Housing in Russia – Policies and Practices

Housing is one of the basic necessities of life that forms the basis for the individual’s living conditions. From a wider perspective, housing is a central sector of the society that is strongly connected with other sectors, the economy in particular. The state of the housing sector reflects the country’s economic situation and the average housing circumstances can be used for estimating the country’s living standard. The country’s housing policy may have a strong ideological emphasis and can as well be used for building a welfare state or a communist society. Housing in today’s Russia is still clearly characterised by the legacy of the Soviet Union’s housing policy. In this paper I will examine the current situation and recent changes in housing in Russia. To understand the prevailing situation I will describe the main features of housing in the Soviet Union as well as the reforms started in the 1990s.

**Housing in the Soviet Union**

In the Soviet Union the housing stock was mainly state-owned: in urban areas state ownership accounted for 79 percent, in largest cities up to 90 percent of the housing stock (Struyk et al. 1997, 1789). In accordance with the socialist ideology rents and housing costs for the citizens were nominal and housing was heavily subsidised by the state. In cities, housing was allocated according to the so-called sanitary norms that regulated the amount of living space per person (Lebina 2003, 24). The sanitary norm system was introduced in the 1920s to ease the problem of housing shortage that was caused by urbanization and mass immigration to cities. The sanitary norm was approximately 9 square meters per person for most of the Soviet era and a smaller living area entitled the person or family for a bigger apartment. (Højdestrand 2003.) However, the average living space usually did not meet the standard and people ended up living in highly overcrowded circumstances (Gerasimova 2000). For example in Moscow the average was just over four square meters per person in 1940 (Fitzpatrick 1999, 46).
Housing shortage remained as a constant problem in cities since the 1930s until the 1980s (Lebina 2003b, 162) despite the numerous attempts for solving it over the decades. In the 1930s the housing shortage problem was responded to with a policy called “consolidation”, meaning that a large apartment where the sanitary norms were exceeded was inhabited with new residents, sometimes by evicting the original ones, who usually were bourgeoisie (Lebina 2003, 24-25). As a result, a new housing type was created, the communal apartment, i.e. an apartment where several unrelated people lived together sharing the common areas of the apartment, i.e. kitchen, toilet, corridor et cetera. Communal apartments became the dominant type of urban housing in the 1930s characterizing the Soviet housing in cities until the 1990s (Gerasimova 2000).

The Soviet Union exercised a peculiar housing policy that usually relied on an ideological basis that in practice turned out different, sometimes almost the opposite of the socialist ideal. The communal apartment may be regarded as one example of the failures of the housing policy. Communal apartment was meant to represent “socialism in one building” as Richard Stites’ widely quoted description marks (Lebina 2003, 27; Boym 1994, 127). However, the forced cohabitation of different people in one apartment resulted in quite a contrary situation of the intended. Ilya Utekhin’s ethnographic study of communal apartments reveals that the residents usually aim at gaining more privacy and extending their private space in the apartment. Keeping public and private as separate from each other as possible seems to characterize the communal apartment’s life strongly (see Utekhin 2001; Gerasimova 2002).

In the 1950-60s President Khrushchev started an ambitious reform in order to provide each family a separate apartment and to end the housing shortage in 10-12 years time (Lebina 2003b, 171-175). The new five-storey apartment buildings known as “khrushchevki” were built in a hurry with minimum construction expenses. This meant building small apartments with low ceilings (the norm was a two-room apartment of 40-45 square meters and 2,5-2,2 meters height) (ibid., 175-176). The hard time schedule resulted also in poor quality of the construction work (ibid., 177) and the largely disliked “khrushchevki” have required frequent repairing since their construction (ibid., 189-190). Today they form the most deteriorated part of the housing stock that is in need of urgent repair (UNECE 2004).
Besides queuing for a separate apartment from the state an option to obtain a private apartment in the Soviet era was the housing cooperative system (zhilishchno-stroitel’nyi kooperativ, ZhSK). The cooperatives were first established in already in 1924 but abolished in 1937 (Andrusz 2002, 135). Cooperatives were re-introduced in the 1958 to ease the housing shortage (Lebina 2003b, 180) and laws concerning cooperative housing construction were passed in the 1960s. The idea was that the state provided infrastructure for the house and offered low interest credit for cooperative constructing (Andrusz 2002, 135) with payment time of 15 years (Gerasimova 2000). Rest of the apartment’s price, approximately half of it, was financed by the residents. In 1982 the terms of payment were changed to more favourable for the consumers: the credit part was increased to 70 percent and the repayment time lengthened to 25 years. Cooperatives were popular and certain privileges were available for their residents, so joining a cooperative required queuing on a waiting list. (Gerasimova 2000.)

Reforms of the 1990s

After the collapse of the Soviet Union several reforms have been implemented in the Russian housing sector. Privatization of housing began in 1991, when the housing stock as well as housing and communal service enterprises were transferred from the state to municipalities by the Law on Privatization of Housing (Zakon o privatizatsii zhilishchnogo fonda) (see Struyk et al. 1997; The Institute for Urban Economics 2004). For creating a private housing stock a policy of free privatization was implemented that allowed tenants to claim ownership of their apartment free of charge (Zakon o privatizatsii zhilishchnogo fonda, article 2).

The privatization process has progressed rapidly: in St. Petersburg the privately owned housing stock has grown from 15,4 percent share in 1990 to 61,1 percent share in 2003. Correspondingly, state and municipal housing stock has decreased from 84,5 percent share in 1990 to 38,0 percent in 2003. (Peterburgkomstat 2004, 70.)

Transferring the housing and communal services to local governments was also a part of the municipal self-government reform that declared local governments independent from the state in the beginning of the 1990s. In the Soviet Union local governments had been completely under the state’s rule so the reform was expected to change the situation profoundly and bring autonomy to municipalities. However, the high expectations have since proved to have been too
optimistic. Local governments’ independence in the political as well as in the economic sense of
the concept has remained limited while certain social matters have been delegated to local
administrations from the state. (see Gel’man 2003, 48; Evans 2000, 116-119.)

Administering the social infrastructure has increased the local governments’ economic burden as
it requires vast financial resources (Evans 2000, 119). In practice, local administrations have not
been able to gain financial independence but continue to rely heavily on transfers from federal
and regional budgets (Gel’man 2003, 48), as they did in the Soviet period (Evans 2000, 116).
Therefore implementation of the housing reform on local level has encountered considerable
economic problems (Guzanova 1997, 3).

Rents and tariffs for housing and communal services in municipal housing have been raised, as
housing is no longer as heavily subsidised by the state as it was in the Soviet Union. However,
rising housing costs have so far not raised tenant households’ housing costs considerably, the
expenditure of household’s incomes for rent and utilities has remained as low as 6 percent.
(UNECE 2004, 24.) It should be noted that rising housing payments may constitute also a
“moral” problem as people are not used to paying full housing costs and cheap, almost free
housing is considered as a sort of “civil right”, particularly among the older part of the
population.

To ease the tenant’s growing burden on housing costs, a housing allowance programme was
launched in 1994. It can be regarded as a start of new housing policy, being the first means-
tested programme in Russia. The housing allowance programme was created to function as a
social safety net for the low-income families, in other words providing housing subsidies for
poor households. (Struyk et al. 1997; 2001; 2003.) The housing allowance programme is
implemented on local level and the practices have been exercised very differently across the
country. Due to economic and political reasons many local governments have not raised the
prices for housing and utility services and the limit that entitles a household for a housing
allowance to the level set by the federal government. Because of the regional differences, the
housing allowance programme has not yet fulfilled the social security function it was created for.
(Struyk et al. 2003, 7-10, 20.)
At the moment the local administrations have the key role in reforming and maintaining the housing sector, although they are financially dependent on the federal and regional governments. The legal framework of housing is decided by the federal government, but the reform is implemented in practice on local level as local governments decide the costs of housing and communal service tariffs as well as housing subsidies. In many cases the local administration has also a double-role in the housing sector as the regulating authority and the holder of a monopoly of housing and utility services in the market. (UNECE 2004, 29, 42-43, 52.)

**Homeowners’ associations and other ways of housing management**

The free privatization process included the idea of the new homeowners arranging management and maintenance of their house independently, which would lessen the local administration’s burden on managing the housing sector. Homeowners’ associations (tovarishchestva sobstvennikov zhil’ya, shorter TSZh) were established for management and maintenance of the privatized multi-apartment buildings in 1996 by the Law on Associations of Homeowners’, (O tovarishchestvah sobstvennikov zhil’ya). The law on homeowners’ associations meant a significant change in housing management that had been exclusively handled by the public sector (zhurnal ZhKH, 11.3.2005). The law has since been replaced by the new Housing Code (Zhilishchnyi kodeks), implemented on 1st of March 2005 that holds regulations for different types of housing tenure, proprietary rights etc. At the moment there are three possibilities to organize the management of a multi-apartment building: homeowners’ association, housing cooperative and joint-meeting of the residents.

A homeowners’ association can be established in a multi-apartment building by the residents’ joint decision or in case of new construction by the constructor’s decision (Zhilishchnyi kodeks, articles 136, 139). TSZh is administrated by the homeowners and the administration consists of a joint meeting of the members, the executive organ, i.e. the board of the association plus the inspective organ that controls the board’s actions. The joint meeting decides the condominium’s administration, maintenance, repairing, payments et cetera. Individual homeowner’s decision power (the amount of votes) is determined by the person’s amount of partnership (size of apartment) and for decision-making a majority of the votes is required. (ibid., articles 143-150.)
The board that functions as the executive organ of the association consists of homeowners chosen by the joint meeting. The board controls that the compulsory housing payments are made by the members and it also takes care of budget-forming and makes contracts concerning the TSZh. The board is lead by one of its members, the chairperson. The board is controlled by the inspective organ, members of which are chosen by the joint meeting and who are other than the members of the board. The inspective organ, also lead by a chair, controls the TSZh financial actions at least once a year, does the closing of accounts and is controlled by the joint meeting. (ibid., articles 147-150.)

Until lately, there have been several obstacles complicating the establishment as well as the work of homeowners’ associations and the number of homeowners’ associations in Russia has been very small, covering only one percent share of the country’s total housing stock. This has been due to several reasons, such as lack of information about homeowners’ associations and lack of financial support from the local government to the residents (UNECE 2004, 85). Therefore municipalities have continued to administrate most of the privatized multi-apartment buildings and manage the housing services.

Homeowners’ reluctance to participate in TSZh administration is also due to the fact that there are no traditions of self-organizing housing management in Russia because the state has controlled housing for decades. Furthermore, membership of a TSZh is not obligatory and a homeowner can choose to stay outside of the association. This complicates the administration of a TSZh house and can result in debts for the association as there might not be enough members paying the housing costs (Rossiiskaya gazeta, 2.6.2004). However, the number of TSZh is growing rapidly and homeowners’ association is expected to become a major type of urban housing management in privatized apartment blocks during next few years (UNECE 2004, 47). For example, in the Central region of St. Petersburg the number of TSZh has grown from 14 to 57 within the year 2004 (Ekspert Severo-Zapad 13.12.2004).

Legislative problems concerning the ownership of the land-plot around a privatized house have complicated the management and maintenance of multi-apartment buildings. The courtyard and other common areas have not been considered to be part of the multi-apartment building and therefore have not been privatized with it. This has left the question of responsibility of
maintenance of the common areas open. This problem has been corrected in the new Housing Code by including the land-plot as the property of the multi-apartment building complex (O vvedenie v deistvie Zhilishchnogo kodeksa Rossiiskoi Federacii, article 16).

Alongside with TSZh the housing cooperatives have been promoted as an alternative to public sector housing. Cooperative housing was revived after the economic crisis in 1998 as an option to obtain a private apartment with smaller financial resources (“Stroim vmeste” website). A cooperative is an association established for acquisition and administration of a house, members of which financially participate in the construction, reconstruction and maintaining of a multi-apartment building (Zhilishchnyi kodeks, article 110). The construction of the apartments is financed by a collective fund formed by the shareholders (ZhSK “Vash Vybor” website).

Usually a 3-5 percent share of the apartment’s price has to be paid to become a shareholder of the ZhSK, and 30-50 percent payment entitles for obtaining the apartment (ibid; “Stroim vmeste”; “Svoi dom” websites). The repayment time for the rest of the apartment’s price varies from 10 to 20 years between companies (“Stroim vmeste”; “Vash Vybor” websites). The organizational structure of cooperatives resembles homeowners’ associations; it also consists of a joint meeting, board of the housing cooperative and chair of the board and it is controlled by the inspective organ (Zhilishchnyi kodeks, articles 115-120). The new legislation aims at liquidating this form of housing management by stating that a housing cooperative may be changed into a TSZh by the joint meeting’s decision (ibid., article 122), and by 1st of January 2007 cooperatives where all the residents have paid the entire apartment’s price should be either changed into TSZh or liquidated (O vvedenie v deistvie Zhilishchnogo kodeksa, article 14).

The new Housing Code states that in all multi-apartment buildings, management of the house should be organized by the residents, either by direct administration of the residents, by establishing a TSZh or by authorizing a private company for the management (Zhilishchnyi kodeks, article 161). This is expected to increase the amount of TSZh as well as to facilitate the management of mixed multi-apartment buildings. As a consequence of the free privatization, coexistence of privatized and municipally owned apartments in one building has become a common phenomenon. Forming a homeowners’ association in a mixed apartment building has been difficult, as owner of the municipal flats, aka local administration has often been unwilling
to join the association. (UNECE 2004, 82.) The new legislation makes it easier to manage the house without forming a TSZh by direct management of the residents’ joint meeting.

The new housing policy

The latest changes to the housing sector are brought by the new housing legislation package that is planned for developing the housing market and increasing affordable housing stock. The new legislation consists of 27 laws that come into effect during 2005 and are expected to bring major changes to the housing sector. The new legislation has evoked wide public interest and it has been largely reported in the Russian media in the last months. Probably the most discussed of the laws is the new Housing Code that came into effect on 1st of March 2005. The new Housing Code replaced first of all the clearly outmoded Housing Code from 1983 that took into account only state owned housing.

In brief, main task of the new housing legislation is twofold: to develop a well-functioning housing market offering affordable housing for the middle-class and to provide social housing for the poor. It seems that in the newspapers owner-occupied housing stock is generally regarded as an important prerequisite for development of the middle-class, as home owning is seen as a sign of a stable society and well-functioning market economy (see Praim-TASS 20.1.2005). Mortgage loaning system is seen as very important for development of the housing market. Mortgage loaning is still quite uncommon in Russia, as the interest rates and taxes are very high (Rossiiskaya gazeta, 14.1.2005) and at the moment only the wealthiest 10 percent of Russians can afford to take a mortgage loan. The new legislation includes the ambitious aim to make mortgage loaning accessible for a one third of Russians by the year 2010. The interest rate is planned to be lowered down to 7-8 percent (Moskovskaya sreda, 22.7.2004) and payment times of mortgage loans will be lengthened to 10-15 years (Informacionno-analitcheskoe agentstvo Rway, 2.10.2004).

In some newspapers the new housing reform is presented in quite a sceptical light. The failures of the past housing reforms in the 1960s and 1980s as well as the Soviet Union’s unsuccessful housing policy are well remembered and the attitude towards new reforms is basically suspicious. (see e.g. Politicheskii zhurnal 10.3.2005) In Rossiiskaya gazeta (1.3.2005) it is noted
that the mortgage loan reform is not enough if the apartment prices continue to be extremely high. This will result in a dead-end situation as high prices prevent the growth of mortgage loaning while mortgage loaning keeps the prices up. (ibid.)

Until the reform short payment times for loans have presented a psychological constraint for borrowing, and the high risks of loaning have made people suspicious toward banks and market mechanisms in general. Insecurity of maintaining one’s job position does not encourage taking a mortgage loan either. (Informacionno-analiticheskoe agentstvo Rway, 2.10.2004.) Although the interest rates are lowered, they are still too high for mortgage loaning to become “a mass phenomenon” (RG 1.3.2005). For the reform to succeed inflation should decline and wages should be raised (Politicheskii zhurnal 10.3.2005).

The juridical position of a consumer is strengthened in the new legislation. Tax reductions will be offered to homeowners and the position of mortgage loaners as well as participants in housing cooperative programmes will be more secured. This reduces the consumer’s risk of being cheated by the bank or construction company and losing his/her savings. A law concerning credit histories (O kreditnyh istoriyah) will come into force in June 2005, before credit histories have not been controlled in Russia. The responsibility of the constructor in “partake constructing” (dolevoe stroitel’stvo) is increased in the law, so that the constructing company is responsible for the real estate object until it is transferred to the partaker for example in case of a bankruptcy of the company. (RBK, RosBiznesKonsalting 24.12.2004)

It is evident that housing conditions in Russia are in need of improvement. The quickly deteriorating housing stock constitutes an acute problem for the Russian housing sector as well as the continuous housing shortage. According to Moskovskaya sreda (22.7.2004), only 39 percent of households are satisfied with their housing conditions, the rest would like to enhance them. 29 percent would like to obtain an apartment (ibid.).

Housing shortage has been the most central issue in the Soviet Union’s and Russia’s housing sector for decades. For the supply to meet demand, construction of new housing needs to be stimulated (Kvartirnyi ryad, 28.10.2004). As buying an apartment is at the moment economically difficult even for those with average incomes, the most common way of obtaining housing has
been through social housing, i.e. by queuing an apartment from the city. In Moskovskaya sreda (22.7.2004) it was estimated that a 46.1 percent increase in housing supply is needed to meet the current demand. Currently, monopolies in the construction sector present a restraint for growth of construction through free competition. For construction companies, administrative barriers, i.e. a bureaucratic administrative system makes it difficult to obtain a land plot and permission for the construction. Another constraint is the poor availability of credit. (Informacionno-analiticheskoie agentstvo Rway, 2.10.2004.)

Besides developing mortgage loaning, the other significant change brought by the new legislation is reforming of the social housing system. The criteria entitling for social housing is changed and the question of who is entitled to social housing has evoked discussion in newspapers. (see e.g. Politicheskii zhurnal 10.3.2005.) Before apartments were distributed according to shortage of living space, now only the poor are entitled for social housing. The poverty-limit entitling for queuing for social housing is defined by local governments who follow the recommendations of Ministry of Regional Development. The limits are locally defined as incomes differ across the country. The process of evaluating eligibility is complicated as property of the family is also considered. (RG 11.3.2005.) Also, the free privatization system will soon be history. Free privatization will end completely in 1st of January 2007, but privatizing is no longer possible today if a rental agreement has been made for a municipally owned apartment after first of March 2005 (O vvedenie v deistvie Zhilishchnogo kodeksa, articles 2,6).

Changing the system of social housing means a significant ideological change in Russian housing policy. (Politicheskii zhurnal 10.3.2005.) Some newspapers have predicted mass protests to take place, as has been the case in reforming the pensioners’ benefit system (Politicheskii zhurnal 1.3.2005). In any case, the reform will create a group of people, who fall between the two categories, who can neither afford to buy an apartment nor are “poor enough” to be entitled for social housing. Financial support will be provided for this “in-between category” of people, which means that the amount of people entitled for housing subsidies can be expected to grow substantially. According to the Housing Code, entitled to housing subsidies are tenants of municipal and state apartments as well as tenants in private sector apartments, members of cooperatives and homeowners (Zhilishchnyi kodeks, article 159).
Housing and communal services seems to be the issue people are currently most dissatisfied with. Tariffs for housing and communal services have been raised substantially but quality of the services has remained poor. In general people are not used to demanding better quality and do not realize their rights as consumers in the market. (Kvartirnyi ryad 2.9.2004.) Therefore the local administration should control the quality of housing and communal services (Rossiiskaya gazeta, 2.6.2004). Requirements concerning the quality are determined in the legislation but in practice they are not fulfilled. Newspapers have reported of cases where tariffs have been raised to a level above the legally set limit. (Novye izvestiya 1.3.2005.) It is not unusual for residents not to pay their housing costs, which is one reason for the high tariffs (Mir i dom, 26.10.2004). Neglecting the payments has been possible as eviction, particularly from municipally owned apartment has been extremely rare. In the new Housing Code eviction is made easier. This concerns also divorces, ordering the ex-spouse of the registered resident (owner or tenant) to move out of the apartment within a year of the divorce. Before there have been cases where the ex-spouse has stayed in the apartment after divorce. (Rossiiskaya gazeta, 2.6.2004.)

Absence of competition in the housing and communal services market is another problem as usually there is one municipally owned company monopolizing the market. The new legislation encourages competition between the companies providing housing services, so that homeowners would have the possibility to choose. At the moment only 20 percent of the housing and communal services market is considered “open”: i.e. 20 percent of houses administered by housing associations, i.e. cooperatives and TSZh may choose their housing service provider freely. The remaining 80 percent of the market is considered “closed”: only state housing companies operate in it and no competition exists. TSZh form of administration is most common in northern districts of St. Petersburg. Residents often have primary interest in the outlook of the common area (working light bulbs in staircases etc.), whereas the service companies put safety on the first place, meaning waterproof roofs and functioning elevators. (Ekspert Severo-Zapad 13.12.2004.)

At the moment, a company called Piter Dussmann, an affiliate of a German company Dussmann, is entering the housing market in St. Petersburg, so strongly that it has been accused of building a monopoly (Novaya Gazeta, 24.3.2005). The company is planning to take over administration of multi-apartment buildings in Kolomna, Admiral'teiskii district, and to have a large-scale repair of
the houses with a budget of 10 billion euro and time schedule of 10 years (The St. Petersburg Times, 1.2.2005). To transfer the administration of the houses to a private company, a homeowners’ association needs to be established. However, the residents of the houses have resisted the plan claiming that the city has exceeded its authority in deciding of establishment of a TSZh although the decision should be made by the residents. The city disclaims this argument saying that everything has been made legally. Furthermore, behind Piter Dussmann is a fond called Edinstvo that openly supports the party Edinaya Rossiya, which not all the residents consider as a positive thing. So far the company has managed to take over the administration in only 63 of the planned 104 houses. (Nedvizhimost’ Peterburga, 28.3.2005; Novaya Gazeta, 24.3.2005.)

The new housing legislation is strongly aimed at making the housing market more effective and moving towards market economy in the housing sector. A substantial part of it is encouraging citizens to operate in the housing market as active consumers (see gazeta.ru, 23.3.2005). The outcome of the reform is expected to be seen in a few years time. However, the reform has already faced a lot of criticism and there are a great number of sceptics – ordinary people as well as economists who doubt that the reform will succeed. In the media the Housing Code has been named as the “homeowner’s law”, meaning that the homeowners, and only the wealthiest part of them will be the only ones benefiting from the reform (gazeta.ru, 28.2.2005).

**Significance of the reform**

The new housing legislation changes the Russian housing sector profoundly by changing the way housing is obtained in the market and in the public sector. Changes in the housing sector mean great changes for the economy also, as the sectors are closely linked. Increasing the housing construction will create jobs and it is expected to have a positive impact on the economy as well as encouraging competition in the market. The banking sector is also involved in the reform as the principles of mortgage loaning are altered.

Besides these changes, the reform concerns also general social well-being and standard of living. The reform might result in housing becoming a socially distinctive factor as only the poor will stay in the public sector housing as social housing is only provided for the poorest of all.
However, the weakest position in the housing market might hold the “in-between” group that can neither afford an apartment nor are “poor enough” to be entitled to social housing. Although this group is entitled to subsidies, it may well be doubted whether the local administrations will have the resources to actually pay the subsidies.

The new Housing Code aims at activating the citizens for organizing management of their house, either directly, by establishing a TSZh or by authorizing a private company (Zhilishchhnyi kodeks, article 161). In that way the legislation concerns organization on the grass-root level and civil society, as people are obliged to take action on the level of housing. The next few years will show how this will be realized in practice, but at least many obstacles to self-organization have been abolished by the new legislation, which offers more favourable preconditions for the housing management.

The reforms made in the 1990s can be considered as a preparation for the new reform and moving towards market economy in the housing sector. The new housing legislation is in the process of being implemented, which makes examining organization and management of housing a particularly current subject.
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