

Chapter VII

MANAGEMENT AND OPERATION OF THE EXISTING HOUSING STOCK

One of the greatest challenges within the housing sector is the management and operation of the housing stock, in particular the organization of repairs and maintenance. Free privatization has dramatically changed the ownership structure of the housing stock. However, even today there is no clear understanding of ownership. The concept of private homeownership has been highly devalued, not only by the public authorities, but also by the owners themselves. There is no proper institutional structure for the flat owners and there is a lack of information sources for them in particular in multi-unit buildings. In most cases, they do not have the opportunities and capacity to take decisions on their property.

A. The consequences of privatization

In the Soviet Union all apartment buildings were for rent. The State or State companies owned the residential buildings and the authorities took care of their management, maintenance and repair. Living space in State-owned buildings was rented to citizens for permanent residence. The monthly rent was approximately 1% of the average per capita income of ordinary families.

The privatization policies of the 1990s changed this. The privatization of flats and the switch from tenants to owners was seen as a tool to increase the efficiency of the housing stock management and maintenance. The privatization process has, however, left many questions open. Although individual flats are privatized, the common areas, structures and infrastructure of buildings are not formally privatized. Home ownership is understood to cover only the dwelling.

The privatization policy made it possible for residents to "privatize" their dwellings free of charge. About half the flats in apartment blocks have been privatized. Because the rents in Soviet times were nominal, they did not include capital repair costs and did not even cover maintenance costs. This has not changed. Therefore, privatization does not bring any financial benefit

to the residents. On the contrary, in most cases it increases their financial responsibilities. Consequently, interest in privatization has waned among residents, while the authorities are still promoting it as they hope that privatization will reduce their responsibilities with regard to the huge problems in the housing stock.

Private owners can form a homeowners' association, which in principle can independently decide upon the maintenance and management of the building. But in most cases, some flats in a building are privatized and others not. In such apartment houses it is almost impossible to form a homeowners' association, because the local government, which formally owns the other flats, is reluctant to be part of a private owners' association.

The privatization legislation did not stipulate sufficiently clearly how the ownership of the whole building should be legally determined and organized. At the moment nobody clearly owns the partly privatized apartment blocks and nobody is clearly responsible for them; the buildings are "ownerless". This situation is a serious obstacle to the development of proper maintenance and renovation.

The first priority should, therefore, be to search for efficient patterns of management of apartment blocks in which some of the flats have been privatized. The Government will have to be strongly involved in the development of such patterns. The lack of a tradition in the ownership of buildings and of understanding of an owner's responsibilities makes it difficult to rapidly shift the responsibility for housing and buildings to the individual private flat owners.

B. Management of the housing stock

In the Soviet system there was no clear distinction between ownership, management, maintenance, reconstruction/repair and provision of public utilities for housing. This is generally still the case

today. The same local organizations and authorities can act in all these tasks and take care of all these duties. There is no clear distinction between customer and supplier in the housing sector and a lack of transparency in costs and money transactions. In this kind of system it is almost impossible to measure or assess the efficiency of different actors.

Formally, the overwhelming majority of residential buildings still belong to the municipalities, i.e. public authorities, which delegate their management and maintenance to subordinate organizations - housing maintenance offices (ZHEKi), companies offering customer management services (DEZi), trusts, etc. It has become evident that these are inefficient.

The causes for the current low quality of housing stock management cannot be merely explained by the strong impact of the municipal authorities on customer's service offices (Zheki/ Dezi). There is also a lack of correlation between the results of their activity and their financial remuneration. The fees are hardly related to the services delivered, and increased payments would not necessarily lead to any improvement in service. Another reason for the inefficiency of the customer's service offices and their subcontractors is that their activity can hardly be controlled. There is little transparency, either in financial terms or with regard to the delivery of services.

The lack of explicitly prescribed responsibilities is one of the biggest problems of the management and maintenance system. Up to now housing and public utilities have largely been provided by a monopolistic system, which means that the occupants are unable to reject management services of inadequate quality. Demonopolization of the market would enable them to choose the best company and to be involved in the management of their homes. This is not the case now, as their involvement is restricted to paying for housing services and public utilities.

The current system of payments for housing services is complex (see chap. VIII). Citizens cover only 20-40% of their housing costs through complicated tariff systems, which include a complicated social support system, privileges and subsidies for 60-70% of the population. The remaining housing costs, 60- 80%, are supposed

to be covered by the municipalities, which in general are unable to finance the sector properly even though approximately 60% of their budgets go to housing. Approximately 20% of the costs are not covered at all, which means increasing debts, deteriorating services and dilapidated property. This has already resulted in social problems.

Moreover, despite the lack of income, maintenance enterprises have 5-10 times more personnel than similar West European organizations. This is an indication of their very low efficiency. The households that they serve consume 2-4 times more energy and 50 % more water than generally in the West and there is much waste of material resources. In general, the service providers suffer from poor management. In the Russian Federation it is already understood that maintenance urgently needs more efficiency, better tariff systems and better financial administration. Citizens cannot understand why they should pay more for poor or even deteriorating services.

Compulsory annual financial auditing has been recommended to Russian municipalities and enterprises. The promotion of professionalism in municipal enterprises needs consultant advice in technical and administrative issues, in the promotion of transparency and in developing tariff systems and personnel policies. Although there is a control mechanism through State and municipal housing inspections, which control the quality of public utilities, this is not sufficient, in particular as these inspections frequently also suffer from a lack of efficiency. Compulsory auditing is impossible as there are hardly any qualified Russian auditors. The need for education and training in all aspects of maintenance is obvious and urgent.

As a result of all these difficulties, renovations and repairs in the housing stock are insufficient and the public utilities cannot renovate their infrastructure. Consequently, both the infrastructure and the housing stock are run-down.

C. Ownership of the housing stock

With the transfer of ownership, it was expected that the new private homeowners would take over the management and maintenance of the housing

stock. To facilitate this, the organization of individual owners in multi-apartment buildings into associations was promoted. Those homeowners' associations either take the form of traditional housing cooperatives and housing construction cooperatives (ZhK, ZhSK) or the newly established household associations (TSZh).

In fact, the attempt to organize households through homeowners' associations has not been very successful so far. According to Gosstroy, in 2001, there were only about 5,000 registered TSZhs and about 16,000 registered ZhSK.

Most associations were established in new constructions and in buildings intended for demolition, so the real figures are even more modest. Many of the TSZhs were established artificially, under pressure from local authorities. Many of the associations are kept alive only formally: they have no bank account, no statutes and no board.

The establishment of homeowners' associations is constrained by a number of factors that are difficult to overcome, for instance:

(a) The authorities have not fully transferred the land on which housing has been built to the ownership of condominium households, despite legal obligations to do so;

(b) The authorities have failed to comply with a legal obligation to give State and municipal grants to homeowners' associations to finance maintenance, current repairs and renovations of buildings and to provide utility services, and to compensate for housing subsidies and privileges which had been granted to the owners of the condominium;

(c) The low number or total absence of professional real-estate managers, and the lack of a market for management, maintenance and repair services.

Generally speaking, creating homeowners' associations is burdensome, especially for local authority management companies, but also for the major utility providers, as they have the need to tailor their management and billing systems towards the needs of the new management institutions (see chap. VIII).

It has proved easier to establish homeowners' associations in cases where new blocks of

apartments were developed for sale. Developers and association representatives report that there were no major difficulties establishing the associations and running them. These cases may serve as promising examples, however even here there are problems:

(a) The developers and the construction companies have become the initiators of the homeowners' associations. Due to the huge size of these new blocks, creating a homeowners' association turns into a formal act of collecting signatures rather than involving the owners in joint decision-making. So basically the developer runs the block and applies his management and maintenance solutions.

(b) The practice of forming homeowners' associations in new buildings goes against the main idea of the housing reform to demonopolise housing management and maintenance services. The developer has the obligation to run the building during the warranty period. The developer will, however, also have a major comparative advantage for any future tendering for maintenance and repair work owing to his familiarity with the technical particularities of the block;

(c) The efficiency of a homeowners' association depends on the professionalism of its leaders. Those pre-established by developers are not 'bottom-up' initiatives, rather a quasi-association assisting the developer to meet his business targets. Some of these institutions may turn to be successful in the future, but few are forums for initiatives from owners.

The federal Law on Homeowners' Associations obliges authorities to rethink and to develop new approaches to increasing the role of the owners and their institutional representatives (homeowners' associations). Today, the new owners of the privatized apartments lack any real incentives to take responsibility and form homeowners' associations. There are even cases where the owners may lose certain benefits that are provided only to tenants. Moreover, ownership of the flats is not registered so that they cannot be used as collateral. The newly formed homeowners' associations in the existing housing stock face several procedural difficulties in connection with their establishment, or when they try to run to the block differently than before.

The creation of a homeowners' association entails that full responsibility for upkeep and maintenance rests with the residents. However, the establishment of homeowners' associations requires adequate financial means and organizational support.

In a few cases the regional or local government institutions are making an effort to promote, advise and assist the new owners in creating homeowners' associations. A good example is Moscow's Department of Housing Policy, which advises the owners of the apartments directly and virtually through its website.

In the blocks of apartments where no homeowners' associations are created, the municipal housing companies (DEZi, Zheki) remain in charge of everyday management and repair, but also of channelling the different subsidies. For people living in housing provided by employers it is still possible that the companies' managers run the housing stock too, but there is a tendency to transfer this stock to municipal responsibility.

During the Soviet era, there was a variety of self-help groups and local initiatives, e.g. housing committees (ДОМКОМ). They were based on national traditions of collectivism and mutual support in rural communities and neighbourhoods. All these mainly dealt with regulating the community and setting rules. So there is a tradition of third-sector public movements in the Russian Federation and they have been closely associated with 'collective' homes, including multi-unit buildings, and the need to regulate the living conditions there.

D. Organizing repair and reconstruction

The Russian housing stock is fairly new, but due to the low quality of construction and poor maintenance it is wearing out quickly. According to Gosstroy, all *khrushevki* will have to be renovated within the coming 10 years. Other large-panel buildings are generally in better condition.

It is important to try to repair the housing stock as economically as possible and prevent its increasing deterioration, the loss of flats and the further lowering of housing conditions. At the

moment it is not economically possible to demolish all older, run-down blocks of flats and replace them with new construction. Therefore, massive economical renovation is necessary to prevent housing standards falling further. In general, costly renovations of the panel block buildings might not always be advisable. If the economic situation of the country gets better quickly, this kind of housing stock will lose its attraction as wealthier people will start wanting better and more individual dwellings and houses and living areas, and will move out of old block buildings.

Reconstruction and renovation of residential apartment blocks seems to have almost come to a halt. Renovation of buildings has shrunk heavily after the break-up of the Soviet Union and has not yet picked up. Renovation of private flats by their owners increased after the 1998 economic crisis, which as a whole was a disaster for the renovation sector.

Statistics and other information on renovation and reconstruction of buildings and flats are very limited. This is probably due not only to the lack of statistics but also indicates that there is little repair and reconstruction. The unclear situation of the ownership of buildings effectively limits all interest in repairs. Federal organizations and some municipalities have made some preliminary plans for renovation and reconstruction work but these have not yet been carried out. How to finance repairs has not been decided. It is, however, evident that private inhabitants or "private owners" are not able to finance renovations directly from their incomes. Private investors are rarely interested in financing repairs, when the incomes of the inhabitants are low or uncertain. So the only possible financier is the public sector, municipalities or the federal Government.

There is a lack of companies specialized in renovation and reconstruction work. There are Russian companies that carry out new construction, and are capable of developing new housing areas. They do not seem very interested in renovation projects, but if municipalities can organize financing, those companies will probably be capable and interested in repairing larger apartment blocks, in the same mass production way as they were once built. For smaller or

specialized renovation projects more small firms would be needed in the market to increase flexibility and boost competition. There should be free and transparent competition between different renovation companies to improve efficiency and reduce costs. At the moment this is not the case.

When planning and starting the renovation work a technical, economic and social survey of the building stock is needed. Technical surveys of

Russian residential buildings are made both by Russian and Western experts using different methods. According to the Russian system, the condition and standard of an old building is compared to regulations for new buildings. After renovation, the old building should fulfil the standards of new buildings. This principle makes renovation work difficult and expensive and it is, therefore, not used in Western countries, where the original design of the building is the basis for renovation.

