

HOUSING CONDITIONS AND NEW HOUSING CONSTRUCTION**A. LEGAL AND POLICY FRAMEWORK**

Housing has received priority attention in the *Country Development Strategy for 2007–2010* and the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*; however, financial resources to implement the housing-related activities envisaged in these documents are not clearly defined.

Decision-making in housing remains fragmented. Responsibilities for housing matters are divided between different authorities at national and local levels. After the country's independence, the former Soviet housing system underwent a process of decentralization, starting with transferring the ownership of the existing housing stock, housing-related services and financial responsibility for it to local government. Local authorities have been put in charge of housing privatization programmes, the provision of housing and utility services, the development of housing-related infrastructure and the supervision of land development (including urban planning) within their territories. Despite the tendency towards decentralization in the housing sector, policymaking in housing remains with national bodies.

At the national level, it is the Gosstroy that is responsible for the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*. Land management issues that are closely related to housing fall under the Gosregister.

In 1997, with the assistance from a USAID housing reform project, the Government passed the *Law on Condominiums* that introduced the homeowners' association institution, which is formed on a voluntary basis, and provided a framework for housing

management. However, by 2005, only 25% of condominium buildings had established owners' associations.^{44,45} This is not enough to be recognized as an institution of major importance in the field of housing management and maintenance. Even though homeowners' associations are established as legal entities, their economic position remains weak limiting their opportunities to operate effectively in a new market environment.

There is also no law on rented housing. While at the national level rents are regulated by the *Civil Code*, local governments can also determine rents in municipal housing within their jurisdictions.

Article 33 of the *Constitution* guarantees the universal right to housing. In practice, this regulation causes serious problems as it prohibits foreclosure procedures, which is a major obstacle for the development of the mortgage market. The regulation also prohibits the homeowners' association from exercising a lien for maintenance fees due from an individual owner. Such a situation imposes barriers to effective housing management.⁴⁶

Currently a new *Housing Code* is under consideration. It has been drafted following the model of the Russian Federation's new *Housing Code*. Major new regulations include the possibility of shared ownership, decentralization of decision-making and integration of commercial spaces into residential buildings. The 1999 *Law on Condominiums* will be incorporated into the new *Housing Code*.

⁴⁴ Struyk, R., and F. Roy (2006). Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic. Frankfurt, Germany: KfW.

⁴⁵ Undeland, C. (2002), *Condominiums in Kyrgyzstan: Building Communities and Managing Housing Effectively*, World Bank Group Publications, Washington

⁴⁶ Roseman, G. (2004), Residential Real Estate Market in Bishkek, Kyrgyzstan. Current Conditions and Prospects, *The Real Estate Issues*, June 2004

Housing programmes

Recently several concepts and programmes have been adopted that review the objectives for Kyrgyz housing policy.

The *Concept on the Development of Housing Construction until 2010* adopted in 2000 defines the following objectives: the provision of State funds for the construction of social housing; stimulation of housing demand by developing affordable mortgage financing in combination with State subsidies; increased housing output and quality of construction, mainly by the development of the capacity of the building industry; increased stability of life and well-being of citizens.⁴⁷

Based on this concept, the *State Housing Development Programme in the Kyrgyz Republic until 2010* was adopted in 2004.⁴⁸ The improvement of housing conditions was to be achieved via the development of mortgage instruments and State support for housing purchase. Before having established a primary market, the programme appealed to secondary market instruments. The programme planned to boost new construction to the quantities seen in the late Soviet era (22,000 housing units were completed in 1990. In this way, the total residential floor space should have been extended from around 60 million m² to 78 million m² by 2010), but almost none of these ambitious objectives have been achieved.

The *Country Development Strategy for 2007–2010* adopted in May 2007 reflected a reorientation of housing policy particularly arising from the political changes after the Tulip Revolution in March 2005. It states that affordable housing is a main priority for social

development of Kyrgyzstan. The Strategy defines three programmes or means of state support for mortgage lending to help achieve the housing policy objectives:^{49 50 51}

1. Housing for young teachers and doctors in rural areas: a three year programme offering state assistance to the targeted homebuyers in a down payment of a commercial mortgage. Initially, the programme was planned for 1,000 beneficiaries per year (later changed to 500).

2. The creation of a contract savings scheme for housing: it has been planned that some 3,500 families per year would receive mortgages to buy flats.

3. A social housing construction programme: the programme should provide small owner-occupied dwellings for vulnerable groups, financed by a modest down payment from the tenants, public grants and public loans.

Taken together these three programmes should provide some 6,000 dwellings per year, which would cover approximately a quarter of the existing housing demand. The public cost for these programmes was calculated at around €150 million a year, but the strategy was not implemented due to the lack of mechanisms for realization, financing and distribution of subsidies.^{52,53}

The 2007 *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* was adopted in response to the dramatic

⁴⁷ Government of the Kyrgyz Republic (2000), *The Concept for Housing Construction Development until 2010*, approved by Decree No. 76 on 6 April 2000, Bishkek

⁴⁸ Government of the Kyrgyz Republic (2004), *The State Housing Development Programme in the Kyrgyz Republic until 2010* adopted by Decree No. 622 on 17 August 2004, Bishkek

⁴⁹ Government of the Kyrgyz Republic (2007), *Country Development Strategy for 2007-2010*, par. 264, par. 270, approved by Presidential Decree No 249 on 16 May 2007, Bishkek

⁵⁰ Struyk, R. and Roy, F. (2006), *Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic*, KFW, Frankfurt

⁵¹ International Finance Corporation (IFC) (2006), *Central Asia Housing Finance Gap Analysis, World Bank Group Working Paper Vol.1*, Washington

⁵² Ibid

⁵³ Struyk, R. and Roy, F. (2006), *Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic*, KFW, Frankfurt

housing situation, including increasing property prices, low rates of new construction and further deterioration of the existing housing stock. The programme suggests a reorientation towards the improvement of the social and economic status of the population. The responsibility of the State to solve housing problems is clearly acknowledged. The programme envisages the following actions:

- Housing maintenance is considered a State priority, although no concrete action plan has been provided to improve the present situation.
- Increased construction along with modernization of the industry, the development of domestic building materials production, the recovery of standardized production using prefabricated materials, a further development of mortgage financing, and the development of a functioning housing market are envisaged. As much as 85% of the new construction should be targeted towards needy groups. The total residential floor space shall be extended from almost 64 million m² in 2007 to almost 69 million m² in 2010.
- Earthquake-vulnerable housing in urban areas will be demolished and replaced by earthquake-resistant high-quality multi-storey buildings.
- Measures against inflation in construction costs and housing market prices are envisaged.
- The programme shall receive about €100 million per year, from both the State and local budgets.

The housing policy programmes for the state mortgage lending assistance defined in the *Country Development Strategy* from early 2007 are no longer mentioned in the programme, and it was soon after the adoption of the programme that new initiatives of the President of Kyrgyzstan and of the mayor of Bishkek in the housing field were reported.

According to the Economist Intelligence Unit, Kyrgyzstan spent 0.8% of GDP on housing and public utilities in 2007. This figure is in line with data from Struyk and Roy⁵⁴ who claim that current programmes for sitting tenants, including housing allowances and discounts on tariffs for energy for more than 500,000 households, account for around 1% of GDP.⁵⁵

Statistics

There has not been any systematic census on the existing housing stock and land use until recently. The data available are based only on official data from the State Agency for Registration of Rights to Immovable Property and the Agency for Architecture and Construction. The first housing stock census was conducted by the National Statistical Committee between 24 March and 2 April 2009. This census was intended to identify characteristics of living conditions of Kyrgyz citizens, such as total living space, housing construction material, seismic stability and availability of communal facilities;⁵⁶ however, the data are yet not available.

A lack of knowledge in this field is a problem for Kyrgyz housing policy. Previous surveys have only covered population data. The property redistribution that happened during the mass privatization in the 1990s was insufficiently documented. It is widely understood that data from the public property registration office differ from reality. However, such a property inventory is particularly important for municipalities — after the legal transfer of land titles from the State to municipalities, the latter are in need of valid information about their property ownership. The new census is also of major importance for fiscal reasons, as it will constitute a basis for the implementation of property taxation.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ National Statistical Committee of the Kyrgyz Republic, <http://www.stat.kg/>

B. EXISTING HOUSING STOCK AND HOUSING PROVISION

Presently, the Kyrgyz housing stock consists of around 1.10 million dwellings,⁵⁷ e.g., 210 dwellings per 1,000 inhabitants. In comparison, the EU average is 446 dwellings per 1,000 inhabitants. At present, the housing situation in Kyrgyzstan is stagnant. Since the transition years, the population has grown faster than the housing stock. The existing residential buildings have increasingly deteriorated due to the lack of maintenance following the mass housing privatization in 1991.^{58,59,60,61,62}

Even before independence in 1991, the owner occupancy rate was at a level of 73%, rather high in the context of the Soviet Union. After independence, Kyrgyzstan embarked on further massive privatization of its housing stock. By the mid 1990s, more than 90% of the housing stock had been privatized. Today the owner occupancy rate is more than 96%, and less than 4% still remains as municipal rental housing. Bishkek has an owner occupancy rate of 98%. As in all countries in transition with intensive privatization, the very high owner occupancy rate is today one of the biggest obstacles for management and maintenance of multi-apartment buildings.

The privatization of dwellings to the sitting tenants was an administrative act, and it was performed almost free of charge. The

baseline cost for privatization was the nominal price level of a dwelling in 1984; in this way, an average dwelling was privatized for about €10.

Some 85% of the existing housing stock was built in the Soviet era. Since that era, a large part of the housing stock has been in multi-apartment buildings. Due to seismic risks, multi-storey buildings in Bishkek have at most 9 storeys.

Kyrgyz households are large, with more than 4 people on average. While, dwellings in Kyrgyzstan used to be between 60 and 70 m² in 1990, today newly built flats have reached almost 110 m². It is obvious that such an increase has occurred because of the tendency of private developers to build bigger flats for the rich and upper-middle-income homebuyers. Regarding the other two thirds of families, the average “useful floor space” per capita has decreased over the last 15 years to less than 5 m². Homelessness is also on the rise.^{63,64,65}

There are data that further demonstrate insufficiencies of housing quality in Kyrgyzstan:

- Only 40% of households have access to running water (in urban areas 70%).
- Only 40% of dwellings are linked to public sewerage (in urban areas 70%).
- Only 27% of households have flushing toilets (in urban areas 56%).
- Only 25% of households have bathrooms or showers (in urban areas 52%).⁶⁶

⁵⁷ Data provided by National Statistical Committee of the Kyrgyz Republic

⁵⁸ Ibid.

⁵⁹ UNECE database, <http://w3.unece.org/stat/HumanSettlements.asp>

⁶⁰ Eurostat database, http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,30070682,1090_33076576&_dad=portal&_schema=PORTAL

⁶¹ Federcasa, Italian Housing Federation (2006), Housing Statistics in the European Union 2005/2006, Ministry of Infrastructure of the Italian Republic, Rome.

⁶² National Board of Housing, Building and Planning (Sweden) and the Czech Ministry for Regional Development (2005), Housing Statistics in the European Union 2004, Karlskrona, Sweden: Boverket.

⁶³ Data file UNHABITAT.Housing.and.Social.Indicators.doc was provided by UNECE as background information

⁶⁴ Government of the Kyrgyz Republic (2005), Report on the Work of the Government in 2005 adopted by Decree No. 270 on 13 April 2005, Bishkek.

⁶⁵ Government of the Kyrgyz Republic (2007), Country Development Strategy for 2007-2010, approved by Presidential Decree No 249 on 16 May 2007. Bishkek.

⁶⁶ Struyk, R. and Roy, F. (2006), Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic, KFW, Frankfurt

- There is high dissatisfaction with the heating provision. In a 2002 review, only 40% of respondents expressed satisfaction.⁶⁷

- In the multi-storey housing stock from the Soviet era, hardly any elevators are working any longer.

- In many cases, the upper floors have no running water due to low water pressure.

- In very many cases, the roofs leak.

- In many cases, the entrances and staircases are dilapidated.

Generally, the technical systems within multi-apartment residential buildings are in need of repair.

C. HOUSING MANAGEMENT AND MAINTENANCE

Housing maintenance is defined as a key priority in the 2007 *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*. The existing housing stock has been affected by decades of underinvestment, and a large portion of it is in urgent need of repair.

Privatization of almost all dwellings has entirely changed the former structures of housing management. During the Soviet era, housing was mainly provided as public housing or as cooperative housing. Public housing was attended by subsidized maintenance agencies. These agencies have since all ceased their activities. In case of cooperative housing, the same organization that provided construction services was transferred into a management cooperative. Some of these organizations still exist, but they are affected by changes in the 2004 *Law on Cooperatives*. Currently, the *Law on Cooperatives* has been changed with the assistance of German GTZ, in order to better match the requirements of agricultural

cooperatives. But for housing management cooperatives, these changes have been counterproductive.

As frequently stated with regard to other transition countries, tenants did not realize what kinds of obligations were attached to the privatization of their dwellings. For most new homeowners, maintenance of the common parts of their buildings had not been considered as part of their obligations according to the 1997 *Law on Condominiums*. In many cases, they were already overstrained with the financial consequences of becoming property owners.

Following the adoption of the *Civil Code* in 1996, homeowners became responsible for the common parts of their buildings. The *Law on Condominiums* introduced homeowner associations as legal bodies, but similar to the situation in many transition countries, their formation is voluntary. Today only 25% of multi-apartment buildings have owners' associations.

Housing management and maintenance in the privatized existing stock is problematic, although in upmarket new construction its organization is more efficient. Condominium owners are able to manage themselves or to hire a specialized company. Running costs for maintenance, management, cleaning services and the like are obligatory and should be paid by owners. But with 1.5 to 2 soms per m² per month (which is equal to €25 per dwelling per year), funding is marginal. Unexpected costs and even urgent repairs have to be budgeted separately. Yet there are hardly any sanctions for non-payment. According to a 2002 survey, only 6% of managers stated that the owners paid their fees in full and on time. The average maintenance funding was only some €8 per dwelling per year.⁶⁸ The difficulties in funding maintenance from the contribution of homeowners are further hampered by low

⁶⁷ Undeland, C. (2002), *Condominiums in Kyrgyzstan: Building Communities and Managing Housing Effectively*, World Bank Group Publications, Washington

⁶⁸ Undeland, C. (2002), *Condominiums in Kyrgyzstan: Building Communities and Managing Housing Effectively*, World Bank Group Publications, Washington

pensions (an average monthly pension in Kyrgyzstan is no more than €20).

Even in the small portion of the buildings with homeowners' associations, maintenance and major repairs have been most difficult to organize. The endowment of a repair fund is decided by a general assembly, but the contributions of tenants to these funds are altogether very low. The proportion of the homeowners who refuse to make any payment is also high. Even though owners' associations are legal persons, they are still not eligible for State subsidies. Furthermore, it is very difficult for them to access mortgages. Banks are very reluctant to lend, as the right to housing does not allow foreclosure procedures in cases of insolvency.

Today, most residential buildings are managed by one of the owners with a correspondingly low level of professionalism. To help improve the situation, a USAID project organized training for housing managers and a competition for the best housing manager. The Mayor of Bishkek has recently initiated a new type of a management company — a limited company which is also thought to be improving current practices.

In 2009 the Housing Census was carried out that involved the inventory of the existing housing stock. Based on the estimates of the census it is expected that a new system of housing management and maintenance will be introduced.

D. REFURBISHMENT AND URBAN RENEWAL

Despite the poor condition of a large part of the existing housing stock, only very few multi-apartment buildings have been refurbished. There have been some refurbishment activities inside dwellings, using mainly Western or South Korean appliances and fixtures, hot water heaters, plastic-framed

windows and flooring.⁶⁹ But, due to deficiencies in housing management as described before, almost nothing has been done to deal with the common parts of the buildings.

Urgent action is required particularly for roofs, elevators and façades. In most cases roofing outlived its technical durability a long time ago and in many buildings, roofs are leaking and rising damp is causing additional damage. Elevators in multi-storey apartment buildings have not been serviced for many years, as a result of which virtually all elevators in the old stock are broken. Façades and windows are of poor thermal quality; windows in many cases have exhausted their technical lifespan. It is often the case that the piping system for fresh water and sewage is in need for replacement. In the past, half of the modest investment on repair went into roof repair alone.⁷⁰

Experiences from other countries show very clearly that massive financial incentives are necessary to motivate private owners of multi-apartment buildings to refurbish their homes. For example, several countries in Central and Eastern Europe have introduced subsidy schemes with two thirds coming from public financing. Even so, it is difficult to organize restoration on a large scale.

With regard to international donor organizations, both KfW and Habitat for Humanity have been involved in refurbishment. KfW is preparing a microcredit programme to support incremental refurbishments. Habitat for Humanity has organized the incremental rehabilitation of a former workers' hostel in Bishkek as a model project.

⁶⁹ Roseman, G. (2004), Residential Real Estate Market in Bishkek, Kyrgyzstan. Current Conditions and Prospects, *The Real Estate Issues*, June 2004

⁷⁰ Undeland, C. (2002), Condominiums in Kyrgyzstan: Building Communities and Managing Housing Effectively, World Bank Group Publications, Washington

Urban renewal

Urban renewal represents a key mechanism to bring forward land and new housing within the city boundaries. This is of particular importance for the capital city Bishkek where urban redevelopment is required for both low density *novostroiki* areas (see *Informal settlements* below), and for many inner city areas with single-family houses. Not only does a more compact city discourage urban sprawl, but it also provides a necessary precondition to control the increasing traffic.

Promoting urban renewal will, however, require the clarification of the status of land ownership of municipalities. In many cases, municipalities do not provide building land for housing construction because of uncertain ownership title. Efforts are to be expected once the results from the 2009 National Housing Census are available.

Urban renewal activities in settlements with privatized individual houses and with large green spaces between houses represent another challenge. From an urban planning point of view, there is a good potential to increase the density there by means of new construction. But first, a legal question needs to be addressed pertaining to the definition of who owns the space between the buildings. With all dwellings being passed to individual ownership, the land underneath and the common spaces passed to a partnership in which all the residents own a share. However, ownership boundaries of the land around the buildings are not clearly defined. It is not clear, for example, whether the partnership of owners, the owners association or the municipality owns the right to use this land. Taking control over municipal land has turned out to be a major challenge for local authorities.^{71,72}

Another major challenge seems to be the seismic improvement of building structures. Programmes for large-scale redevelopment of earthquake-proof settlements are currently under consideration.

Another option to increase density in inner-city districts would be to allow an additional number of storeys. A foreign investor has offered a model to finance refurbishment of a whole building by extending additional floor space in the attic. However, using this approach has been difficult not only due to the requirement to secure agreement from the majority of homeowners in the building, but also because it depends on the prior implementation of the *Law on Condominiums*.

Energy efficiency in the housing sector

Neither new construction, nor rehabilitation of the housing stock in Kyrgyz cities regards energy efficiency a priority concern. Some newly built expensive housing estates meet modern standards for energy efficiency, including thermal insulation and triple glazing. Within the existing housing stock, incentives for energy savings are minimal as payments for district heating depend upon floor space, and not the actual consumption; the installation of meters and thermostats is not affordable for most people.

Informal settlements*

The internal migration from Southern Kyrgyzstan to cities led to the development of informal and semi-formal settlements (*novostroiki*) in the two economic centres, Bishkek and Osh. Since the first wave of inward migration in 2002, the number of *novostroiki* has constantly increased. Today Osh has 8 *novostroiki*, while Bishkek has 47, with an estimated population between 125,000 and 200,000 (up to one fifth of the city's total

⁷¹ Kaganova, O et al (2007) Strategic Land Management Plans in Kyrgyzstan's Cities. Fourth Urban Research Symposium 2007

⁷² Roseman, G. (2004), Residential Real Estate Market in Bishkek, Kyrgyzstan. Current Conditions and Prospects, *The Real Estate Issues*, June 2004

* introduced by Silke Rusch

population). These numbers may be higher, since many migrants are not officially registered.

The *novostroiki* are situated on land formerly used for agriculture. When migrants occupy the land, they build houses using discarded building material, but since no infrastructure for residential use is available they live without electricity or water supply. All four administrative districts of Bishkek have *novostroiki* with varying living standards. While some settlements resemble simple residential areas with brick houses, others constitute an agglomeration of one-room huts that have to accommodate entire families. During the harsh winters the huts are heated with coal ovens and insulated with plastic bags that close the windows and the partly open roof. While the local government has used funds from donor countries to provide the *novostroiki* with electricity, many settlements still have no water supply. Families cook and wash clothes in front of the huts using water that the women have to carry from sources that are sometimes several kilometres away. The situation seems to be particularly difficult in the Ak Bata settlement, situated near one of Bishkek's main markets.

Due to the bad condition of the houses and the dirty coal smoke inhaled during the wintertime, lung diseases like tuberculosis are common among the settlers. Medical care is only available in some of the *novostroiki* which have medical centres. Many others do not have any medical services. As a side effect of this, the capacity of district hospitals in the cities is overstretched and the overall quality of health-care provision is deteriorating. Most migrants who come to the cities are not welcome by official residents who treat them as *samozakhvatchiki* ("internal invaders"). Social tensions in the *novostroiki* are omnipresent and lead regularly to riots and protests among the population. To improve the critical situation of the *novostroiki*, the city has now regularized some of the land and registered it. The United Nations Office of the High Commissioner for Human Rights in Bishkek reports that the majority of individual complaints they receive are related to housing. These complaints mostly relate to evictions. Therefore, even if the land has been regularized, the houses do not

constitute secure accommodation for the families, particularly so as the future of the *novostroiki* is uncertain.

An analysis of the current situation in urban planning terms leads to the conclusion that informal settlements contribute to urban sprawl and this will ultimately result in high costs for the municipal administration. The provision of basic infrastructure and public transportation for a steadily increasing urban area will cost sums that the city cannot afford to pay.

The World Bank is supporting a project to improve urban infrastructure in Bishkek and Osh and has approved an IDA grant of \$12 million. The project is to be implemented over four years and started in mid-2008. The implementing actors are the Municipalities of Bishkek and Osh in collaboration with the Community Development and Investment Agency (ARIS).

International financing of infrastructure is, however, not the only solution to the country's housing and land management problems. In practice, costly modern infrastructure is provided for houses that are of low quality. It is necessary to introduce a long-term urban planning process that would include an internationally funded social housing component. For this purpose, funds could be raised from donor countries and international organizations to build multi-storey housing that offer affordable rental apartments. If the residents of *novostroiki* are willingly resettled to this better quality housing, the poor quality buildings in the *novostroiki* could then be demolished. Upgrading dwellings in *novostroiki* to appropriate standards may be considered as another solution. In any case, strong political will and determined policy measures need to be established for achieving the multidimensional task of integrating *novostroiki* into normal urban societies⁷³.

⁷³ Data obtained during a preparatory UNECE mission and research mission of a team of international experts to the Kyrgyz Republic in March 2008.

E. NEW HOUSING CONSTRUCTION

Housing demand

As mentioned earlier, the population of Kyrgyzstan has increased by 500,000 people since 1998 to 5.22 million inhabitants, despite a strong outward migration in the same period. This is an increase of over 10%. Due to migration from rural to urban areas, the biggest part of this increase concerns the capital city, Bishkek, and to a much smaller extent, the city of Osh.⁷⁴ In many parts of the country there seems to be no housing demand.

This situation contrasts to that of housing production. The housing stock grew in the same period of time only half as fast as the population, from ca. 1.05 to ca. 1.10 million units, i.e., below 5%.

The Country Development Strategy of 2007 estimates that 166,000 families are in need of new housing. The *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* estimates the necessary levels of new housing construction at 20,000 to 30,000 dwellings a year. Under these conditions, it would take 15 years to recover to the same level performance of housing provision as was being achieved before independence.

Currently, housing demand has dropped significantly due to the growing costs of mortgages and market expectations that prices will fall.

<u>Driving forces for housing demand are:</u>	<u>Hindering aspects are:</u>
<ul style="list-style-type: none"> - population growth; - a high proportion of young people; - real estate is one of a few attractive investment opportunities. There are a large number of expatriates. Their remittances represented no less than 14% of GDP in 2005. They wish to use their savings for investments rather than consumption; - labour emigration usually concerns single members of families. Therefore it hardly alleviates housing demand; - overcrowded housing stock; - migration to the big cities; - gradually increasing incomes. 	<ul style="list-style-type: none"> - insufficiencies in supply, particularly in the medium- and lower-price segments and in affordable rental housing; - still very low average incomes of less than €80 per month (gross, 2007);⁷⁵ - slow development of mortgage financing due to low incomes or difficulties in proving real incomes;⁷⁶ - skyrocketing market prices.

⁷⁴ International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis, *World Bank Group Working Paper Vol.1*, Washington, D.C.

⁷⁵ Data provided by National Statistical Committee of the Kyrgyz Republic.

⁷⁶ International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis, *World Bank Group Working Paper Vol.1*, Washington, D.C.

Box 2. Best practice — Cane Reed Settlement of Habitat for Humanity

In 2004 the internationally acknowledged NGO, Habitat for Humanity, started an innovative housing project in Bishkek using locally grown cane reed. The settlement consists of 20 dwellings across four one-storey buildings located around a central green space. The tenants were selected in a complex procedure, considering criteria such as stable family incomes of at least €120 per month (which was at that time around three times the average personal income in Kyrgyzstan), and willingness to participate in a cooperative process of development and construction.

The size of each of the dwellings is around 45 m² including a bathroom (toilets are located offsite). The walls were built with a newly developed product of pressed cane reed, which provides good heat insulation, good static features (important regarding the seismic status of the Bishkek region) and low costs. An innovative floor heating system with energy costs of below €65 per year is integrated.

The total construction costs were as low as €7,000 per unit. This was possible because only the material costs had to be covered. The land was provided by the Bishkek Municipality free of charge (which is generally a precondition for the activities of Habitat for Humanity). Most of the work was done by the future tenants in a cooperative way. The overhead costs for project development and construction management were covered by Habitat for Humanity. The material costs were financed with a loan of Habitat for Humanity with interest that only covered the inflation rate, with a 15-year maturity. In this way it is possible to keep the monthly capital repayment as low as €35 per family. Title for the dwellings will be transferred to the tenants only after full repayment of the loan.

For its innovative concept of a “nineteenth century idea for a twenty-first century solution” the project won an award in the Development Marketplace Global Competition 2006 of the World Bank.

Presently, the Habitat Kyrgyzstan Foundation is facing difficulties in repeating this successful model, as under the new Kyrgyz law no building land is provided free of charge; another obstacle is heavily increased prices for construction materials.

Housing construction

In 1990, construction output was 22,400 units or 5.1 completions per 1,000 inhabitants. This was compatible with international standards and even slightly higher than the EU average at that time. For the same construction rate, the number of dwellings completed would need to increase to 26,500 units a year today. Achieving this housing output is also considered in the *National Programme on Housing Construction in Kyrgyzstan for 2007–2010*.

In practice, however, the increase in the housing output envisaged between 2008 and 2010 has not yet been achieved. For the 10 years prior to 2007 some 500 apartments and 4,700 single-family homes were built annually (5,200 housing units per year), and in 2007 housing output amounted to 6,300 apartments. It is now difficult to see any further increase in housing output in the short term due to rising interest

rates and the international property crisis that affects the Kyrgyz housing market as well. Furthermore, lack of workable solutions that achieve affordable housing may worsen the situation further.

The quality of new construction differs greatly. Whereas parts of multi-apartment housing construction come close to the European standards, a large part of the smaller houses and huts in *novostroiki* are built from mud bricks with no heating, bathroom, toilets, running water or sewerage services. Only electricity is available in most cases.

Construction costs

At present, it is difficult to calculate housing construction costs precisely. Most new construction is developed by building companies. Therefore, costs for construction services and development services are separated;

and there are no public housing activities with public tenders to give a real picture of construction costs.

In the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*, the average construction costs are estimated to be 11,000 soms/m², (€215). It is 9,000 soms/m² (€180) for social housing units, and 16,000 soms/m² (€320) for private market construction.⁷⁷ The construction costs are estimated to be half of the sale price of condominiums (see Table 10), which corresponds to the €320/m² referred to above. However, considering factors such as demand for construction services, quality of construction, construction products as well as labour costs, total construction costs ought to be much lower.

The current *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* has defined actions to address the problem of growing construction costs and also other initiatives to develop the building materials industry. The programme is critical of prevailing monopolistic structures in the construction industry as well as of the lack of transparency in the provision of construction services, which contribute to the high construction costs.⁷⁸

Not-for-profit housing construction

Although it is recognized that migration to the big cities with no corresponding supply of affordable housing is “political dynamite”,⁷⁹ all attempts to relaunch the construction of not-for-profit housing have failed. The State programmes offering mortgage lending support to middle and low income groups have also been unsuccessful due to the growing housing prices and interest rates (see Table 10). Furthermore,

the failure of affordable housing programmes in Kyrgyzstan is also linked to the exclusive promotion of homeownership, while ignoring the diversity of housing needs in the country. Homeownership (even if it is subsidized via state support schemes) remains unaffordable for the majority of the Kyrgyz citizens, while the provision of a wide range of housing choices has not yet been considered.

The last year when affordable housing of any statistical significance was built was 2006, with 200 units for all Kyrgyzstan. In Bishkek, since the early 1990s, only a handful of municipal housing projects have been completed. Today there is no public housing construction in any of the remaining 24 cities in Kyrgyzstan.

This situation shows a lack of financial commitment from both municipalities and State authorities and also the lack of a common strategy to improve the organizational structure of housing provision. Furthermore, there have been significant problems in securing land for affordable housing projects on the part of municipalities, although a direct provision of land for social purposes is critical.

For Bishkek municipality, existing land reserves (to be used for green areas, social infrastructure and housing) are estimated at around 400 ha, but in many cases the legal status of land remains unclear. Also, the procedures for land allocation are not transparent although the Government is urged to provide land only via public auctions. Such barriers prevented the follow-up housing projects of the successful Cane Reed Settlement of Habitat for Humanity (see Box 2).

One of the consequences of the shortfall in affordable housing to accommodate inward migrants to the capital city Bishkek is the sudden emergence of *novostroiki* (informal settlements). Avoiding this shortfall would have required less money in infrastructure investment today, saved precious agricultural land and mitigated and controlled urban sprawl.

Officials responsible for housing issues see future prospects to facilitate social housing

⁷⁷ Government of the Kyrgyz Republic (2007), *The National Programme on Housing Construction in the Kyrgyz Republic for 2008-2010* (Chapter 3 and 4), adopted by Decree No. 562 on 26 November 2007, Bishkek

⁷⁸ Government of the Kyrgyz Republic (2007), *Country Development Strategy for 2007-2010* (par. 268/vii, xii), approved by Presidential Decree No 249 on 16 May 2007. Bishkek

⁷⁹ *Ibid* (p. 35)

construction through the implementation of the following strategies:

- funding should be based upon three pillars: municipalities, State and private investors;
- there are still around 400 semi-completed buildings in Bishkek that remain in public ownership (it is envisaged that private investors will be invited to complete these works under the obligation to provide parts of them for municipal purposes);
- parts of the *novostroiki* are designated to be converted into multi-storey residential buildings, which, combined with space for small businesses, will attract residents from the informal settlements and induce them to leave their huts;
- consideration is being given to tying new sales of public land to the obligation to dedicate 10% of the dwellings or more for social purposes.

One can argue that cooperation with international donor organizations in housing is ambivalent. On the one hand, organizations like Habitat for Humanity or KfW have achieved important pilot projects (see Box 2) or programmes. On the other hand, such organizations resist integration into a coherent housing policy scheme. Attempts by the Government to persuade KfW and Habitat for Humanity to go into multi-apartment housing did not receive a positive response from these organizations because of diverging objectives of the parties involved.

Construction industry, housing developers

Construction and housing development businesses are not clearly separated in Kyrgyzstan. Most housing developments are launched by construction companies in order to occupy their own construction capacity.

The construction sector used to be a core economic sector with 150,000 employees in 1990. Today it comprises only 20,000 workers. The fall in the workforce in the construction industry is even more marked than the decrease

of housing output in the same period. It may partly result from a higher productivity of construction companies today. But it also reflects the drain of professionals, who migrated in large numbers to the Russian Federation and other countries.⁸⁰

According to the National Statistical Committee,⁸¹ in 2006 the construction sector was represented by 673 construction companies, some of them on a joint stock basis with Turkish and Korean construction companies.⁸²

Lack of transparency is a core problem related to very high construction costs in Kyrgyzstan. The 2007 *National Programme on Housing Construction in Kyrgyzstan in 2008–2010* also mentions problems with monopolies and malpractice in the construction industry.⁸³

In Soviet times, multi-apartment housing development was organized by the House Building *Combinats*, cooperatives and smaller public companies. Most of the larger building enterprises have collapsed and a few have been converted into private business.

Many real estate development companies are operating with foreign investment capital, mainly from Turkey, Kazakhstan, the Russian Federation, the Islamic Republic of Iran, the Republic of Korea and China.

Development procedures have so far been only slightly formalized. Developers acquire building land through public auctions, or by

⁸⁰ Data from United Nations database (2002), <http://data.un.org/Data.aspx?d=ILO&f=srID%3A4670>

⁸¹ Government of the Kyrgyz Republic (2007) National Statistical Committee. Kyrgyzstan in Figures Annual Statistical Publication, Kyrgyz Republic, National Statistical Committee, Bishkek, p. 127

⁸² International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis (p. 74), *World Bank Group Working Paper Vol.1*, Washington

⁸³ Government of the Kyrgyz Republic (2007), Country Development Strategy for 2007-2010 (par. 268/vii, xii), approved by Presidential Decree No 249 on 16 May 2007. Bishkek

purchasing private land. A frequent strategy in Bishkek is to buy several neighbouring single-family houses, tear them down and replace them with multi-storey buildings. The building height is roughly defined by regulations, but the final shape and size of a building is decided by the Construction Council in a bargaining process with the developers.

Mortgage markets are still underdeveloped. Therefore, housing construction is mostly financed by the pre-sale of dwellings, which is very risky for the buyer (see the next Chapter “Financial Framework”).

F. HOUSING MARKET

In 2007, there were 37,000 registered market transactions for houses and condominiums and around 800 rental transactions.⁸⁴ That is, a “housing mobility rate” (registered) of ca. 3.5% per year. Over a longer period an increase in market activities is observable; between 2002 and 2006 market transactions almost doubled. Even more impressively, the transfer volume increased nine times over the same period.⁸⁵

Areas of growing housing markets are Bishkek, Osh and the region around the Issyk-Kul Lake. Other regions are characterized by outward migration and very low prices.

After the start of the economic transition, housing prices kept at low levels until the early 2000s.⁸⁶ Table 10 shows irregular price variation since then. The average price for secondary market condominiums in Bishkek grew from €75/m² in 2002 to €480/m² in 2005, and reached €650/m² in 2008. The growth rates have been

highest in 2004–2005, with the peak of price development occurring in autumn 2007. Yet, the quality of offered dwellings is not at all comparable to European standards.

The ratio of average house prices to average yearly income is 30 to 40, whereas the respective number for most European countries is 4 to 5. This ratio summarizes quite well the dramatic situation of affordability of housing in Bishkek.

New condominiums used to cost €550/m² in 2005, and they cost almost €800/m² in 2008. The completed dwellings for sale are usually only the “shell: without any fixtures or fittings. If finishing and furniture are included houses may be marketed at even €2,000/m². At an early stage of pre-selling (i.e., before the construction started), the prices might be one third lower or more than the prices for the finished dwellings.

In 2008, market rents in Bishkek were €100–150 for a one-room apartment, €150–200 for a two-room apartment, above €250 for a three-room apartment and up to €1,000 for an individual house. On average, rents are at €4.00 to €4.50/m².⁸⁷

More recently, market prices have been stagnating or falling (particularly for lower quality second hand dwellings). This situation indicates the saturation of demand from a certain segment of the population, the continuing international real estate market crisis, and more severe financing conditions. Market expectations for falling prices are further decreasing demand and might unleash a downward spiral of prices.

⁸⁴ Data provided by the State Agency for Registration of Rights to Immovable Property

⁸⁵ International Development Association (IDA) (2007), IDA at Work. Restructuring the Land and Real Estate Management Systems in the Kyrgyz Republic, World Bank Publications, Washington

⁸⁶ Roseman, G. (2004), Residential Real Estate Market in Bishkek, Kyrgyzstan. Current Conditions and Prospects, *The Real Estate Issues*, June 2004

⁸⁷ Interview with Zavgorov, the Realtors’ Association of the Kyrgyz Republic

Table 10. Average prices of secondary market condominiums in Bishkek

	1 room (28–35 m ² , in Khrushchevki)	2 room (42–44 m ²)	3 room (62 m ²)	Indiv. housing (80–100 m ² , 500 m ² land)
2002	€ 2,500 € 4,000–5,000	€ 3,500–4,000	€ 5,000	€ 7,000
2005	€ 12,000–16,000	€ 20,000–28,000	€ 32,000–35,000	€ 20,000–28,000
2008	€ 16,000–20,000	€ 23,000–30,000	€ 30,000–45,000	€ 32,000–45,000

Source: interview with Zavgorov, the Realtors' Association of the Kyrgyz Republic; International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis (p. 74), World Bank Group Working Paper Vol.1, Washington, D.C.



Picture 6. Informal construction in Kyrgyzstan

Source: UNECE.