

# ***CONCLUSIONS AND RECOMMENDATION***

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

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

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

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

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

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

## **A. Housing reform**

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

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

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

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

***Box I: Recommendations: housing strategy***

1. It is important to consider the present problems of Armenia's housing sector holistically. The Government's housing strategy, therefore, needs to be comprehensive and should provide a broad sectoral perspective.
2. The strategy needs to be developed together with representatives from all levels of government, including local authorities, and in close consultation with representatives from NGOs, the private sector and international organizations.
3. The Government needs to assume overall responsibility for the realization of the strategy and should facilitate its implementation by establishing enabling laws and a monitoring system. The strategy needs to specify clearly the competencies for each level of government.
4. The strategy needs to be integrated with Armenia's overall economic development policies. Given the large number of vulnerable groups that have difficulties meeting their housing needs, it is important to place a national housing strategy in the context of the country's overall poverty reduction strategy.
5. The most important elements of the strategy should be:
  - (i) Establishing a framework for the management and maintenance of the existing housing stock;
  - (ii) Providing social housing for vulnerable population groups, including refugees;
  - (iii) Creating a framework for a functioning housing market (see sect. E below);
  - (iv) Raising the necessary public financing.
6. At the operational level, the national housing strategy should focus on the design and implementation of appropriate financial and legal instruments to put policies into practice (see sects. D and E below). The process of institutional capacity-building is instrumental to the success of these reform efforts and needs to be supported through a series of initiatives not only at the national but also at the local level (see sect. C below).

## **B. The existing housing stock and new construction**

### Stock condition, new construction and housing markets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Increasing the “recommended maintenance fee” and/or property taxes for private housing above a certain size. The total payment for housing and municipal services should, in general, be determined by the size of the occupied unit rather than the size of the household;
- Using legal enforcement procedures against those who have not paid for maintenance and/or utilities for more than, for example, 6 months and have more than a minimum amount of floor space (e.g. 15 m<sup>2</sup>) per person;
- Establishing a system to help and protect those who would like to move voluntarily to a smaller house.

**New housing construction**

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

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

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

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

***Housing markets and housing vouchers***

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

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

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

***General***

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

- A survey of the condition of the existing housing stock, including capital repair needs of; buildings
- A survey of the existing and future demand for housing on the basis of demographic projections for different parts of the country, taking into account population movements;
- Continuous estimates of the cost of the repair and maintenance backlog;
- A level of charges necessary to prevent further deterioration;
- Information on the market prices in recent transactions;
- Information on the number of households that require State support to meet their housing needs.

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

**Management of the housing stock**

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

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

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

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

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

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

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

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

***Box 3: Recommendations – condominiums***

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

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

2. To judge the effectiveness of the condominium legislation currently in place, its application needs to be monitored closely, in particular:

- Practices in fee setting and collection;
- Decisions on capital investment;
- Owner's participation in property management.

3. Local governments need to be encouraged to train their staff in the condominium legislation and its implementation.
4. In addition, local governments need to take a strategic and long-term view in regard to the housing stock. This involves in particular the planning of the future usage of the municipally owned housing stock, as for example social housing.
5. Awareness rising measures have to be implemented by the Government with the strong involvement of local governments on the function of a condominium association and rights and responsibilities of its members. Apartment owners will need practical guidance on all aspects of how a condominium operates - from negotiating a management contract to running member meetings. Information can be provided through:
  - Distributing training materials which have already been developed by a number of organizations
  - Highlighting successful condominium models and disseminating information on these good practices
  - Encouraging the NGOs which are currently rendering support to condominium associations to share their experience
6. Improvement in the quality of management and maintenance service mainly involves making the operations of the *zheks* more efficient. This would necessitate:
  - Increasing the competition in the maintenance sector through providing assistance to emerging private sector maintenance firms;
  - Encouraging local governments to seek out other private firms that may also be able to provide management services to the publicly owned housing stock. This should be done through a competitive bidding process
7. While working on the condominium legislation full use should be made of the Guidelines on Condominium Ownership for Countries in Transition prepared by the UNECE Committee on Human Settlements.

### C. Institutional framework

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

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

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

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

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

The local self-government bodies are poorly equipped, financially and in terms of human capacities, to fulfil their responsibilities. In particular the smaller ones lack the human and financial capacity to carry out the basic mandatory responsibilities and service delivery functions laid down by law, let alone to engage in innovative forms of socio-economic investment and development. Strategic planning is mostly lacking; local development plans currently produced by local self-government bodies consist largely of a “shopping list” of individual projects, with little integration or strategic orientation, and with few links (if any) to available budgetary resources.

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

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

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

**Box 4: Recommendations – institutional framework****Central Government**

1. Clear roles need to be developed for all government institutions involved in the housing sector, locally as well as centrally. Their roles should be defined in the context of the foreseen national housing strategy.
2. Coordination of these institutions is essential for the development and implementation of efficient housing policies. The Ministry of Urban Development should take a leading role here.
3. To improve coordination a project coordination unit should be set up within the Ministry of Urban Development to:
  - Coordinate and supervise all major programmes that are currently being implemented in the housing sector;
  - Provide guiding criteria for international and non-governmental organizations which are planning to engage in the housing sector regardless of the type of assistance provided (e.g. grants, loans).
4. To improve the dialogue between the different government levels as well as other organizations, an advisory board on housing should be established. The advisory board should have the following features:
  - It should comprise members from the central Government (Ministry of Urban Development), local governments, the private sector, homeowners' associations and academics, among others;
  - It should serve as a forum to share views and experience on different projects and initiatives and their performance;
  - The leading role in the process should be clearly with the Ministry of Urban Development;
  - It should meet every two to three months.

**Local governments**

5. For the local self-government bodies to perform their duties adequately, their responsibilities must be clearly defined. The following steps need to be taken as a priority:
  - Local development plans need to be linked with the Government's housing strategy;
  - The roles and functions of the different government levels need to be clarified;
  - The framework for fiscal decentralization needs to be improved – along the provisions of the new Law on Local Self-government (May 2002) – in order to better match the local self-government bodies' obligations with their financial means;
  - Local self-government bodies need to be encouraged to generate funds locally (see sect. E);
  - The legal framework for transferring the ownership of land and other immovable property to the local authorities needs to be improved (see sect. D).
6. A comprehensive capacity-building and institutional development programme needs to be implemented to enable the municipalities to fulfil their responsibilities:
  - Training for all levels of staff is needed, especially in strategic planning, project management, participatory approaches, fund raising and budgeting;
  - Local self-government bodies, in particular, need to be trained in the preparation of realistic development plans and supported in their implementation;
  - Small, neighbouring rural local self-government bodies should be encouraged to establish and implement local development plans together. In this context the promotion of "inter-municipal unions," whose establishment is foreseen by the Law on Local Self-government, would be helpful.

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

***Non-governmental and private sector institutions***

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

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

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

***Private institutions***

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

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

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

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

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

In the owner-occupied sector, the Law on Condominiums and the Law on Multi-unit Building Management were intended to establish a framework for the efficient management of privatized housing and in

particular for the common property in multi-unit buildings. However, both laws still leave room for uncertainties and misinterpretations (see sect. B).

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

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

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

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

##### ***General***

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

##### ***Rental housing***

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

##### ***Owner-occupied housing***

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

##### ***Legal protection of the socially vulnerable***

6. A system of legal protection for households in the event of evictions needs to be established. This is particularly relevant to refugees who are evicted from community centres which are being privatized.

Mechanisms need to be put in place to provide those vulnerable groups with adequate alternative accommodation or adequate compensation.

***Property rights and land administration***

7. An operational land and property market is a vital part of a healthy housing sector. Present legislation and practices in this area still need to be improved. Priority should be given to:

- Promoting the registration of property rights in order to give owners full legal protection and to create a secure legal environment;
- Promoting the transfer of publicly owned land to local self-government bodies;
- Privatizing the land plots under apartment buildings as foreseen in the Law on Multi-unit Building Management;
- Taking full advantage of the work of the UNECE Working Party on Land Administration. The Working Party has collected a range of information and policy experience on land management issues in the UNECE region. A land administration review on Armenia (HBP/2001/8) was prepared in 2001 and sets out recommendations in this area of work.

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

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

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

## **E. Financial framework**

### **Housing finance and subsidies**

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

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

There is no national housing allowance scheme in Armenia, although the Ministry of Urban Development and the Ministry of Social Affairs are currently considering this option. The hope is that this

might facilitate increases in public housing rents in order to finance repairs. The central Government does operate a system of welfare benefits, but these are not meant to cover housing costs. The municipalities are responsible for housing assistance, but they have insufficient funds to implement it. There is also no longer any social housing. The 4% of the housing stock which was not privatized has been largely transferred to the municipalities and is used as general rental housing.

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

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

#### ***Box 6: Recommendations – housing finance and subsidies***

##### ***General***

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

##### ***Housing allowance***

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

- It should be means-tested, that is, entitlement to it is reduced as incomes rise. Savings may also be taken into account when considering eligibility;
- The housing allowance should be developed within the framework of the social security system that has been developed to date. The system identifies 16 categories of households that are vulnerable to extreme poverty. A means test is then applied to establish who qualifies. Eligibility for the housing allowance should be based on the same principle;
- Housing allowances will inevitably give rise to questions of incentives – as incomes rise the allowance will be withdrawn. This is an unavoidable feature of targeting assistance to the poorest households.

##### ***Property tax***

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

- The collection of the property tax could be linked to the establishment of local funds for maintenance and repairs. The Government would need to encourage local governments to establish such funds and to allocate the share of the property tax that they receive to that

fund (see sect. C). Local governments would receive incentives to do so if the Government committed itself to transferring an equal or similar amount to such a local fund. If the taxpayers consider maintaining the housing stock as important they will be more willing to pay the tax if they know that the generated funds will go directly to maintenance. This would lead to higher collection rates and, consequently, improved housing maintenance;

- The availability of funding for individual apartment blocks could be made contingent on the adoption of a suitable management system or the development of a longer-term plan for the maintenance of the building. If repair funds were made the responsibility of condominium associations this would encourage their development;
- As a supplementary measure a means-tested housing allowance (see above) should be introduced to help low-income homeowners pay their property tax.

### ***Self-built housing***

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

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

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

### ***Social housing stock***

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

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

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

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

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

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

## Housing finance system

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

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

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

### ***Box 7: Recommendations – housing finance system***

#### ***Strengthening the formal system of intermediation***

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

*Alternative systems of housing finance*

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

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

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

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