sustainable. It is also clear that after 15 years of experimentation with a market-based housing system, public (State and municipal) intervention has been very limited, both in terms of the needed public infrastructure investment and a well-focused regulatory and financial framework that would permit a more efficient operation of housing markets, better targeting of fiscal instruments, more effective implementation of existing legislation as well as protection of the socially disadvantaged.

## **II. MAJOR CONCLUSIONS OF THE WORKSHOP**

4. Presentations from both Albanian and international housing policy experts demonstrated that the housing sector in Albania has suffered from three major deficits: (a) the deficit of political capital; (b) the deficit of financial capital; and (c) the deficit of social capital.

5. The political capital in a country that still has major economic and social challenges and suffers from political instability is apparently difficult to mobilize for a systematic housing policy intervention. The financial capital, mostly profit driven, is channeled into the housing market, leading to speculation and affordability constraints in large urban centres. Anecdotal evidence suggests that both remittances and profits from the informal economy have provided a major boost to the housing market. By contrast, the ability of central and local governments to make financial commitments for social housing and other forms of housing support is fairly limited. The ability of most homeowners to mobilize the financial capital to improve their housing is also constrained by the lack of formal housing financing and low incomes.

6. The deficit in social capital is also crucial, particularly in multifamily housing where homeowners need to work together to maintain and manage their assets. Individualism and the rejection of collective forms of ownership manifest themselves in an explicit way through a complete neglect of common housing areas as well as in the lack of efforts to ensure individual alternatives for the provision of basic services (e.g. water, electricity) in many multifamily buildings.

7. The next sections of this report provide comments on existing and proposed legislation in Albania in two priority housing policy areas: the management of multifamily housing stock and social housing. They make reference to other essential policy instruments applied in other countries in the region that assist the effective implementation of legislation. The comments draw on presentations and discussions on these issues at the regional workshop and complement the presentations made on regional and country-specific challenges for social housing provision and the management of privatized housing.

### **III. TOWARDS AN INTEGRATED APPROACH IN ALBANIA**

8. It appears that after a decade of non-interventionist approach to housing, the present government is making an effort to establish a more comprehensive framework for policy reform at the national level, where equal attention is given to legal, institutional/capacity-building and financial aspects of the process. While this is a very positive step, essentially addressing the deficit of political capital and drawing much-needed attention to significant housing problems, the agenda for reform still appears to be broadly defined and government assistance in the housing sector still poorly targeted.

9. Albanian housing policy is still dominated by efforts to address housing problems dating from the country's past. A lingering post-socialist legacy and the fact that the Government promises to compensate groups that did not benefit from privatization, as well as owners of restituted land taken over by illegal settlements, imply extensive and not necessarily targeted subsidies to large groups of the population with long-term fiscal commitments. For example, housing built by the National Housing Agency (NHA) is provided to households in restituted housing, households that lost their savings in pyramid schemes, others that simply did not have a flat to privatize but were on a waiting list, etc. Estimates indicate that more than 30,000 families are still in line for this type of heavily subsidized housing.<sup>2</sup>

10. These efforts would deliver better results if there were a clear departure from the past and were coordinated efforts to introduce a legal framework that enhances the operation of housing markets and competition for land, building materials and financing in these markets. Albania is

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<sup>2</sup> NHA is financed from the Government of Albania with a contribution of 4 per cent of total construction cost paid by homeless families upon the transfer of newly built housing into ownership. Since 1993, the NHA has built 8,791 new apartments; the output peaked at 2,000 apartments in 1999 and since then has constantly declined to levels of 374 apartments in 2004 and 233 in 2005. Main constraints are the lack of funding and land with infrastructure services. Municipalities are expected to provide serviced land free of charge to NHA. NHA retains ownership of apartments until households pay off the subsidized price of their new housing. Beneficiaries have 25 years to pay off the loan with a fixed interest rate at 3 per cent. Since there is no required income screening, despite the extensive subsidies involved, out of 9,000 households, close to 1,000 are in default.

lagging behind in terms of development of its institutional and legal framework for housing financing, mortgage lending, cadastre registration, urban planning and other important legal instruments facilitating the market.

11. Certainly, these policy reforms need to be supplemented by capacity-building to enhance the institutional capability of agencies operating in the housing sector. Five levels of intervention can be discerned:

- (a) National (assisting State institutions with development of national housing policy framework and a well-targeted system of support);
- (b) Municipal (interfacing with the national government, division of responsibilities);
- (c) Organizational (assisting banks, providers of maintenance and management services, and contractors to adopt practices that encourage competition and provision of higher quality services at competitive prices);
- (d) Community (assisting the establishment of homeowners' associations (HOAs) and introducing them to sound financial practices and the benefits of energy retrofits);
- (e) Individual (facilitating change in attitudes and perceptions of homeownership).

12. Correspondingly, the implications for the effective implementation of housing policy reforms in the two priority areas, management and maintenance of multifamily housing and social housing assistance, is critical.

#### **IV. MANAGEMENT AND MAINTENANCE OF MULTIFAMILY HOUSING**

13. In this context, the recent initiative of the Housing Policy Department to develop a new legal framework for the management of multifamily housing is responding to major challenges. In the aftermath of privatization, incentives have not yet been established for private management of the privatized housing stock. Municipal maintenance is non-existent and signs of deterioration are particularly significant.

14. Housing costs have become a burden for a large share of the urban population due to escalating heating and utility charges (see Aldoni, July 2007). Part of the problem can be attributed to the lack of energy saving measures and to rundown heating and water supply systems in the existing housing stock. This inefficiency imposes unnecessary pressure on households' incomes.

15. The lack of financing for housing maintenance and improvement imposes high costs on homeowners, particularly the elderly and the unemployed. Thus, while a market-based housing sector has developed, under present circumstances problems remain: (a) the need to establish HOAs; (b) the ability of these new institutional entities to manage their own assets; and (c) constraints to deal with maintenance costs and to undertake investments due to lack of financing.

16. A major obstacle for change is the lack of an institutional entity to assume the management and maintenance of privatized housing. Institutionalization of HOAs requires a supportive policy environment, but more importantly training and capacity-building efforts. The lack of tradition, due

to years of State management of extensively subsidized housing coupled with the recent history of systematic neglect since 1991, will make this task challenging.

#### **A. Comments on the draft legislation**

17. The draft law on administration and maintenance of dwellings in co-ownership developed by MTATT provides for a wide range of measures to manage multifamily housing, including provisions for financial contributions to the cost of management and maintenance of common areas.

18. The draft law also envisions (e.g. Article 10) penalties as well as provisions for municipal appointment of an administrator in cases of systematic failure on behalf of homeowners to meet their obligations. Two issues are important in this regard: the ability of municipalities to enforce the legislation in Albania where non-compliance with legal norms seems to be the standard practice is, so far, limited; and furthermore, the administrator (municipalities) would need to take over management and maintenance for privately owned real estate, stretching municipal responsibilities in the housing sector too far.

19. Albania's *Civil Code* provides the basis for other financial and organizational issues related to housing management. However, it fails to provide adequate reassurance to lenders and other market institutions that they can recover the cost of capital for the purchase and/or renovation of housing or cumulative debt for utility payments. These issues (as well as foreclosure) need to be addressed in the draft law.

20. Furthermore, while many provisions of the draft law are quite sound in principle, aspects related to decisions by HOAs on spending, borrowing, major repairs/renovations, etc. are not explicitly defined. The practice in other countries where HOAs are functioning indicates that HOAs self-manage multifamily housing with the general assembly electing a Board of Directors with certain powers and responsibilities.

21. Major renovation spending and borrowing requires the approval of 75 per cent of the homeowners, while current maintenance contracts and spending within certain amounts are vested with the Board. Provisions to ensure due diligence (e.g. annual financial audit, competitive bids for major services) are also important for the sound financial management, and need to be considered in the revisions of the draft law.

#### **B. Policy initiatives to enable implementation**

22. In addition to the development of a well-defined legal framework for the management and maintenance of multifamily housing, MTATT needs to consider two other important aspects:

- (a) Assistance to develop a manual (handbook) for HOAs to facilitate self-management (national level);
- (b) Assistance in the formation of HOAs through training and capacity building (community/municipal level).

Examples of these initiatives exist in countries such as Latvia, Lithuania, and Moldova.

23. A handbook on housing management needs to be developed, including sample contract agreements, life-cycle assessment of the building envelope and installation, rules on financial management and accounting, communications with owners and other technical and organizational issues. The *UNECE Guidelines on Management and Maintenance of Multifamily Housing* is an excellent starting point. Other provisions that need to be included might be:

- (a) Legal aspects - specify contractual arrangements and responsibilities of owners, managers and other contractual agents in accordance with *Civil Code* and other pertinent Albanian legislation (including registration of HOAs, transfer of property, collection of debt, court procedures and arbitration);
- (b) Financial and accounting aspects - detailed procedures for the projection of revenue and expenditure, collection of payments (e.g. utilities and maintenance fees), penalties, as well as cost recovery mechanisms to ensure adequate financing for maintenance, repair and future capital expenditure;
- (c) Technical aspects - standard formats for technical assessment of structural and technical/installation systems with reference to life cycle costing methods for replacement;
- (d) Management aspects - institutional arrangements, management obligations/contracting out of works, supervision and requirements for reporting to the Board and the general assembly of homeowners (e.g. minutes, voting, contract guarantees).

## V. SOCIAL HOUSING LEGISLATION

24. *The Social Housing Law* (9232/2004) establishes the legal framework for development of social housing programmes in Albanian municipalities. The objective of the *Law* is to define the administrative regulations and procedures that will ensure the planning, management and distribution of social housing to the population in need (i.e. housing units for rent or sale and provision of site and services) according to their payment capacity and the level of State support.

25. *The Social Housing Law* aims at enhancing the capacity of municipalities to manage the design, implementation, delivery and maintenance of housing services, as well as to provide housing support to households in need.

26. It places important functions in the hands of the municipalities (Article 35), including:

- (a) Identifying social housing needs according to the criteria established by the *Law*;
- (b) Developing a local housing strategy with a 10-year development plan and a 3-year financial plan;
- (c) Setting aside land for social housing;
- (d) Raising funds for social housing at the ministries responsible for such functions;
- (e) Managing the list of beneficiaries;
- (f) Defining the maximum cost for social housing;

- (g) Managing the construction, administration and maintenance of the social housing stock;
- (h) Providing yearly notification to responsible ministries regarding the continuation of the housing programmes according to the *Law*;
- (i) Carrying out other functions, of which one of the most important is the levying of local taxes to raise revenues to support social housing.

27. With respect to eligibility criteria for social housing, Article 4 states that those who should benefit from social housing programmes are families that: (a) do not own any kind of dwelling; (b) own a living space which is below the housing quota to which they are eligible; and (c) are homeless due to a natural disaster<sup>3</sup>. Important qualifiers relate to the income of beneficiaries. Minimum and maximum incomes of potential beneficiaries are intended to be established at the local level by municipal councils using guidelines provided by the *Law* (Articles 6 and 19).

28. The beneficiaries of social housing for rent are expected to pay 30 per cent of their gross income in housing costs. Rents are based on cost-recovery principle and are supposed to be 4 per cent of the construction costs. The legislation envisions that housing allowances are provided to households to cover the gap between cost recovery rent and the actual rent they can afford to pay.

29. According to *The Law on Social Housing*, sales of social housing should be carried out on a cost recovery basis, (Article 17, point 2). Cost recovery is calculated by the local municipality on the basis of local construction costs, with this calculation then being approved by Decision of the Council of Ministers. Housing units to be sold may be financed with “facilitated loan conditions” (Article 25).

30. Important decrees related to the implementation of *The Law on Social Housing* are:

- (a) Decree 814/2004 which establishes housing norms/standards and the minimum living area of 12.5 m<sup>2</sup> per person as well as number of persons per room; each additional member of the household older than 10 years is entitled to 7.5 m<sup>2</sup>, while members 10 years old or less are entitled to 3.75 m<sup>2</sup>;
- (b) Decree 53/2005 sets the procedures for families to be categorized for social housing.

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<sup>3</sup> Criteria for the selection of beneficiaries (Article 5), who must fall in the categories above, are as follows:

- (a) Families that can officially certify that they have not benefited from Act nr. 7652/1992 on the “Privatisation of State Buildings”;
- (b) Families whose head is a divorced woman or a widow;
- (c) Families with a single parent who is the only one responsible for the children;
- (d) Retired elderly people who do not receive state assistance;
- (e) Disabled individuals who are classified as blind (category I), paraplegic or quadriplegic invalids, or are invalids as a result of war or work-related accidents;
- (f) Families with many children;
- (g) Young couples whose combined age is not greater than 55;
- (h) Families who relocated for employment reasons;
- (i) Orphans under 30 years old.

## Implementation challenges

31. *The Law on Social Housing* provides for a wide range of housing subsidy and support measures, including public land development (public investment in basic infrastructure to prepare sites for self-help construction), housing allowances, interest rate subsidies, and social housing. Very few municipalities have initiated any implementation of the social housing legislation. Some have developed housing strategies or action plans, often with donor assistance, while others are attempting to carry out a housing needs assessment, categorizing families according to the new requirements (income-based).
32. The devolution of housing responsibilities to the local government level, including responsibilities for social housing assistance, leaves a lot of unfunded mandates. The financial constraints and challenges facing local governments in Albania are well documented. The decentralization process has set a good course, but there remains a large disconnect between budget resources and requirements at the municipal level.
33. Albania's social housing law is quite new and it is unlikely that the administrative or fiscal requirements for the implementation of the array of measures will be met for sometime. The new project supported by the Council of Europe Bank is the first attempt to provide social housing in municipalities across the country using a model for financial and institutional collaboration (national and municipal). With access to affordable, subsidized, long-term financing the model might be viable, but it would address the needs of a small pool of families in need. The target is in the range of 1,100 apartments, while the need is estimated to be at least 10 times higher in participating municipalities.
34. Given Albania's level of economic development and fiscal constraints on government spending, social housing provided by the Government should be well targeted and assist the most vulnerable categories of households. Housing allowances implemented in countries such as Poland and Latvia might be a more cost-efficient way to improve access to affordable rental housing for low income families.
35. However, a private rental market will have to be encouraged first, to allow opportunities for this system to function. Other challenges in Albania might be related to the lack of transparency in income reporting, essential for the administration of housing allowances. Notwithstanding these challenges, approaches need to be considered in conjunction with the administration of social assistance payments and unemployment benefits to families.
36. *The Law on Social Housing* cannot be the main policy response to the problems of affordability for most low income families. Albania can perhaps benefit more from the implementation of "the sites and services" approach which appears to fit well with the strong market performance in the illegal housing settlements. Under this approach, municipal and central governments allocate sites serviced with public infrastructure for self-help housing construction to select households. While household savings, remittances and in-kind contribution are mobilized to provide housing, the approach breaks the cycle of informality by steering development in formal as opposed to informal urban areas.



37. The wide range of mortgage subsidies envisioned in the law and discussed by different stakeholder groups might be avoided entirely given the high interest rates and poor performance of the banking sector in housing finance. The experience of other transition countries in the region shows that competitiveness of the banking sector and more flexible mortgage instruments are better ways to improve access to more affordable housing finance. Albania might be in a position to avoid the introduction of fiscally unsustainable mortgage subsidies that target high income households (currently under the umbrella of low-cost housing in the legislation). These subsidies had to be phased out in many countries in the region.

## **VI. CONCLUDING COMMENTS**

38. Policy reforms are essential for well functioning housing markets. The present government is making an effort to establish a more comprehensive framework for policy reforms. These efforts require systematic intervention and careful selection of housing policy instruments to ensure the most efficient and equitable outcomes. While the choices are mostly dependent on Albanian policymakers, it will be helpful to learn from the experience of other countries in the region. These experiences need to be evaluated through the lenses of the local conditions with a clear understanding of the challenges and opportunities for intervention in local housing markets.

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