HOUSING IN CEE
after 10 years of Transition

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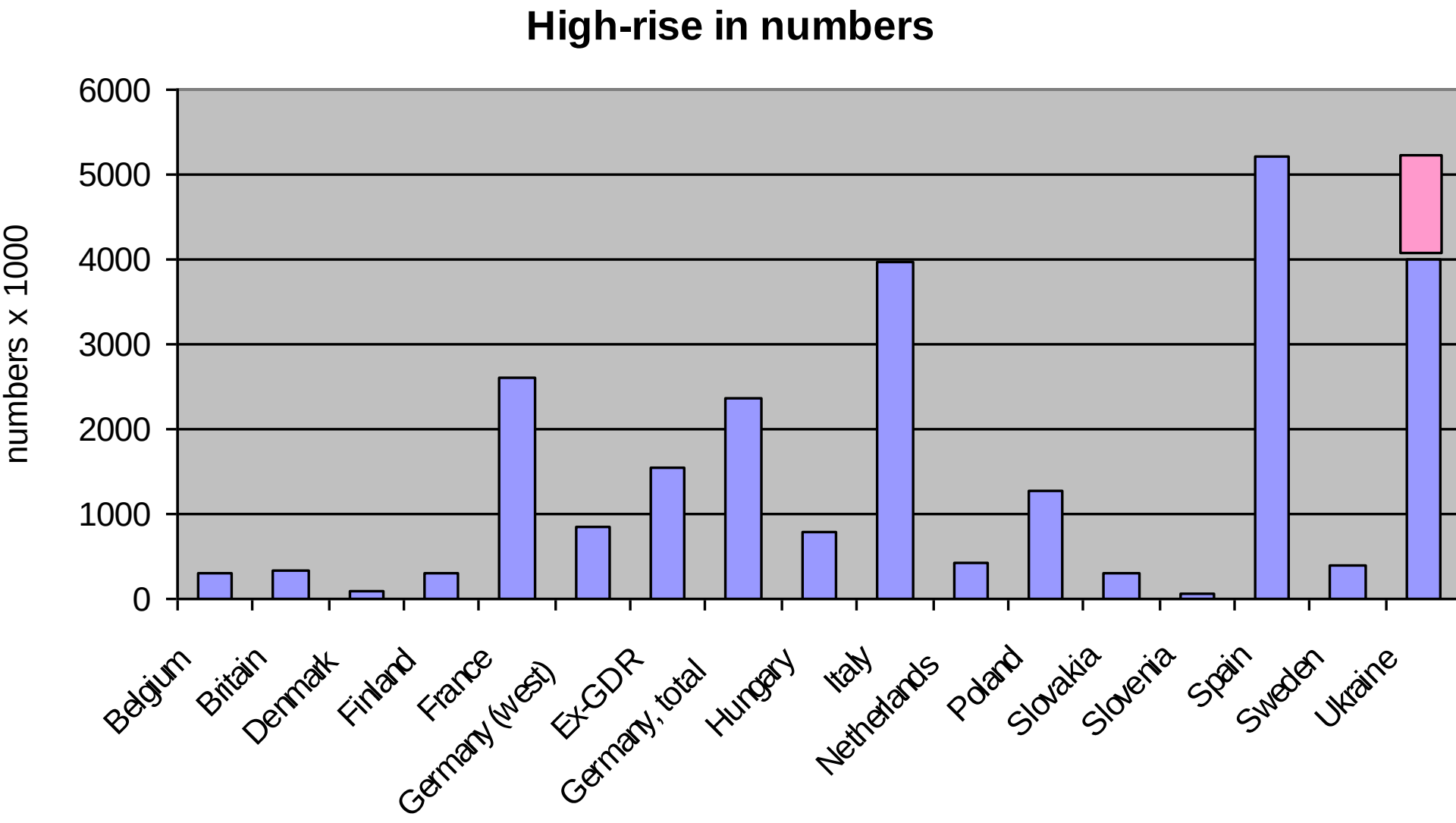
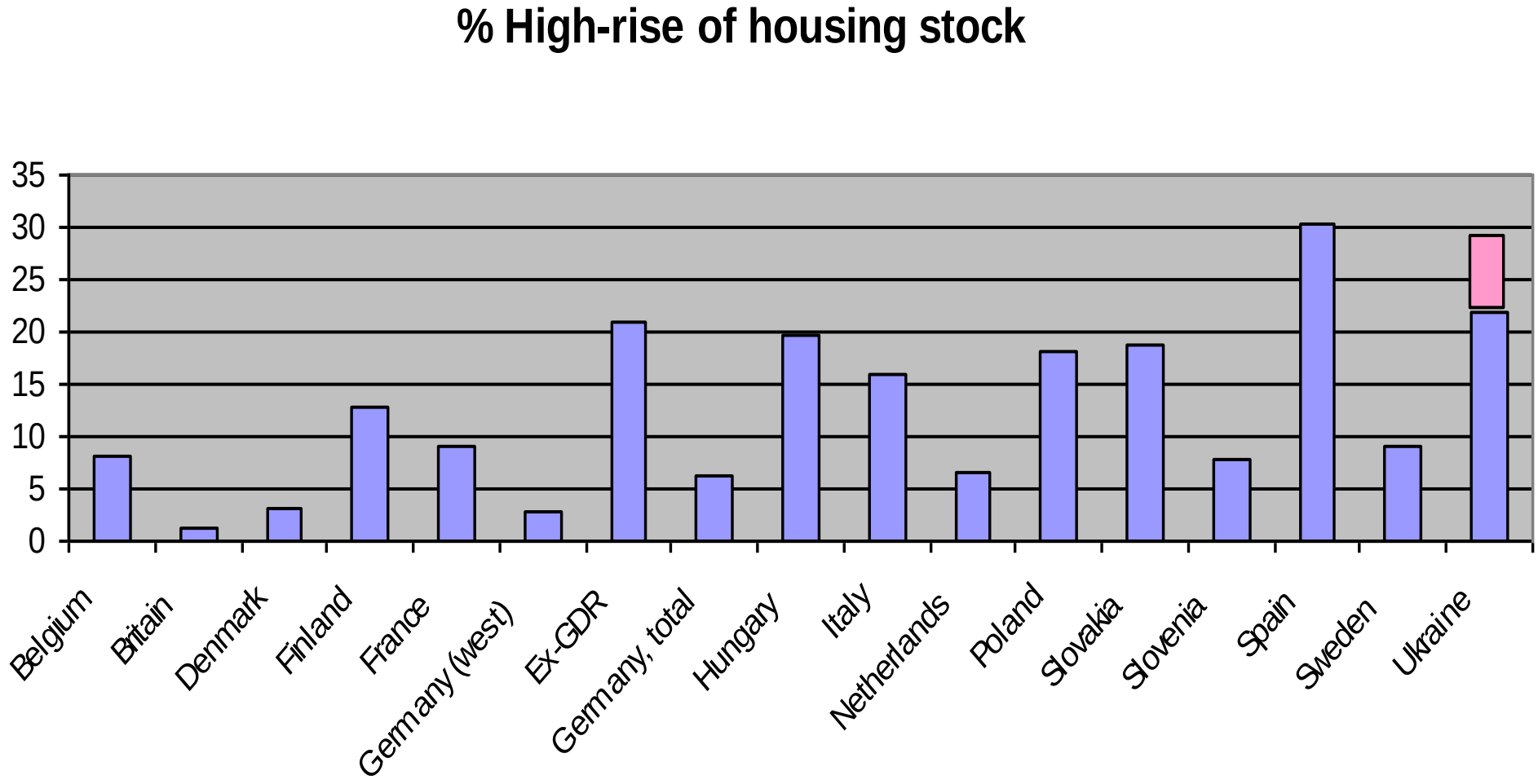
SIBIR СИБИРЬ

High-rise in numbers



Source: Frank Wassenberg, OTB/TU Delft, 2005

% High-rise of the housing stock

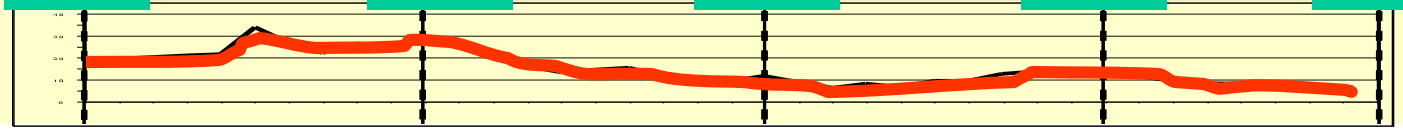


Source: Frank Wassenberg, OTB/TU Delft, 2005

The pattern of high-rise production

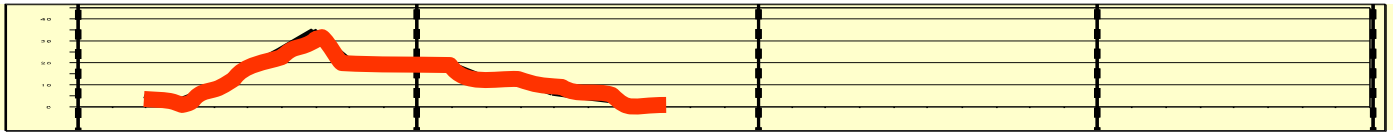
‘60 ‘70 ‘80 ‘90 ‘98

Italy



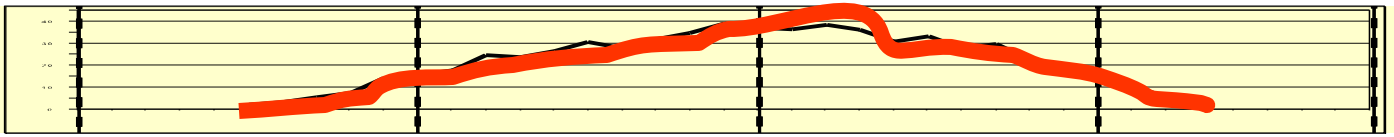
Italy: Proportion of high rise of total housing production (in %)

Netherlands



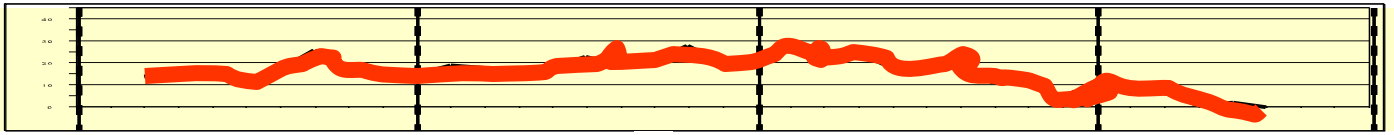
Netherlands: Proportion of high rise of total housing production (in %)

Hungary



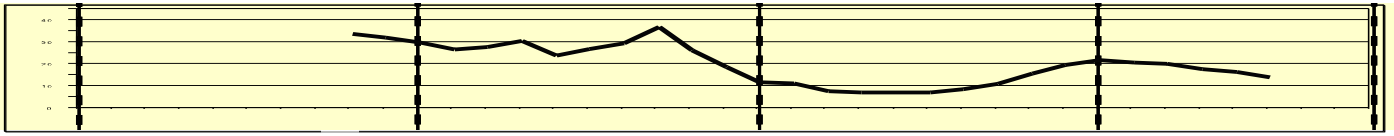
Hungary: Proportion of high rise of total housing production (in %)

Slovenia



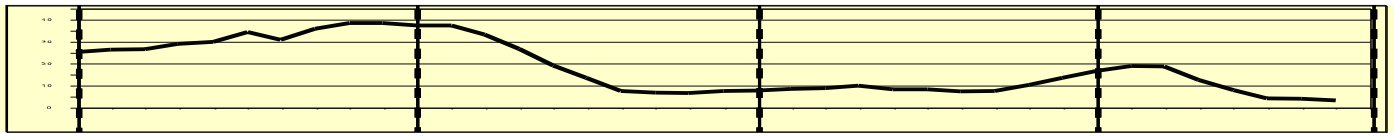
Slovenia: Proportion of high rise of total housing production (in %)

Belgium



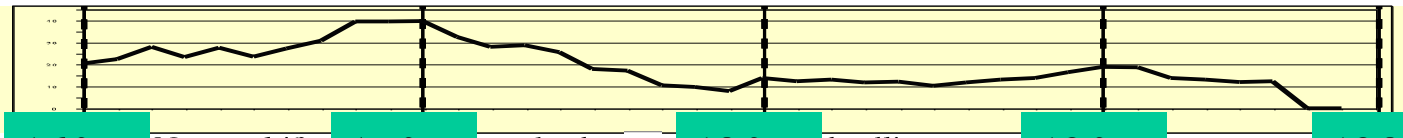
Belgium: New buildings with more than 5 storeys, 3 years moving average, absolute number x 10 buildings

Sweden



Sweden: New multifamily dwellings, absolute number x 2000 dwellings

Denmark



‘60 ‘70 ‘80 ‘90 ‘98

The Housing Stock in CEE

- 25% built before World War II
- 75%: built from 1946 till 1991

General situation in CEE - 1

- **Privatisation is extensive, reducing size of rental sector to levels below that of typical European countries**
- **Deep discounts offered through privatisation**
- **Some countries condition transfer of ownership: application to privatisation and establishment of condominium associations**
- **Some share of state-owned housing not claimed by tenants through privatisation**

Source: The Meeting of Ministries Responsible for Human Settlements in European Transition Countries. Zakopane, Poland, December 1999. East European Regional Housing Project, USAID, 1997

General situation in CEE - 2

- **Rental sector reform difficult: political unpopularity, raise of energy prices, pressure on household budgets**
- **Households in Czech Republic, Hungary and Slovakia typically paying 15-25% to housing-related expenses**
- **Poor households paying higher shares**
- **Lending now is being done with innovative instruments, subsidies are lower and legal environment has improved**

Source: The Meeting of Ministries Responsible for Human Settlements in European Transition Countries. Zakopane, Poland, December 1999. East European Regional Housing Project, USAID, 1997

HOUSING in Bulgaria

HOUSING in Bulgaria 1

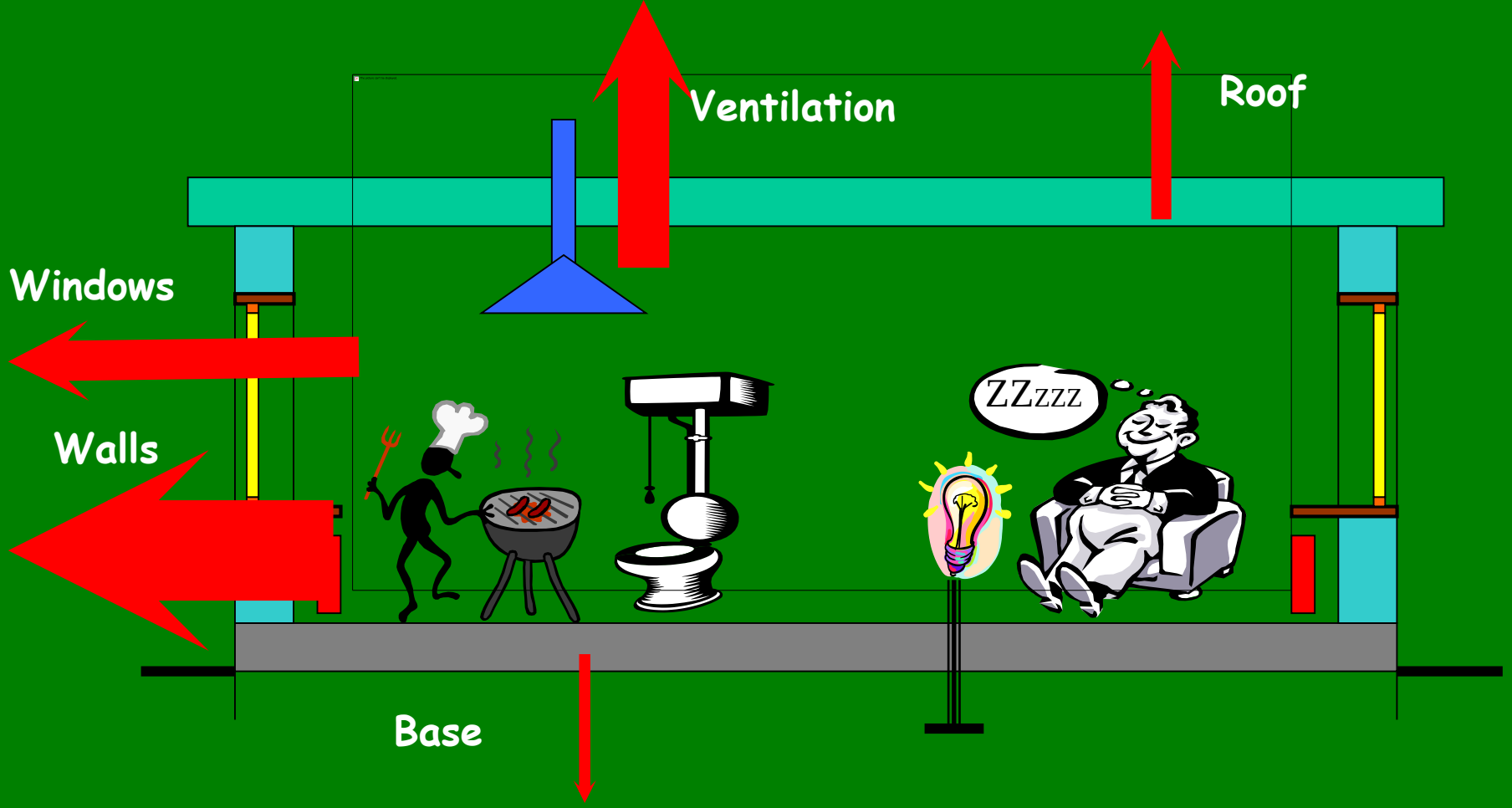
1. Affordability worsening: price/income ration from 2.8 (1989) to 9.0 (1998).
2. Housing production low (< 2 dwls/1000 people)
3. State budget expenditure is low: 1%
4. Crisis in crediting and savings system
5. Housing markets as recipient of capital of unproven origin
6. Deterioration of the stock and maintenance bottleneck

200м
АВТОГАЗ
CHANGE
EUR 1943 1949
USD 1578 1588
CHANGE

HOUSING in Bulgaria 2

1. Loss of housing due to unregulated conversion to other uses
2. Low power of purchase
3. Lack of affordable housing
4. Inadequate income to sustain homeownership
5. No legal “coercion” to establish homeowners associations

Energy in Residential Buildings in CEE



- Communal charges = 20 - 50% of household budgets
- Heating is largest single component of monthly bills
- 30 - 70% of CEE inhabitants live in apartment

Source: CJ Aron Associates, Inc. (2005): Innovative Financing Schemes for Block Housing Renovation In Central Europe

Energy in CEE Residential Buildings

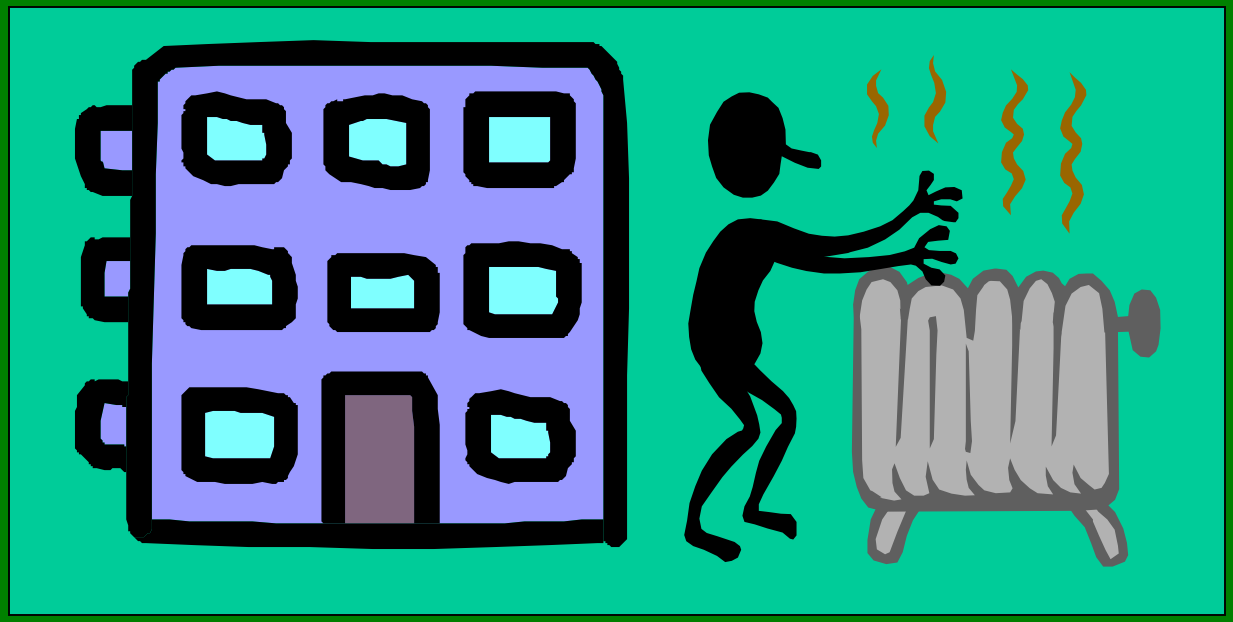
Source: CJ Aron Associates, Inc. (2005): Innovative Financing Schemes for Block Housing Renovation In Central Europe

- **CEE housing stock:**
  - **25% built before WWII**
  - **75%: built from 1946 till 1991**
- **Heat resistance standards were 2 times lower than in Western Europe**
- **Inadequate maintenance**
- **Common problems in blockhouses:**
  - **Low heat resistance**
  - **Condensation and moisture in apartment outer walls**
  - **Wind and draught**
  - **No heat metering**
  - **High heat losses**

Energy in CEE Residential Buildings

Source: CJ Aron Associates, Inc. (2005): Innovative Financing Schemes for Block Housing Renovation In Central Europe

- Housing consumes 25 - 50% of total energy in CEE countries



- 60-80% of energy lost via building envelope is avoidable
- 15 – 40 % total savings usually achievable

Barriers to EE Finance in Blockhouses

- Difficult to secure BH-Block Housing (high-rise housing multi-family) renovation loans with mortgages
- Underlying property cannot be attached
- Mortgaging individual owner's units unrealistic + unwieldy
- Still unclear legal framework
- Residents cannot afford increases to common costs
- Difficult for building to raise down payment on a loan
- May be low payment morale on common costs
- Building envelope renovation needs lead to long paybacks

Source: CJ Aron Associates, Inc. (2005): Innovative Financing Schemes for Block Housing Renovation In Central Europe

Preconditions to Commercial Financing

- Legal Framework

  ✓ must be some BH legal entity which can assume loan
  ✓ governance of that legal entity must be clear
  ✓ majority rule decision-making w/o challenges
  ✓ BH legal entity must be able to enforce claims against residents for non-payment of common costs

- Financial

  ✓ common cost payments level which supports investment
  ✓ strong payment morale of residents

BUT THERE ARE INTERIM SOLUTIONS TO SET THE STAGE FOR COMMERCIAL FINANCING

Source: CJ Aron Associates, Inc. (2005): Innovative Financing Schemes for Block Housing Renovation In Central Europe

HOUSING in Lithuania

HOUSING in Lithuania

- Low quality o residential houses and utilities
- Lack of dwellings and low diversity
- Lack of maintenance leading to deterioration and segregation
- Old city loosing residential use
- Main part of the stock will remain as multi-storey and multi-family housing
- Maintenance and management of immediate surrounding space is a problem

Source: The Meeting of Ministries Responsible for Human Settlements in European Transition Countries. Zakopane, Poland, December 1999. East European Regional Housing Project, USAID, 1997

HOUSING in Lithuania

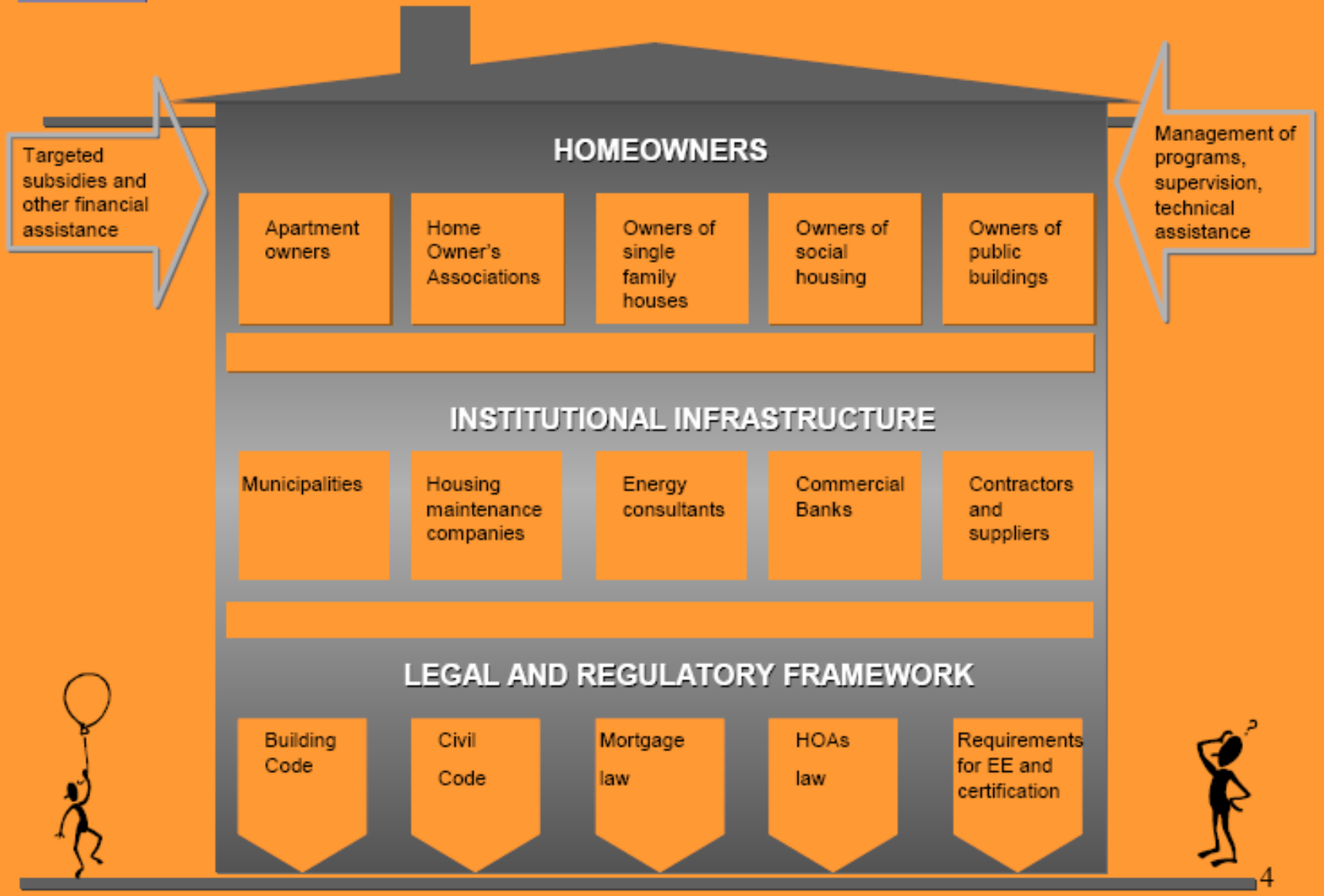
HOUSING in Lithuania

- No homeowners associations being formed to take over maintenance
- Homeowners associations is not mandatory
- Residents still await for the municipalities' housing maintenance enterprises-MHME
- Policies to privatize MHME
- Grants for energy efficiency measures (30% of loans) plus tax exemption

Source: The Meeting of Ministries Responsible for Human Settlements in European Transition Countries. Zakopane, Poland, December 1999. East European Regional Housing Project, USAID, 1997

HOUSING in Lithuania

HOUSING ENVIRONMENT



Lithuania
Structure of Sector

- • Over 90% of apartments privately owned
- Common property owned proportionally by individuals
- Housing Owners Association (HOA) is main legal entity
- HOA passes underlying liability to the partner-owners
- < 20% of buildings have established HOAs but many in formation in most municipalities
- Municipality appoints Administrator when no HOA

Lithuania
Legal Basis for Common Costs

- HOA decides payment level amount based on need
- Administrator sets payment level by Municipal formula
- Socially supported families covered by Municipality
- Payment morale uneven but far better with an HOA
-
- Lithuanian Civil Code provides resident obligation to pay for the house emergency repairs
- HOA has legal capacity to collect payments from tenants in arrears by going to court

Lithuania
Housing Reconstruction Finance

- Impossible to mortgage common property
- Individuals unwilling to mortgage apartments for common area improvements
- Banks mortgage lending only to individuals for purchase of new and renovation of existing flats
- Lithuanian Mortgage Insurance Company provides guarantee on individual mortgage loans
- Only lending for blockhouse common property renovation from World Bank line of credit

Lithuania
World Bank
Demonstration Program

- Demonstration program of HOA renovations for energy efficiency 1997 – 2004

- $10 million WB credit blended with Ministry of Environment (MOE) grant of 30% of investment costs to offer 0%, 10 year term loans to HOAs
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- Loans originated from WB credit line by Vilnius Bank, bank insulated from loss by sovereign guarantee

- No fixed collateral, loans amortized fully from increase in resident common costs payments.

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Lithuania
World Bank
Demonstration Program

- Municipalities provide subsidies to cover common cost payment defaults by fixed income residents

- HOAs must make a 10% down payment; if HOA in past 12-months implemented EE investments this counts as down payment

- Buildings selected by Housing Advisory Agency (HAA), which organized energy audits and implementation assistance provided by outside consultants, paid for directly by HOAs

- Over 100 buildings financed

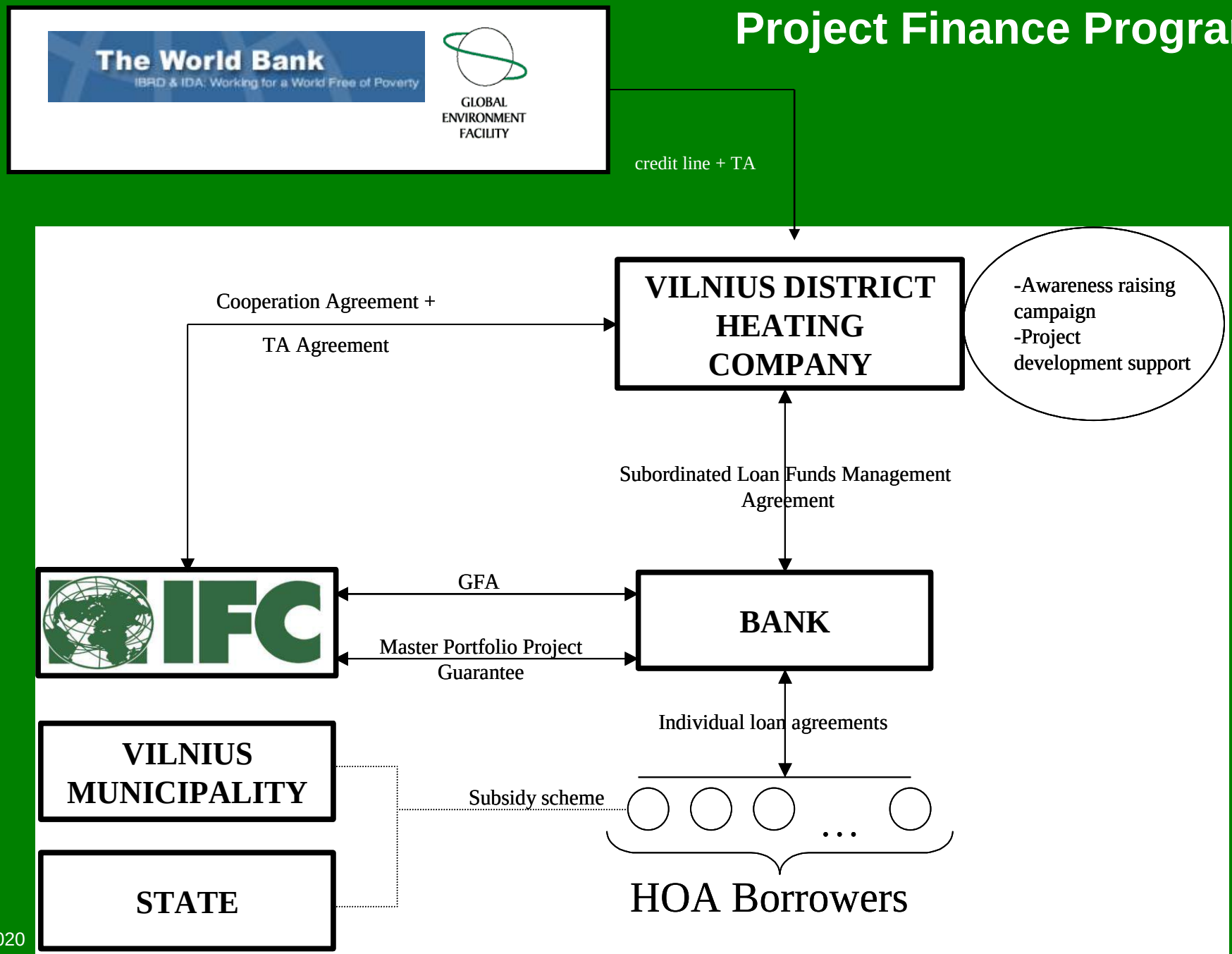
Lithuania
World Bank
Demonstration Program

- Average loan size 200,000 Litas (~USD 70,000)
- 24% average energy savings, 1-2 degree C increase in indoor temperatures, 10.5 year average simple payback
- 40% has been saved in municipal payments to cover common costs of fixed-income residents, more than offsetting the MOE 30% investment subsidy
- No payment defaults, although some significant delays
- Key factors: strong project preparation; educate residents that investment is amortized from savings over 10 years and limit of loan repayment cost per flat

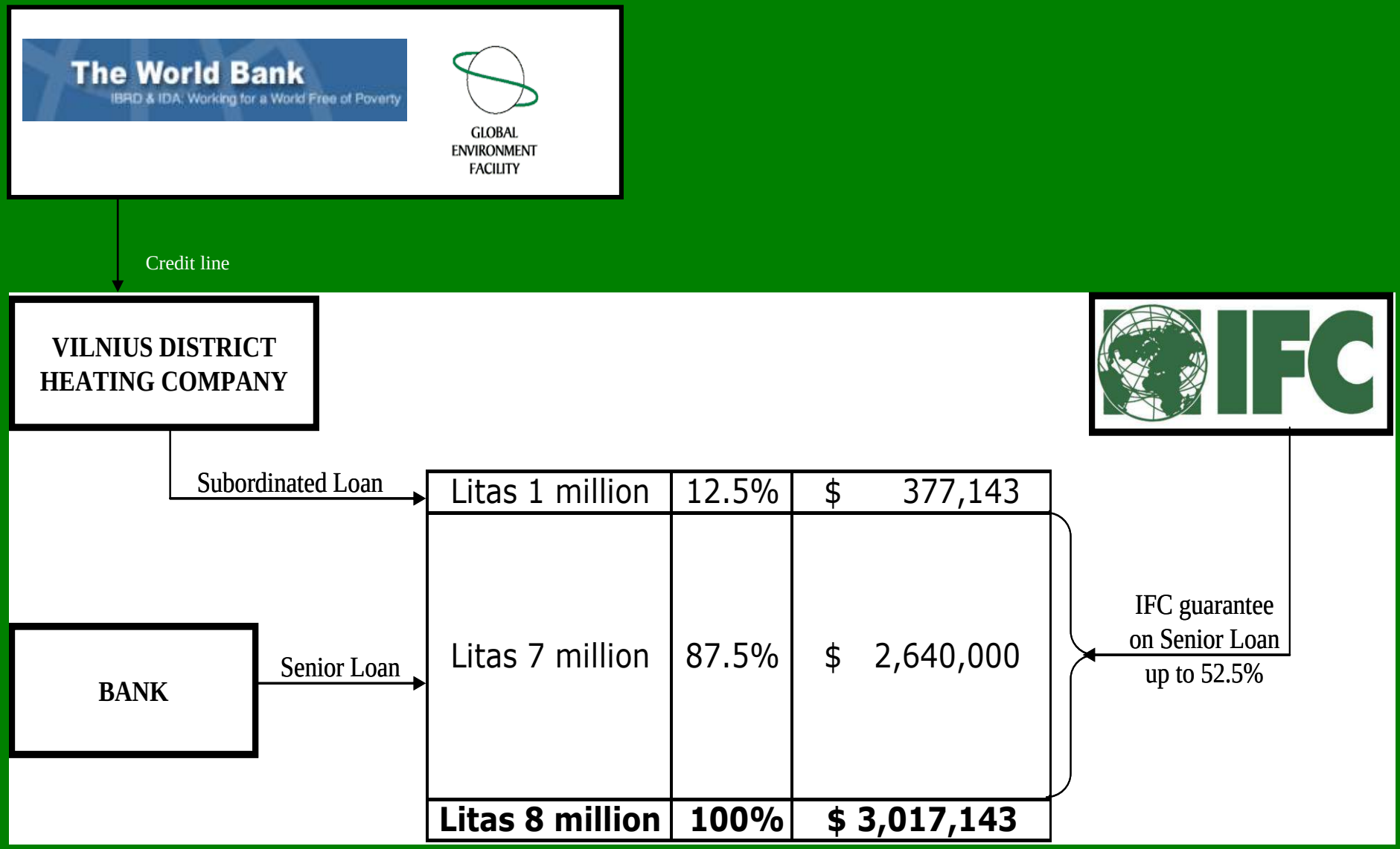
Lithuania
Housing Energy Conservation & Renovation Project Finance Program

- Collaboration of:
  World Bank – Vilnius District Heating Company – IFC – Vilnius Municipality
- 20 HOAs selected by VDHC for pilot EE finance program
- WB providing subordinated loan line of credit to VDHC
- VDHC selects commercial banks to administer sub loans
- Banks originate senior loans
- IFC provides partial guarantees of senior debt + TA

Lithuania: Housing Energy Conservation & Renovation Project Finance Program



Lithuania
Housing Energy Conservation & Renovation Project Finance Program

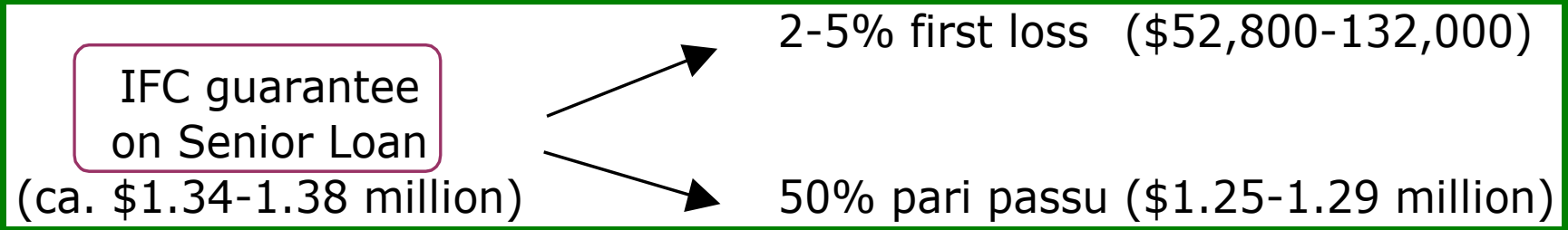


Lithuania
Housing Energy Conservation & Renovation Project Finance Program

- IFC guarantee covers only senior loan portion of the financing package
- 2 guarantee layers:

  First Loss Guarantee (FLG)

  Pari Passu



Lithuania

Housing Energy Conservation & Renovation Project Finance Program

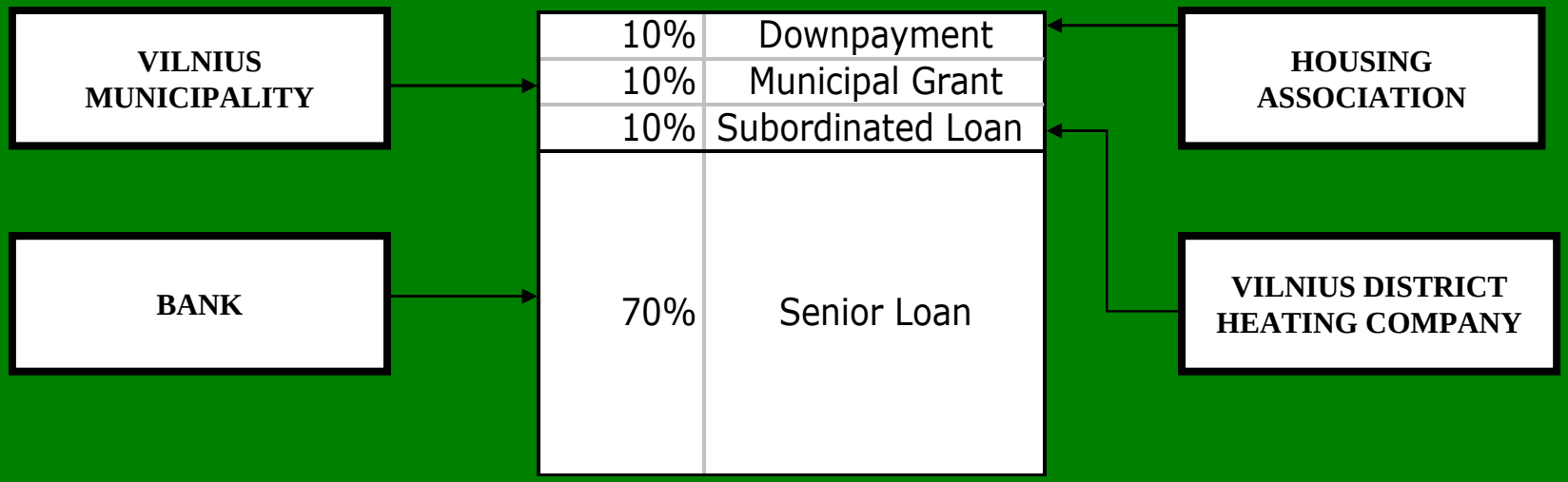
- 10% down-payment provided by HOA

- Municipal Grant facility of 5 million Litas (US$ 1.88 million) provides up to 10% of loan principal

- The commercial loan to each HOA will be financed partly by sub-loan (VDHC fund administered by the Bank) and partly by senior loan (Bank funds)

Lithuania

Housing Energy Conservation & Renovation Project Finance Program



Lithuania
Housing Energy Conservation & Renovation Project Finance Program

SECURITY PACKAGE

A) CASH FLOW

- Debt Service Reserve Fund (DSRF) equal to 3 months debt service provided by HOA
- increased portion of common cost equal to debt service (DSCR=1) provided by HOA
- pledge on other HOA revenues
- assignment of city subsidy

B) FIXED COLLATERAL

- IFC guarantee