

Chapter IX

SOCIAL HOUSING

The cohesion of a society cannot be seen independent from its housing situation. The Russian Federation's economic and social transition during the past decade affected some population groups more adversely than others. To protect the most vulnerable from despair and social isolation, a social safety net is needed and it has to include provisions for those households that are unable to solve their housing problems unaided. This chapter looks at the social housing thematic in the Russian Federation. It first looks at the current situation and the main challenges with regard to housing provision to the socially weak, including the current system of targeting of housing support. It then moves on to describe the impact of transition policies, in particular the large-scale privatization policy, on the capacities of the different actors in the housing sector – public institutions at the different levels of government, condominiums, etc. – to address the housing concerns of the socially weak.

A. The current situation

Social housing in the context of the Russian Federation today is a complex theme. The first step in any discussion on that topic would need to address the question on what is meant by social housing and what is included in this notion. The present structure of the urban housing market in the Russian Federation is approximately 20% private and 80% multi-flat blocks, predominantly municipally owned. These municipal blocks of flats are in turn split approximately 50-50 between privatized and rented units.

It is tempting to define social housing as rented units within municipal blocks of flats. However, the specific characteristics of Russian privatization and the legal structures for the municipal blocks mean that no discussion of social housing can ignore the privatized flats within these multi-flat blocks.

Firstly, cost-free privatization means that tenure and economic circumstances are by no means consistent. There are many relatively needy - especially elderly - flat owners within the multi-flat municipal blocks. Secondly, since property

taxes and pure rent (Nayem) are both modest, the running costs to both privatized owners and tenants are largely identical, consisting of utility and maintenance charges. In an overwhelming number of cases, the municipality retains responsibility for the structural condition of the block as condominium associations normally do not accept this responsibility even where a majority of the individual flats have been privatized. For these reasons we will refer to these municipal multi-flat blocks as mixed-tenure public housing, of which the rented units – or social housing more narrowly defined – can be seen as a subset.

Russian social housing thus suffers from being a problem within a problem. Social housing cannot be improved without resolving the issues around the municipal blocks - the mixed-tenure public housing. The thrust of social housing policy over the coming decades must be progressively to disentangle social housing from the wider challenges facing mixed-tenure public housing. This is critical in order to allow the State to focus its scarce resources on those in greatest need. In other words, the Russian Federation needs to make the step from providing public housing to virtually all its citizens to targeting specifically needy and vulnerable people or categories of people for social housing.

It is striking in discussions with Russian housing professionals that housing is expressed almost exclusively in terms of surface. There is little focus on dwellings, households or people. Defining the priority target groups for social housing and designing buildings around these people – rather than expecting the people to adapt to a fixed form of housing provision by construction type or tenure – is the long-term future for social housing in the Russian Federation, as in all advanced societies.

Radical improvement can certainly not be achieved overnight. Mixed-tenure public housing exists as a fact. Inevitably much public resource will be diverted away from the specific area of social housing to address the urgent need to maintain the fabric of these buildings which,

whatever their failings, are at present the essential means of delivering housing to the overwhelming bulk of the urban population.

However, throughout the process, the goal of social housing policy, i.e. the creation of rented and other forms of subsidized tenure for specific groups based on economic need or vulnerability with housing designed around their requirements, must not be lost sight of.

The remainder of this chapter reviews in turn the tactical challenges which need to be overcome in the medium term in order to be able to deliver this longer-term vision. The focus will be first on the issue of targeting resources by need, then on how to maximize existing resources in the context of huge maintenance liabilities in the public housing stock, before reviewing the interaction of the various levels of government in the context of social housing.

B. Main challenges

Three distinct issues are specific to the Russian Federation when trying to define needy or vulnerable groups for social housing. The first of these is the historically grown notion of collective provision, while the other two relate to the phenomenon of privileges or “mandates” and “poor owners”.

1. Collective provision vs. means-testing

The concept of targeting or means-testing is relatively novel in the Russian Federation. Until a decade ago, collective provision was both ideologically and economically a given. The transition to a market economy has created significant disparities in individual economic circumstances, particularly in Moscow, where there is a sizeable, financially independent middle class, which the city authorities estimate at between 25-30% of the population. Given the present housing structure, the majority of this middle class will still live in mixed public housing. If they have privatized their flats, they will enjoy upside capital appreciation, while the public purse, in most cases, still takes responsibility for the fabric of the building.

This is a powerful example of the opportunities that may exist through appropriate incentives (such as low-cost mortgages) for gradually moving this category into privately owned condominiums and so freeing up social resources.

At present, municipal waiting lists are based on the housing space available to an individual. The primary drivers are not their social vulnerability or income (“means test”).

It can be argued that means-testing is a luxury when the average standard of living across the Russian society remains depressed. However, if means-testing is not introduced, State resources will continue to carry individuals even as their economic circumstances improve. The example of the growing Moscow middle class is telling. The economic policy of the Russian Federation is designed to create such financially independent sectors of the population throughout the country.

It is important that social policies are in place to protect the population in case economic policies are not as successful as quickly as envisaged. It would be strange however to design social policies on the assumption that key economic policies will never succeed.

It can be further objected that means-testing is complicated by the lack of transparency in many individuals’ true financial position. However, means-testing does already apply for social security and other support payments to cover housing costs, so there is no reason why it should not also be adopted as one of the key criteria for allocating social housing.

2. Privileges and mandates

Means-testing in the Russian Federation has a further challenge due to the system of privileges or mandates which grant inter alia priority housing rights to different classes of citizens. The privileges may cover up to 70% of the population and cover an estimated 40% of the population for housing payments alone.

While some of this grouping is consistent with targeting State support to the needy, a

considerable number of beneficiaries are from the relatively comfortable area of the public sector.

The impact of privileges on waiting lists for social housing is dramatic. According to Moscow city, applicants with privileges receive 50% of annual allocations and can expect to be relocated within five years. Other applicants, who may have far fewer financial means, can wait forever.

As a result the waiting lists have lost credibility and many needy people no longer register at all. Therefore, waiting lists are likely to significantly underestimate real social housing needs across the country.

The Russian Federation is actively reducing the number of privileged groupings, but, as yet, no effort has been made to integrate the federal system based on privilege with a more means-tested municipal approach. Even within the municipality, means-testing is incomplete, being based primarily upon dwelling space not financial capacity.

If means-testing is accepted as a guiding principle for targeting social housing and it is also accepted that federal takes precedence over municipal, the following integrated order of priorities for social housing waiting lists emerges:

	Means-tested	Non means-tested
Federal privilege	1	3
Other citizens	2	4

3. "Poor owners"

Cost-free privatization has resulted in many property owners who are actually poor. There are a few examples of condominium associations within the public housing sector where the owners had formed an internal and informal social security system to support elderly and poor owners unable to meet their share of the condominium's maintenance bill.

It is therefore possible in Russian mixed public housing to find a relatively comfortable "tenant" living next to an indigent "owner".

It will take many decades to eliminate this mismatch between economic circumstance and housing tenure. The solution requires a systematic long-term effort to incentivize more rational allocation of social housing. Such incentives might be as follows:

Existing situation	Incentive	Desired future situation
Financially comfortable tenant or privatized owner within mixed public housing	<p>Positive Subsidized affordable mortgage</p> <p>Negative Higher property tax on privatized mixed public sector flats</p> <p>Increased pure rent (<u>nayem</u>) for wealthier tenants in mixed public sector flats</p>	Private owner in real private sector, i.e. directly or through condominium taking responsibility for structural as well as day-to-day maintenance

It is important to note how vital a functioning mortgage system is likely to be to Russian social housing. Without a mortgage market, it is difficult to see how wealthier households within the existing mixed public housing can be enticed towards the real private sector.

Without the ability to focus scarce resources on those in need, it is unlikely that the State will be able to begin a social housing new build programme, which is essential if a real Russian social housing sector is to evolve.

The reason why such new build is critical is the probable unsuitability of much of the existing

Financially comfortable owners/tenants	→	Private sector – either new build or public blocks upgraded to genuine condominium status
Financially needy but able-bodied owners/tenants	→	Existing public housing blocks on rental agreements or other subsidized tenure
Elderly and special-needs owners/tenants	→	New build social housing on rental agreements or other subsidized tenure

It must be emphasized that the shift towards new social housing construction will be gradual and over a lengthy period. Social housing is expensive in terms of public budgetary resources. For example, the capital cost of general-needs social housing in England (where private finance has been available within social housing for 15 years) is borne 50%-60% by the State, whilst for more specialized social housing the share of the State rises to 95% in many cases. At present in the Russian Federation only Moscow city has a substantial “social housing budget” intended to be used to fulfil the needs of applicants on the waiting list.

C. Financial challenges

1. Public housing blocks

The financial challenges facing the present mixed-tenure public housing system are considerable. The estimated heavy repair backlog across the

mixed public housing for true social housing. For general needs (able-bodied individuals and families), the existing stock, adequately maintained, may provide an attractive long-term solution.

However, for elderly or special-needs tenants, accessibility issues and lack of care and support facilities are likely to be serious impediments to using existing mixed-tenure public housing as a long-term solution.

A possible long-term outcome for the existing mixed-tenure public housing stock is thus:

country amounts to R 550 billion, or twice the annual gross turnover of the housing sector. The situation is deteriorating. Within one district in St Petersburg it is estimated that a 300-350% increase in the heavy repair budget is needed to meet current requirements. In Nizhny Novgorod the demolition/repair of dilapidated/run-down stock is barely 50% of the required level.

The lack of reliable stock condition surveys makes it unclear how accurate the R 550 billion estimate is, but also makes it difficult to predict future trends. There is the clear risk that obsolescence and the underfunding of the past decade will result in the backlog increasing at a greater than linear rate.

Although the current mixed public housing blocks are in many ways far from ideal, they are at present the only means of providing housing to the overwhelming majority of urban Russians. It is therefore imperative that the current heavy

repair backlog should be cleared as the most pressing priority.

2. Implicit and hidden subsidies

Some of the backlog can and is being addressed through demolition and re-provision using private finance. The immaturity of the wholesale and consumer finance markets, limited competition among construction firms and the general level of economic wealth will limit the ability of the private sector to respond to the full magnitude of the challenge in a realistic time frame. There are, however, most likely unrealized opportunities for expanding “planning gains” as discussed below.

For the greater part, the State will need to share this burden with the population and this means eliminating a vast array of subsidies, which the State simply cannot afford if the housing stock is to be maintained. These subsidies include:

- (a) Incomplete recovery of utility and maintenance charges including unfunded federal mandates;
- (b) Maintenance charges that often fail to include a portion for heavy repair;
- (c) Pure rent or nayem at miniscule levels;
- (d) Nominal property taxes on privatized flats within public housing blocks;
- (e) Cost-free privatization even on new and recently refurbished properties.

The present economic conditions mean that some people require all such subsidies and most require some subsidy. Hence elimination of subsidy means the elimination of implicit or hidden subsidy, since by definition these are indiscriminate and wasteful. The thrust of all the measures discussed in this chapter is to end implicit and hence indiscriminate subsidy and move towards grossed up charges offset by explicit means-tested and hence targeted support.

Housing is at present an intensely political area, in which the electorate is offered significant inducements by rival parties. Since the costs of these inducements are implicit, the illusion is created of a “free lunch”. In reality what is happening is that current general consumption is being financed by foregone capital expenditure on the mixed public blocks, which house 80% of all urban Russians and which are falling into increasing disrepair.

Two issues are of particular relevance to social housing issues: the lack of pure rental charges and cost-free privatization. But first this chapter discusses the financial challenges condominiums are currently facing.

3. Financial challenges facing condominiums

Within recent purpose-built private sector housing, condominiums are potentially highly effective. Household incomes are high and the property maintenance charges should be relatively predictable.

An enormous effort is being made to create condominiums within the public housing sector. Thus far less than 1% of households within the public sector are covered by condominiums. Many of the challenges facing such organizations have already been discussed – tenure/economic mismatches and mixed rental/privatized tenure.

It is questionable if such condominiums will ever be able to make a serious contribution to the heavy repair burden – either the existing backlog or upcoming. Incomes are likely to be weak or at best uneven, whilst the structural maintenance liabilities are not transparent and at worst ruinous. Insurance for the entire block is virtually non-existent.

Creating condominiums in the existing mixed public sector housing blocks may be effective to meet current or day-to-day maintenance. However, few households will want to shoulder the huge potential structural liabilities in large and often visibly poor-quality municipal blocks.

Serious consideration should be given to limiting the liability of public housing condominiums until full building insurance is available. In addition, social security should be available to those condominium members who are truly unable to meet payments.

There are constitutional issues concerning the compulsory memberships of condominiums. It must surely be easier to address this constitutional issue if it is clear that the demands on condominium members within the mixed-tenure public housing blocks are affordable and fair.

This merely serves to emphasize that only the State will be able to finance the bulk of public housing heavy repair. However two areas of subsidy militate against the State successfully shouldering this burden. These are discussed below.

4. Rent charges

Rent in a Russian context hardly deserves its name. Pure rent or *nayem* is estimated at between R 0.1 and R 0.12 per m². Compared to this, utility and maintenance charges average R 24 per m².

The absence of pure rent represents a significant subsidy to tenants but on an indiscriminate and implicit basis. As explained above, there is no automatic link between tenant status and financial means.

The present situation is exacerbated by the fact that service charges rarely provide for a heavy-repair sinking fund. As such, there is no direct correlation between housing charges and the capital costs of providing the housing.

It may seem visionary to discuss pure rent when even utility and day-to-day maintenance charges are still not fully recovered. However, housing is a long-term business and this is compounded by the need to reform the system of housing subsidies and to develop an offsetting social security system - itself a long-term undertaking. It will be difficult to develop and see through the necessary reforms over an extended period of time unless there is a genuine understanding of the long-term goal.

Introducing a pure rent - even if heavily subsidized - that is linked to capital costs, including a real market price for land is also going to be important if rational capital allocation decisions are to be made in respect of new social housing construction. As discussed above, this will ultimately be necessary once initial stabilization of the public housing blocks is achieved.

5. Cost-free privatization

Cost-free privatization has achieved a number of benefits. It has provided the beginnings of a traded housing market, enabled individuals to find

personalized solutions to their housing needs and, through inheritance, begun a modest cascade of wealth across generations. At the same time cost-free privatization has led to confusion of tenure and need. It has significantly reduced the ability of the public sector to offer rented accommodation to those in need and left the public sector in the unenviable position of being responsible for the structural integrity of ageing public housing blocks, whilst the upside capital appreciation of the individual flats is held by individuals.

In Moscow alone some R 2 billion worth of rented accommodation is privatized on a cost-free basis annually. This equates to approximately 225,000m² of rental space assuming US\$ 300 m² construction cost or almost a quarter of the new social rented accommodation being built each year by the city. The situation in other areas is far worse than in Moscow, as it is one of the very few regions able to construct new social housing at all.

D. Municipal, regional and federal responsibilities

1. Roles, responsibilities and interrelations

It is widely acknowledged that the municipal sector is the last area of the economy to begin the transition from the earlier collective command-and-control environment. The guiding principle thus far has been to allow the municipalities and regions to lead on this area under general federal guidance. At the same time, the housing sector has formidable financial challenges and grossing up subsidies as discussed above will inevitably compound the scope of housing-related social security.

It is clear that the Russian Federation will not merely need to be involved in setting overall housing policy but also become increasingly engaged financially if the challenges are to be effectively addressed.

At present social security support is primarily a regional responsibility with limited federal finance estimated at approximately 20% of the total budget cost.

There are also variations in regional support levels, most of which become effective well before the 22% of household income, which is the

federal threshold, as well as differing administrative arrangements. It is open to question whether the regional level is able to carry the financial and policy burden involved.

The relationship between Federation, region and municipalities might best be described as evolving, with a level of tension in the budgetary sphere. There is a real risk that housing and the municipal sector become a victim of this institutional tension.

The Federation has on occasion created expectations – examples being the level of federal privileges and the new programme to clear the heavy-repairs backlog – without matching these expectations with adequate funding.

The present bill on the municipal economy is in fact being delayed, while the financeability of various measures is addressed.

Besides the relative newness of federal structures, two specific features probably contribute to the present situation. Firstly, there is no single point of responsibility for housing at federal level either in terms of ministry or parliamentary subcommittee. Secondly, there is a lack of transparency in the finances of the municipal economy so that there is more room than usual for argument over the real capacity of lower tiers of government to fund federal initiatives.

If housing is to flourish, the Federation will need to invest heavily as discussed earlier. Whilst it is surely right to encourage the municipalities to take the lead delivery role, the Federation will need to be sure that federal funding is being effectively deployed to meet federal targets.

2. Budgetary relations

The present budgeting situation within the Russian Federation is difficult. Of 87 federal regions only 8 are net contributors to the overall national budget.

Within federal regions the major city may itself subsidise the region. Even in a case like Ivanovo, which with average monthly income per head at \$80 is below the national average, a net R 1.5 billion is transferred to the poorer municipalities within the region by the main city. If the city overperforms against budget, this outperformance

is in turn shared with the rest of the region.

This is a complex area. On the one hand, the overall lack of budgetary resource and the economic challenges of non-urban municipalities make significant redistribution unavoidable. Set against this, the present situation offers no incentives to the urban municipalities to outperform, transfers funds away from areas with large housing heavy-repair backlogs and potentially stifles the ability of urban centres to lead the much-needed process of wealth creation.

It is recommended that the Federation should review whether the present redistribution model is aligned to its critical path policy issues. As part of this review, the Federation needs to be clear on the importance that it attaches to the municipal economy in general and urban housing in particular relative to its many competing priorities.

Fragmentation of responsibility for housing is not confined to the federal level. On the ‘subject of federation’ level, an issue such as homelessness can be found in a different department from housing, whilst regular housing management and heavy repair/construction, if in the same department, generally appeared quite distant cousins. It is likely that a stronger holistic focus on housing and a reduction in the autonomy of the various housing committees would be desirable.

It is further evident that, within the federal cities (Moscow and St Petersburg), the districts are essentially administrative only with no independent budgetary authority. Given the size of these two cities, one has to question how effective any totally centralized control can be. Indeed Moscow city has a commitment gradually to empower the districts.

This lack of independent district budgets is particularly relevant in respect of “planning gain” - the social return in terms of cash, new units or housing repair that a private contractor commits to in return for land and planning permission. It is striking that these planning gains are not transparent as a contractor might acquire rights, for instance in a suburb, in return for a cash contribution to the city budget, which might be used in housing elsewhere [or possibly even for another budget line].

As economic prosperity and hence land prices increase, planning gain will become ever more valuable a social resource and it is strongly recommended that such planning gains should be accounted for in the district where they arise and any inter-district budgetary transfers linked to these gains should be fully transparent.

Planning gain is a powerful tool. The typical approach to urban renewal in the United States or the United Kingdom has been to create beacon sites on which landmark buildings are constructed to generate a chain of rising land values. This in turn stimulates further private development with in turn opportunities for planning gain in support of social housing and amenities.

In certain cities there are relatively attractive individual buildings being constructed but generally in sites where there appears little opportunity for further new construction in a similar style. Municipalities probably require training in how to maximize this benefit.

The Congress of Municipalities organizes benchmarking and best practice conferences. However, the federal Government will need to strengthen its own involvement in this area in order to ensure efficient knowledge transfer across the country.