

# Housing policy in Ukraine

Current state and prospects for reform



**Authors:** Pavlo Fedoriv, Natalia Lomonosova

**Project manager:** Ivan Verbytskyi

**Data visualization:** Pavlo Fedoriv

**Layout:** Oleksandr Pryma

**Translation:** Roksolana Mashkova

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to everyone who has lost their home

to everyone who does not feel at home

to everyone who has no roof over their head

to everyone who has fought in court and at  
construction sites against illegal construction

to everyone who studies housing and just wants to  
understand why we live this way

to all the children with whom “do not apply”

to all the animals who are left in the streets because  
apartments “do not allow pets”

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## ● Introduction

### Housing policy in Ukraine: current state and prospects for reform

This analytical report is dedicated to the problem of ensuring the right to housing and to the issues of reforming the government housing policy in Ukraine.

The need for housing is fundamental. Societies declare the “right to housing” and guarantee access to it through the instruments of public housing policy. The cause of difficulties with ensuring the right to housing is the conflict between housing as a roof over one’s head and housing as an asset. Housing as a sphere is political: different stakeholder groups in it defend their view of what housing is, what housing problems are and how to solve them. Housing determines one’s life chances and access to other spheres: education, jobs, leisure, etc. The form of housing ownership determines the possible level of general social welfare and forms stable interest groups in society. Comparative studies of housing aim to understand its place within the broader economic, social, political spheres in different countries, as well as the instruments of housing policy and their results.

The mass free-of-charge privatization of housing in Ukraine absorbed the shock of market transformations to an extent, but at the same time it shrank the publicly owned housing stock and solidified the inequalities that existed at the moment of privatization. Public policy aimed at housing ownership manifests in Ukraine both in tax and economic preferences and in the lack of incentives to develop the rental sector which could meet the population’s need for housing. The high cost of housing compared to the population’s income means that the population would not have enough resources to pay taxes for the development of universal social welfare. Ownership incentives allow a certain share of households to maintain their prosperity by becoming landlords.

Ukraine has a lot of various legislative acts which regulate the functioning of the housing sphere. Some of them contradict one another and therefore need coordination. Despite the popular ideas about the need to modernize the

legislation, Ukraine did adopt a regulatory framework which allowed a real estate bubble to develop and collapse within a few years. In addition to the so-called “apartment queue,” Ukraine has dozens of various sectoral housing provision programs; however, all of them aim to expand housing ownership. Social housing stocks and temporary housing stocks have never been developed. The public rental sector barely exists since the privatization, while the private rental sector is essentially unregulated and does not provide protections to tenants and landlords. Instead of numerous uncoordinated housing programs, Ukraine needs a holistic and comprehensive public housing policy which will clearly explain exactly how the government is going to create the conditions for realizing the right to housing.

The lack of clear public housing policy goals means that the data about the housing sphere is also hardly collected or analyzed. This, in turn, creates difficulties while analyzing and evaluating the effectiveness of the current policy and developing potential recommendations. The existing publications about the housing stock, housing construction, and the population’s housing conditions do not allow us to understand either the population’s housing needs or the changes in the housing supply. As of today, Ukraine does not have a unified registry of individuals who need to improve their housing conditions. The latest evaluation of government housing programmes was conducted back in 2012 and showed that the programmes were economically ineffective and socially unjust. The findings of our survey showed that society expects the government to pursue an active housing policy, but the government should also organize active information campaigns to explain exactly how access to housing is going to be ensured.

International experience shows that it is possible to guarantee access to housing by balancing the forms of ownership. For this purpose, government policies must support both the rental sector and ownership. As for the rental sector, unified rental housing markets without administrative barriers to renting non-profit housing are the most effective. Non-profit housing associations can also act as successful intermediaries between landlords and tenants, and the private rental sector can perform a social function.

This analytical report consists of six chapters which gradually explain our approach to the understanding of the



housing sphere and government housing policy as well as the ways to reform them.

In the first chapter, we review what housing is, what approaches to studying it exist, what it has to do with social welfare, and what the place of housing is in broader social, economic, and political spheres.

In the second chapter, we describe the outcomes of the mass privatization of housing, provide a brief history of the development of the housing sphere, and examine the connection between housing and social welfare in Ukraine.

In the third chapter, we analyze the changes in the regulatory framework of the government housing policy, the transition towards market mechanisms of housing provision, the development of mortgage lending, and government housing programs.

In the fourth chapter, we analyze the statistical data of the State Statistics Service and the findings of a nationwide representative survey on housing conditions and attitudes towards housing policies which was conducted by CEDOS.

In the fifth chapter, we explore the international experience of government housing policies, particularly the policies of countries that have unified rental housing markets, of post-socialist countries, and of countries in the post-Soviet territory.

In the sixth chapter, we provide generalized conclusions and a set of suggestions and scenarios for reforming the government housing policy in Ukraine.

This report by the CEDOS Think Tank is based on the results of the Complex Analysis of the Government Housing Policy in Ukraine project, realized as a part of the Think Tank Development Initiative in Ukraine which is implemented by the International Renaissance Foundation in partnership with the Open Society Initiative for Europe and with financial support from the Embassy of Sweden in Ukraine.

# CHAPTER 1 ●

## Housing in theory

The need for shelter is a basic human need. The need for housing is generally accepted and enshrined in national legislation of many countries. Housing, however, is not just a place where one can feel physically safe but also a place which one can call “home” and where one can “feel at home.” It is a place of physical and social reproduction. It determines access to various resources and services because it is linked to health care, education, jobs and the quality of life in general.

According to its Constitution, Ukraine is a social state. The right to housing is enshrined in Article 47 of the Constitution: “Everyone has the right to housing. The state creates the conditions under which every citizen will be able to build housing, purchase it or rent it.” Why, then, is it so difficult to realize this right? Why does the remaining part of this Article—“citizens who need social protection are provided housing by the state and local self-government bodies free of charge or for an affordable fee according to the law”—seem even less realistic?

As David Madden and Peter Marcuse write, “if there is broad recognition of the existence of a housing crisis, there is no deep understanding of why it occurs, much less what to do about it. The dominant view today is that if the housing system is broken, it is a temporary crisis that can be resolved through targeted, isolated measures. In mainstream debates, housing tends to be understood in narrow terms. The provision of adequate housing is seen as a technical problem and technocratic means are sought to solve it: better construction technology, smarter physical planning, new techniques for management, more homeownership, different zoning laws, and fewer land use regulations. Housing is seen as the domain of experts like developers, architects, or economists. Certainly, technical improvements in the housing system are possible, and some are much needed. But the crisis is deeper than that” (Madden and Marcuse, 2016).

Why does a “housing crisis” develop? What is the “housing system”? What should housing policy look like—what should be done to the system in order to overcome the crisis?

## ● Housing system, housing crisis, housing policy

The housing system is a collection of mutual connections between various actors, the housing stock, and the institutions which produce, distribute, and maintain housing. Madden and Marcuse believe that the main cause of the housing crisis is the conflict between housing as a social space and housing as an instrument for profit, between housing as a home and housing as real estate.

The approach of the political economy allows us to consider the contradiction between housing as a place to live (use value) and housing as a source of profit or an investment (exchange value). This approach is based on the understanding of housing as a commodity—its commodification, when the housing space is distributed (a) depending on the ability to pay, and (b) in a way that guarantees maximum profit. The problem is, however, in the fact that commodification ignores the need for housing as a place to live and focuses only on effective demand.

The need for housing is fundamental. In order to meet it, societies try to guarantee access to housing for everyone using housing policy instruments.

Different social groups can define the importance of certain social problems differently. Housing is a subject of struggle between differing interests (as a place for living or as a source of profit), so housing policy is the battlefield for this struggle. Different stakeholders try to impose their own definitions and understanding of what the main “housing problems” are and how to solve them (Jacobs et al., 2003).

Both existing and imaginary “ideal” markets are incapable of guaranteeing access to housing for everyone on their own. The idea that “the market will sort everything out” or the calls to remove “the state from the housing market” are mistaken. The state cannot “remove itself” from markets because it is one of the institutions that create, form and maintain them. The state plays a central role in transforming housing into a commodity: it guarantees the adherence to contracts, defines and guarantees property rights, and connects different markets: the construction market, the land market, and the financial market.

Since housing markets are political as places of struggle between owners and tenants, between developers and communities, the issue is not that the state “intervenes” in the market, but how exactly it does that, what kind of housing policy it pursues. Madden and Marcuse write that commodification of housing is a political project which refuses to admit that it is political. We, in turn, advocate for opening discussion about this and support active public policies in order to ensure access to housing for everyone. These policies must be based on data and research about housing.

## ● How to study housing systems and what kind of housing policies exist

Housing systems vary significantly in different countries. Sometimes even despite the fact that the countries can be similar in terms of their levels of economic development. Explaining the differences between these housing systems and their connection to broader economic and social fields is a goal of comparative housing research.

## Welfare, social security and housing

One of the most widespread patterns for early housing researchers was Gøsta Esping-Andersen’s attempt to define the “worlds of welfare” (Esping-Andersen, 1990). He decided to categorize welfare states by three criteria: the level of decommodification (the volume of social welfare and services that people can receive through non-market mechanisms), the level of social stratification (the relationship between taxation and social spending), and the balance between public welfare programs and social support from the private sector.

Esping-Andersen studied OSCE countries in the 1980s and defined three “worlds of welfare”:

- liberal: low level of decommodification, high level of social stratification; the state plays a solely regulatory role and guarantees minimum income on a targeted

basis;

- corporatist: high levels of decommodification and stratification; the state directly provides for and regulates markets, it provides welfare only when an individual and their family's capacity has been exhausted;
- social-democratic: high level of decommodification and low level of stratification; the state plays the key role in the social protection system.

The main problem of numerous housing studies based on Esping-Andersen's categorization is that he himself did not research housing. Sociologist Jim Kemeny (2001) argued that the main problem of the "worlds of welfare" model is that housing is different from other fields of welfare. It is rarely, if at all, fully provided in the form of universal provision. While social welfare, education and health care is often (albeit not always) guaranteed by the state and covered by taxes, public housing provision does not work like that. Despite its key role for one's quality of life, it is a "wobbly pillar under the welfare state" (Torgersen, 1987).

Why has the connection between housing and "welfare" become so popular after all? Housing is probably the biggest expense point in household budgets and determines their life chances and access to other fields: education, jobs, leisure, transit, etc. Kemeny, who was mentioned above, proposed a theory that high housing costs are the reason why welfare states are developed or undeveloped (Kemeny, 1980, 1981). He writes that countries with more widespread housing ownership are characterized by a "skewed" distribution of housing spending. A significant share of this spending is concentrated at the early stages of life rather than evenly distributed over many years, like in countries where renting is more widespread. What are the consequences of this for the development of welfare states? Housing costs make up such a high share of household budgets that people will not support high taxes for the development of universal welfare because they will not have enough resources to both pay these taxes and to save up in order to buy housing in the future.

Frank Castles called this "a really big trade-off" (Castles, 1998): housing ownership is associated with high levels of debt over a long period of time (mortgage), which changes the strategies for how households seek to ensure their own

welfare. Housing ownership after paying out the mortgage allows people to use it at later stages in life, while in the case of renting housing costs are constant throughout one's life. The funds that would otherwise go towards rent are spent by households to pay for other services: health care, education for children, etc. Housing in ownership can also be used as collateral to take out a loan to fund certain costs.

Transformations in welfare states have led to a situation where “rather than relying on state-managed social transfers to counter the risks of poverty, individuals accept greater responsibility for their own welfare needs by investing in financial products and property assets which augment in value over time” (Doling and Ronald, 2010: 165). What does this mean? The right to housing has been replaced by the right to invest and profit from successful operations on the real estate market (Watson, 2009). This was facilitated by the liberalization of the banking sector and the development of mortgage markets (Lennartz and Ronald, 2017). On the one hand, this “liberated” households from dependence on the government for their welfare. On the other hand, mortgage debt ties the situation of these households to financial markets and shifts the responsibility onto individuals (Schwartz and Seabrooke, 2008).

Why does this mechanism carry risks? Housing markets are particularly tied to financial markets via mortgage lending. This makes them unstable, which affects household incomes and their perception of their own wealth. Instead of solving the problems with inequalities, this model actually creates new inequality fault lines. They emerge depending on housing tenure and on belonging to different generations. Young people, tenants and those who do not have the resources to purchase housing remain excluded from this system of ensuring welfare (Elsinga and Hoekstra, 2015).

## Comparative studies of housing systems

Until the 1990s, housing studies were either a byproduct of welfare research in general or were clearly aimed at policy-making. Jim Kemeny proposed a different, more theoretical and less policy-oriented approach. He encouraged researching not only how many housing units needed to be built, but also who was going to use them and how. Housing research, in his opinion, needed to study social, political,



cultural and other fields that affected the construction and use of housing.

Kemeny and Stuart Lowe (Kemeny and Lowe, 1998) analyzed previous studies and defined three main approaches to housing research.

- Juxtaposition. These are mostly descriptive studies of housing systems which usually do not make generalizations. This is the lowest level of comparative research in which the housing systems of different countries are described and juxtaposed: “here it works like this, and there it works like that.”
- Convergence or the universalist approach. Based on previously described and analyzed housing systems, attempts are made to discover and understand similar and different elements in various parts of these systems. The main claim here is that similar processes of economic and demographic development in different countries lead to convergence of their housing policies despite differences in their ideologies, policies, and institutions. The biggest problem of this approach is that it reduces differences between systems to “exceptions” and “variations”: nuance needs to be sacrificed for the sake of being able to generalize. “The share of rental housing in European countries is this and that” is a very crude form of this approach without any attempts to figure out where exactly the housing is rented, who rents it, and on what terms.
- Divergence. The shortcomings of the first two approaches (“each system is unique” or “all systems are (almost) the same”) spurred the development of the third approach. From its perspective, even though policies and conditions in general can be rather similar, groups of countries with the most similar policies have shared trajectories which do not overlap with others. Kemeny believed that the main factors that determine these trajectories are policies about housing ownership and rent, particularly the government’s role in the rental sector (Kemeny, 1995).

This approach is what helps us see the nuance in superficially similar housing systems. For example, post-socialist countries did not have private housing ownership initially, but later it was restored through mass privatization of the housing stock. The factor that affected the differences



between the countries was the exact way this privatization was carried out and its exact terms. This is the approach we use in Chapter 5 to consider the examples of housing systems in other countries.

## Housing in the center of political economy

Long before the global financial economic crisis in 2008, economists and other researchers talked about the central role of housing in country economies and the global economy. Housing affects the construction and manufacturing industries, employment, the banking sector, tax revenue, the financial sphere, etc. (Aalbers, 2008, 2016; Aalbers and Christophers, 2014; Fernandez and Aalbers, 2016; Schwartz and Seabrooke, 2008).

However, the financial crisis, which originated in the housing and mortgage lending market in the US in particular, spurred a new round of research on the connections between housing systems, finance, and broader economic processes.

Herman Schwartz and Leonard Seabrooke noted a rapid increase in the volumes of mortgage debt and changes in the shares of housing ownership in different countries. By using these two variables, they defined and studied the so-called “varieties of residential capitalism” (Schwartz and Seabrooke, 2008). Their main conclusion was that housing and housing policies create clear and stable interest groups which affect both policies and economies of countries. In their study, they essentially confirmed the claims of Kemeny and Castles about the development of the welfare state and its consequences for welfare depending on ideas about taxes and policies regarding ownership and renting.

Studies of the connections between the financial and housing spheres produced the branch of research of the “financialization of housing” (particularly by Manuel Aalbers and the REFCOM project from the Catholic University of Leuven). This literature explores where, when, how and who created the prerequisites for the merge between housing markets and financial markets. This approach studies the differences between countries, within countries, and within cities, as well as the way financial streams connect different

places at various levels. We will not focus on their work in detail here; instead, we will mention them below while describing what happened in Ukraine.

The need for housing is fundamental. Societies declare the “right to housing” and guarantee access to it through the instruments of public housing policy. The cause of difficulties with ensuring the right to housing is the conflict between housing as a roof over one’s head and housing as an asset. Housing as a sphere is political: different stakeholder groups in it defend their view of what housing is, what housing problems are and how to solve them. Housing determines one’s life chances and access to other spheres: education, jobs, leisure, etc. The form of housing ownership determines the possible level of general social welfare and forms stable interest groups in society. Comparative studies of housing aim to understand its place within the broader economic, social, political spheres in different countries, as well as the instruments of housing policy and their results.

In the next chapter, we will consider changes in the sphere of housing in Ukraine and the way they affected other spheres, and review the government housing policies.

# CHAPTER 2 ●

## Housing, social welfare and government housing policy in Ukraine

In this Chapter, we will consider changes in the housing sphere and government housing policy in Ukraine since it regained independence and outline their key problems. Mass privatization of housing stock has laid the foundations of the current housing policy aimed at ownership, and the entire period that followed was characterized by a search for extra-budgetary funding for housing construction: via the Kyivmiskbud experiment, construction financing funds, the mortgage market, or just investments “in the foundation pit.” We will also examine how housing and welfare are connected in Ukraine.

## ● Mass privatization of housing

What was Ukraine’s housing system like before privatization? A lot has been written about this (see, e.g., **Zavisca, 2012**), so we will just briefly list the key features:

- the planned Soviet state-owned economy involved central planning and regulation—of land, manufacturing, construction, etc.;
- housing was decommodified by canceling private ownership of it and by constructing large amounts of new housing stock;
- this housing stock and residential area was distributed according to “human needs” defined as “decent living conditions”—residential area in square meters;
- this area was handed over to mass public “rental sector” of the housing stock, in which the “rent” was kept at a very low level via housing subsidies and their regulation;
- thus, it was not a rental system as we know it: people were entitled to use the housing “for their own use,” which they could also inherit, hand over to their family members or exchange.

After the USSR collapsed and Ukraine regained independence, private property (particularly to housing) was deemed to be the foundation for building the market economy. Housing privatization involved almost the entire urban population—thus, the housing policy was central in the process of transformation of cities (Pichler-Milanovich, 1994, 2001).

In June 1992, the Law of Ukraine “On privatization of the state housing stock” was adopted. It stated that privatization was to be implemented by transferring housing free of charge to those who lived in it. This transfer of housing “absorbed the society’s shock” from market transformations to a certain extent (Bodnar, 2001; Struyk, 1996), but it shrank the publicly owned housing stock and led to commodification of housing. The state lost its capacity to directly manage housing policies through the public housing stock.

The consequences of privatization at first seemed to decrease inequality: the transfer of ownership to housing was more even than, for instance, to other privatized assets such as factories. But privatization also enshrined inequalities: those who had better apartments won from the transfer of significant wealth, and those who had mediocre housing or did not have any at the moment of privatization lost.

For those who had no housing at the moment of the privatization, the lack of a public rental sector meant that they had to rely on either renting from private individuals or on purchasing housing. The private rental sector was not very developed, because the bulk of the housing stock was owned by the people who lived in it themselves. Since the number of households who received nothing as a result of housing privatization continued to grow, especially among young, mobile or poor people, the lack of affordable housing provided at the formal rental market forced many population groups to rent housing in the informal sector with minimal guarantees (World Bank, 2005).

Mass privatization of housing and its further commodification or transformation into an investment had serious consequences for the Ukrainian economy in general: housing became the most expensive asset in household budgets, and the experience of inflation only reinforced the idea of real estate as a stable low-risk investment (Roseman, 2002).

## ● Brief history of the housing sphere in Ukraine

In order to understand what is happening in the housing sphere and why, we have to be aware of its connections to other social and economic spheres: the financial market, the land market, the employment market, etc. We are going to review what happened in these spheres during the period of independence and what decisions in particular led to the current state. For this purpose, we will use the periodization proposed by the housing researcher Alyona Lyasheva (Ляшева 2018), who defines five periods for Kyiv. Kyiv has the highest housing construction share in Ukraine, and all the processes that take place here are also characteristic of other cities, even if they may not be as prominent there.

### **1. 1990s stagnation:**

- I. general decline in economic output and construction volumes;
- II. mass privatization of housing, construction facilities and companies;
- III. establishment of the real estate market and the banking sector;

### **2. late 1990s–2003:**

- I. gradual increase and development of the key players in the housing system;
- II. emergence of new funding schemes, such as Kyivmiskbud's engagement of funding from citizens;
- III. establishment of an urban growth machine (Logan and Molotch, 1987) by merging the public and private sectors at various administrative levels;

### **3. 2003–2008 boom:**

- I. macroeconomic stabilization at the turn of the millennium and market reforms allowed Ukraine to achieve economic growth and influx of investment, particularly into the banking sector;
- II. regulation of land relations by adopting the General Plan of Kyiv in 2002;
- III. major international banks actively grow on the lending market—both consumer and business lending as well as mortgage lending—via their local subsidiaries;

- IV. the relevant regulations and legislation develop in the form of the laws “On mortgage,” “On mortgage lending,” “On mortgage bonds”;
- V. rapid increase in prices and construction;

#### **4. 2008 crisis and restoration by 2014:**

- I. restrictions on the international capital markets left Ukrainian banks without a way to refinance previously issued loans;
- II. falling exports and the declining Ukrainian economy forced the government and the National Bank to “release” the UAH to USD exchange rate;
- III. construction, lending, and real estate market prices decreased;
- IV. some developers who relied on funding from the population or on bank loans to fund their operations were unable to complete construction;
- V. some creditors were unable to service their mortgage contracts;
- VI. construction resumes after stabilization, and developers look for new ways to fund their operations: installment plans, construction financing funds, etc., because banks are now more thorough and cautious while issuing mortgage loans;

#### **5. post-2014 boom:**

- I. devaluation of the hryvnia and a banking sector crisis;
- II. redirection of funds from bank deposits to investment into housing construction for the purpose of protecting savings, for further renting or speculation.

Each of these stages reveals problems with the realization of the right to housing.

Before the macroeconomic stabilization of the 2000s, cities and companies did not have sufficient resources to continue the construction of the housing stock. Economic conditions also changed: the housing obtained via the “housing queue” was potentially available for privatization right away — that is, de facto it was “gifted” as property. Meanwhile, those who had the funds to purchase housing most often did not have

the entire amount at once, and in the conditions of an underdeveloped banking sector they resorted to alternative investment mechanisms such as the Arcada Bank or Kyivmiskbud (see more details about these funding schemes and the “Kyivmiskbud experiment” in Chapter 3).

In the late 1990s, market reforms took place and economic growth began. In order to maintain the competitiveness of Ukrainian exports, the hryvnia is de facto tied to the US dollar. The period when the National Bank of Ukraine supported the exchange rate with interventions in the currency market began. Under these economic conditions, banks began to give consumer loans to the population, and borrowers easily took them because the economy was experiencing high growth rates and high inflation. Banks actively were actively developing mortgage lending because they had liquidity from western banks, and they could transfer the currency risks to the borrowers. When funding was easy to bring in “cheaply” in the capital markets and then lend them at more expensive rates to borrowers in Ukraine, the risks were high but the potential profits were high as well.

Mortgage lending and the rapid growth of the real estate market led to a bubble which was proven, for example, by studies of the ratios of prices to rents and prices to incomes (Giucci et al., 2007). The growing mortgage lending was aggravated by speculation which only inflated the bubble further (Runey, 2012).

Here we should focus on a particular feature of the Ukrainian housing system which determines an active influx of available funds into real estate for the purpose of rentier profit, speculation, or just to protect one's savings. Housing ownership in Ukraine essentially brings no financial obligations to the owner. First, the tax on real estate other than a land plot, e.g. an apartment or a house, was introduced relatively recently. Second, it involves tax credits for the basis of taxation: for 60 m<sup>2</sup> for **each apartment regardless of their number**, and for 120 m<sup>2</sup> for **each house regardless of their number**. Third, the tax rate is flat and does not exceed 1.5% of the minimum wage per square meter of the area exceeding the tax credit. Moreover, apart from the very liberal real estate tax, owners of housing units in apartment buildings de facto do not pay the land tax for using the land, unless a legal entity is established and the



rights to use the land plot are transferred to it. We will return to the topic of taxation in the last chapter, in which we recommend measures to increase its progressivity and to administer it more effectively.

Without loans for the population, developers were often unable to complete the construction they had started; the real income of households also shrank, and real estate prices collapsed. Now there was an extra supply of apartments on the market which used to be bought for speculative purposes, which dragged the prices down even further.

The “mortgage boom” also affected other spheres: the labor market, land use, rental housing, and the secondary real estate market. Construction and the related sectors employed significant labor resources, but it is a sector that does not lead to increases in productivity. The decline of construction led to job losses for a significant share of the workers (Giucci et al., 2008). As for land use, this boom period was when the highest number of notorious land acquisitions, land scandals and scandalous constructions took place. Mortgages also significantly affected the rental housing market and the secondary housing market. The rapid development of mortgage lending led to declining prospects of growth on the rental housing market: high-income renters decided to invest in the construction of new housing to own. Investment in real estate also increased the secondary market prices because the potential price of land increased (World Bank, 2005).

Another particular feature is the land relations in Ukraine, which are a considerable factor defining what happens to housing. In Ukraine, a land plot lease cannot serve as collateral for a bank loan. Since developers lacked their own funds to pay for construction, they engaged funding from the population. Ukraine is rather special in the sense that developers are allowed to sell housing (property rights to future housing) at the “zero” stage of completion (at the stage of a foundation pit), which leads to a situation where buildings can just remain unfinished.

After the devaluation of hryvnia and the economic crisis of 2014, citizens' bank deposits were invested in construction. On the one hand, housing seemed to have become more physically accessible: the media constantly featured headlines about tens of thousands of unsold apartments in

Kyiv. On the other hand, the prices of those apartments were too high in relation to the population's incomes.

This is the main consequence of the current housing policy aimed at ownership: there can be a lot of new housing, but it will only be owned by those who can purchase it. This does not rule out a situation where eventually these residential units will be occupied by people who rent it from someone who purchased the unit in order to receive rent. However, this will only redirect funds from tenants to landlords. The policy orientation at ownership is also reinforced by government housing programs: compensations of a share of the price by the state, discount loans for purchasing housing, compensation of loan interests, renting with the right to purchase. These policies only exacerbate social inequalities and reinforce the role of housing as a way to preserve wealth and as a source of rent rather than a place to live.

## ● Social welfare and housing in Ukraine

As we wrote in Chapter 2, housing is rarely decommodified completely because it is different from other types of welfare provision. Although housing inequality was never overcome in Soviet cities—it could develop based on criteria other than income (Smith, 1996)—but the mass construction of housing stock significantly facilitated this. Housing provision was a part of the state's social policy.

Research of social welfare and the “worlds” once defined by Esping-Andersen allow us to single out a special “post-socialist world of welfare.” Its main features are the experience of a socialist regime, low wages and low levels of provision (Aidukaite, 2010: 20). On the one hand, welfare provision by the state “is still quite comprehensive in its structures, but weak in its performance to ensure a decent standard of living for its citizens” (ibid., 21). Wherever the role of the state shrank but the market had not yet come into force, the role of the family and intergenerational social support increased. For example, an important factor in solving housing problems was inheritance of previously privatized housing (Zaviska, 2012).

If we used arguments about a “compromise” between welfare provision and housing ownership, young people in Ukraine would probably be unable to pay high taxes because at earlier life stages they would focus on saving up for a down payment or spend comparable amounts to rent housing in the private sector.

As noted above, housing privatization turned a place of residence into an often the most expensive asset owned by a household. It would be completely logical to assume that for some residents this expensive asset could become the source of making a living at later stages of life. Moreover, the characteristics of real estate taxation which we mentioned above allow landlords to live off the exploitation of “excessive” housing.

In 2008, the Kyiv government established the communal company Better Home for the purpose of “ensuring the social protection of individuals in difficult life circumstances who need external help.” The main idea was that retired citizens who have apartments but need social help would be relocated to nursing homes, and their apartments would be rented out. The company was liquidated in 2010. During this time, its services were used by 14 retirees. The work of this company can be seen as an attempt to guarantee social support through the ownership of an asset at later stages in life.

The mass free-of-charge privatization of housing in Ukraine absorbed the shock of market transformations to an extent, but at the same time it shrank the publicly owned housing stock and solidified the inequalities that existed at the moment of privatization. Public policy aimed at housing ownership manifests in Ukraine both in tax and economic preferences and in the lack of incentives to develop the rental sector which could meet the population’s need for housing. The high cost of housing compared to the population’s income means that the population would not have enough resources to pay taxes for the development of universal social welfare. Ownership incentives allow a certain share of households to maintain their prosperity by becoming landlords.

In the next chapter, we will consider the changes in the legislation regulating government housing policies which have led to the development of the current ownership-oriented housing system.

# CHAPTER 3 ●

## Legislation and regulations of the government housing policy and the development of the housing system in Ukraine

The government housing policy is regulated by multiple legislative acts which may not be directly related to housing but can still affect it significantly. In this chapter, we will review changes in this legislation over time and consider the ways it affects the sphere of housing. We will use a chronological approach, but we will occasionally digress to describe specific parts of the housing system or the economy in general.

## ● On improving the legislation and regulations and adapting the legislation in Ukraine

One of the most popular claims in the public imagination about the paths towards solving the “housing question” (“housing problem” or even “housing crisis”) is the argument that *“we should make it the same as in Europe,”* although people usually mean the idea of increasing the share of housing owners, e.g. by mortgage lending, which is actually more characteristic of the US. When they do actually mean Europe—e.g., increasing the share of households that rent housing—they rarely specify which European countries in particular they mean, and what particular kind of rental housing they mean: commercial state-owned, municipal-owned, owned by non-profits, social housing, or housing rented by private landlords.

The logical question that follows from *“we should make it the same as in Europe”* is *“how do we do that?”* The most obvious arguments are ones about “improving the regulatory and legislative foundation” or “modernizing legislation.” However, although legislation can and should be improved—the current Housing Code was adopted in 1983 and opens with statements about implementing Leninist ideas of building a communist society—we actually have quite a lot of legislation that regulates the housing system, and the majority of the required legislative acts have already been adopted. What we really need is to coordinate these different acts and make them coherent.

The claim that the regulatory and legislative foundation has actually been created already is evidenced by the fact that literally within a decade and a half, our housing system

transformed from public ownership to almost exclusively private ownership, users of housing became “investors,” construction facilities became “developers,” and the construction industry began lobbying at nearly all levels of the government. From its starting point with a situation in which almost all the housing stock in cities was publicly owned, Ukraine entered the global financial crisis with its own “bubbles” on the housing market, having completed almost the entire path of financialization of housing (Ляшева, 2018; Fedoriv, 2017). The severe economic crisis in 2008, which significantly affected the Ukrainian economy, the construction industry, and the real estate market in particular, is evidence to the fact that everything was following a rather “normal european” path in our country. Beyond the consequences of the global crisis, it is also important to note the domestic problems and imbalances that developed here before the crisis: high rates of inflation, unstable economic growth based on undiversified exports of metal and agricultural produce, banks that were too dependent on foreign sources of liquidity, and a dynamic real estate market which was spurred on by cheap loans and speculation.

In this chapter, we will review the legislation that shaped the current Ukrainian housing system. It will not be about the sphere of housing law (which you can read about, e.g., in Галлянич, 2003, 2007, 2008), but about all kinds of different spheres, because the housing system is a result of the interaction between many different markets (construction, land, workforce, capital, etc.), and it is affected by different policies: social, monetary, fiscal, land use and urban planning policies, etc.

Why is this so important? Let us quote the book *Funding Housing Construction: New Trends* (Кравченко і Паливода, 2006: 7):

“According to the calculations, the amount of loans issued by Ukrainian banks in 2005 with the employment of various methods to use residential real estate as collateral was around 10 billion hryvnias, which is just above 3% of GDP. In other countries (such as Denmark), this indicator reaches 100% of GDP.”

What does this quote tell us? That in some countries, housing is so expensive that loans taken to buy it are comparable to the GDPs of these countries. Does it tell us anything about access to housing? Or about the availability

of social housing to provide for vulnerable populations? What kind of debt is it? Who gave these loans and how? How are they refinanced? In order to understand these nuances, we need to study the legislation and regulations of housing systems and housing finance systems.

The government, through its housing policies which are closely interrelated with other government policies, determines the priorities and goals which society wants to achieve with its housing system.

## ● Leninist ideas and the apartment queue

The regulations that ensure the functioning of the Ukrainian housing system is based on the Constitution of Ukraine, the Civil, Family, Housing, Land, and Economic Codes, Laws of Ukraine “On property,” “On renting public and communal property,” “On land lease,” “On individual income tax,” “On financial and credit mechanisms and property management in housing construction and real estate operations,” “On privatization of state property,” “On mortgage,” etc.

The main document regulating the housing system in Ukraine is the Housing Code, enacted by the Verkhovna Rada of the USSR’s Decree on June 30, 1983. Chapter 1 of its Part 3 regulates the provision of residential units to citizens by giving them the units in buildings from the state and community housing stock. In particular, Article 34 defines the so-called “apartment queue”: citizens who need to improve their residential conditions register to receive residential units in buildings from state or community housing stock and are added to the unified state registry of citizens who need an improvement in their housing conditions.

When the USSR collapsed, Ukraine inherited both the Soviet Housing Code and the “apartment queue” for the improvement of residential conditions. The queue has shrunk since Ukraine regained independence, but “the real reason why the apartment queue has shrunk is the liquidation of company queues due to structural reorganization of companies, mass layoffs of employees, lack of funding to build housing” (Більовський, 2012: 45).



The two main shortcomings of this article are its discrepancy with the privatization legislation and its lack of targeting in the distribution of housing aid. The apartments provided according to it can essentially be privatized right away; thus, this housing stock is transferred from state or community ownership to private ownership. The queue was also based on so-called “housing norms” (of residential area), rather than financial resources or income levels of citizens or households (Коломієць та Якушенко, 2019; Черенько, 2019).

## ● Privatization and the establishment of the real estate market

When the USSR collapsed and Ukraine regained independence, private property (particularly for housing) was declared as the foundation for building a market economy. In June 1992, the parliament adopted the Law of Ukraine “On privatization of the public housing stock,” which determined that privatization was to be carried out by handing housing over to citizens (tenants) free of charge.

In fact, privatization began even before the USSR collapsed, but the adoption of corresponding legislation accelerated it. The subject of privatization was the public housing stock: the stock that belonged to local councils and the stock that was managed or administered by state-owned companies, organizations and institutions.

The government committed to maintaining the privatized housing stock via the Procedure for Participation of Former Owners in the Organization and Funding of Maintenance of Privatized Residential Buildings (Cabinet of Ministers Decree 572 of October 8, 1992): it was supposed to fund the first renovation of each building after privatization, which had to be comprehensive.

Privatization was the first step towards commodification of housing and further establishment of the real estate market.

The same year, the Cabinet adopted the Decree “On further development of housing construction cooperation” (October

20, 1992, #593), which was supposed to encourage further activation of housing provision for the population via housing cooperatives; a year later, it adopted the Decree “On encouraging individual housing construction by providing long-term discount government loans” (June 26, 1993, #483). In February 1994, the parliament adopted the Decree “On measures to engage additional funding for housing construction and creating the housing market,” which was supposed to help find funding to complete construction. In June the same year, President Kravchuk signed the Order “On measures to facilitate the construction of housing for the youth by mortgage lending.” All these documents were attempts to incentivize construction, because the scope of construction funded from the state budget was decreasing, and the “apartment queue” was long; the government needed to look for ways to engage funding from sources outside the state budget.

## ● Concept of the Government Housing Policy

In 1995, the Verkhovna Rada approved the Concept of the Government Housing Policy (Decree 254k/95-VR of June 30, 1995), which defined the goal of the government housing policy as the creation of the conditions for the realization of citizens’ right to housing, the expansion of housing construction, and the preservation of the housing stock. It proposed to create the conditions for the development of stock markets, investment funds, mortgage and residential banks, insurance companies, and other market structures to provide for housing construction.

The approval of the Concept was followed by further attempts to find non-budgetary sources of funding: in June 1996, President Kuchma signed the Order “On measures to engage funds from the population for the construction of housing,” which recommended that the Cabinet of Ministers “take organizational measures to implement the experience of the Kyivmiskbud corporation in all regions of Ukraine in terms of engaging funds from the population for housing construction.”

On October 18, 1997, President Kuchma signed the Decree “On the key areas of social policy in 1997–2000.” Chapter 8

of the Decree concerns the housing policy and reforms in it. In particular, an important section of the Decree is the following paragraph:

“The legislative regulation of legal relations around housing deserves special attention in connection to the adoption of the Constitution of Ukraine and the state’s obligation to provide housing only to socially vulnerable population strata.”

The newly declared goal of housing policy was to create the conditions for the realization of citizens’ right to housing, to expand housing construction with the use of various sources of funding, to improve the maintenance and preservation of the housing stock. Interestingly, the Decree also stated the need to “change the urban development strategy in the direction of increasing the volumes of construction of more comfortable housing, low-rise cottage-type buildings, the development of small and medium-sized settlements,” while the reality followed (and is still taking) an entirely opposite path.

## ● Kyivmiskbud's experiment

The expansion of the sources of funding, mentioned both in the 1995 Concept of the Government Housing Policy and in the Presidential Decree, was to be implemented primarily by engaging the population’s own funds, particularly by using the experience of the Kyivmiskbud corporation. In 1992, the corporation became a successor of the Holovkyivmiskbud, a company founded in 1955 to increase the volumes of residential and civilian construction in Kyiv.

In 1993, the construction companies that comprised the Kyivmiskbud established a commercial joint-stock bank, Arkada, which was supposed to facilitate the implementation of various systems for funding housing construction. 1995 saw the introduction of a programme to construct housing using funding from the population in residential complexes built by Kyivmiskbud. Initially the bank only gave loans to its shareholders, but gradually it accumulated temporarily available funds and started giving loans to build housing which used the housing units as collateral (Кравченко та Паливода, 2006: 14).

The bank developed several schemes, both with payment of the full price of housing before it was built and with investment in “meters” by the accumulation of square meters by an investor over several years without assigning them a specific apartment or a specific building. If an investor changed their mind, they had the option to sell these meters to the bank. For the purpose of calculating the loan amounts, interest rates, and payments, the bank also created its own system of so-called “UnIns” (units of investment) based on official discount rates, inflation rates, construction product indexes, etc.

In June 1999, President Kuchma signed the Decree “On conducting an experiment in housing construction based on the Kyivmiskbud holding company” (#735/99 of June 27, 1999), according to which citizen funds directed towards housing construction were exempt from taxation. In April 2000, the Verkhovna Rada adopted the Law of Ukraine “On conducting an experiment in housing construction based on the Kyivmiskbud holding company” (#1674-III of April 20, 2000), whose goals, in addition to engaging funding for construction, included the reinforcement of social protections for underage citizens and the expansion of opportunities for pension provision. The bank gained the right to issue mortgage certificates which now had a priority for non-governmental pension and other funds. Kyivmiskbud and Arkada were the de-facto pioneers in the development of mortgage lending and the search for liquidity by issuing certificates.

## ● Growth and collapse of the mortgage bubble

### Mortgage lending and construction funding funds

Already in 1998, in addition to the Kyivmiskbud experiment, the Cabinet established a coordination council to develop legislation and regulations for mortgage lending for the construction and purchase of housing (Cabinet of Ministers Decree 569-r of July 10, 1998). In August 2002, President

Kuchma signed the Decree “On measures to develop the mortgage market” (695/2002 of August 8, 2002).

In June 2003, the Verkhovna Rada adopted the Law of Ukraine “On mortgage” (898-IV of June 5, 2003). Based on this Law, the Cabinet adopted the Decree on the Procedure for Forming Housing Stocks for Temporary Residence and the Procedure for the Provision and Use of Housing Units from These Stocks (#422 of March 31, 2004). These Procedures determine that a temporary housing stock must exist for citizens who have no housing or who have lost it due to foreclosure of housing purchased by taking a loan (and who cannot afford to rent housing). This temporary housing stock was also supposed to be used to accommodate refugees and internally displaced people. It was supposed to become a “safety cushion” for debtors with mortgage contracts who were unable (or unwilling) to pay after the global economic crisis.

The same month, in June 2003, the parliament adopted the Law of Ukraine “On financial and credit mechanisms and property management in housing construction and real estate operations” (#978-IV of June 19, 2003) and the Law of Ukraine “On mortgage lending, operations with consolidated mortgage debt, and mortgage certificates” (#979-IV of June 19, 2003). The former established the principles and basics of engaging funding into management for the purpose of funding housing construction, and the particularities of managing these funds via construction funding funds. The latter regulated the relations in the mortgage lending system and the transformation of payments for mortgage assets into payments for mortgage certificates, the creation of mortgage pools and consolidated mortgage debts.

The law on construction funding funds is an example of the fact that arranging the legislative foundation does not solve housing problems by itself. Kravchenko writes that the law made it mandatory to create construction funding funds. But developers began to look for ways to bypass the law and still engage funding—they began to issue bonds:

“The amount of issued construction bonds reached about UAH 1.2 billion in 2004, or 40% of the total amount of emissions in Ukraine. In the first half of 2005, this number was already over UAH 1 billion (100 million in 2003). [...] The popularity of corporate bonds is explained by the fact that construction companies used them not only to avoid partaking in the scheme of participation in CFFs [construction funding funds], but also to

reduce taxes paid to the budget as profit tax and value-added tax. This optimization turned out to be legal because the emission revenue from issuing bonds is not taxable” (Кравченко, 2006: 20).

In August 2004, the Cabinet of Ministers approved the Concept of the Creation of the National Mortgage Lending System, according to which the State Mortgage Institution was created in October that year (Cabinet of Ministers Decree 1330 of October 8, 2004), whose goal was to refinance mortgage creditors from funding obtained by emitting securities. It was supposed to solve the issue of refinancing primary mortgage loans by purchasing the demand rights according to mortgage contracts. This way, the primary creditors (banks) were supposed to gain access to long-term and cheap credit resources, which had to make mortgage loans cheaper for the population. When the Law of Ukraine “On mortgage bonds” was adopted in December 2005, the mortgage legislation was developed, and the path to securitization (i.e. transforming revenue from pooling individual debt obligations into securities and then selling them to investors) was opened in Ukraine.

## Macroeconomic environment

Clearly, the mortgage credit market could not be created and could not function without other legislation that did not concern mortgages directly but formed the environment for their development. In 2001, the parliament adopted the Land Code (2768-III of October 25, 2001), and in early 2003 it adopted the Civil and Economic Codes (435-IV and 436-IV of January 16, 2003).

Equally necessary laws included the Law of Ukraine “On banks and bank activities” (2121-III of December 7, 2000), Law of Ukraine “On assessing property, property rights, and professional assessment activities in Ukraine” (2658-III of July 12, 2001), Law of Ukraine “On financial services and state regulation of financial service markets” (2664-III of July 12, 2001), Law of Ukraine “On individual income tax” (889-IV of May 22, 2003; became invalid when the Tax Code was adopted in 2010), Law of Ukraine “On ensuring the demands of creditors and registration of encumbrance” (1255-IV of November 18, 2003), Law of Ukraine “On securities and the stock market” (3480-IV of February 23, 2006) and others.



If we take another step back to the general macroeconomic conditions, we will see that before the mid-2000s and the period when mortgage lending flourished, the Ukrainian economy was regulated as follows. In 1996, a step was taken towards macroeconomic stability when hryvnia was introduced, which made it possible to take inflation under control. In late 1999, the country was on the verge of a default due to the lack of faith in its capacity to service debts, which spurred the political elites to introduce reforms (Aslund, 2001). As a result, the period of 2000–2003 brought economic recovery combined with growing salaries and wages. Until 2004, Ukraine had high growth rates, inflation remained low, and the budget was balanced (Aslund, 2005). Although there was no political stability after the Orange Revolution, as each cabinet only stayed in power for a year, the government maintained strict fiscal policy, low budget deficits, and the reserves were growing; the only problem was inflation. When a new currency was introduced and hyperinflation was overcome, the National Bank of Ukraine unofficially tied the national currency to the US dollar in the late 1990s (5.44 UAH per 1 USD) (Kirchner et al., 2006). In the previous chapter, we already mentioned this tie, as well as the transfer of currency risks to the borrower and the consequences during the crisis and devaluation of the hryvnia in 2008.

## Real estate bubble

Until 2002, the main role in the process of funding the construction and purchase of housing was played by non-banking sources: fewer than 10 banks operated on the mortgage lending market. The down payment was between 30 and 50 percent, the maximum loan period was up to 5 years with 14% or higher interest for the loans tied to other currencies and 20% or higher annual interest for loans in hryvnias (Roseman, 2003). Banks had problems both with liquidity, since they had no long-term internal resources, and with assessing the risks of giving loans, especially in the conditions when a significant share of the population had an undeclared share of income.

The experience of losing deposits when the USSR collapsed and the experience of hyperinflation undermined people's trust in the banking system and deposits (Roseman, 2002). Banks needed liquidity to issue loans, and they found it in

major European banks: by buying local banks, the former gained a potentially big market. Thus, non-Ukrainian banks owned more than 50% of all bank assets in the period before the crisis (Kessler, 2011). The mortgage lending market was not just expanding but also consolidating: the market share of mortgages from the biggest 10 banks was 87% in 2007 (Giucci et al., 2007). In the conditions of a stable currency exchange rate, borrowers took loans in foreign currencies, and high levels of inflation allowed them to “reduce” their payments. When hryvnia was devalued (“dollar for 8 hryvnias”), the borrowers faced problems. In June 2009, the parliament adopted the Law of Ukraine “On introducing changes to some laws of Ukraine in order to overcome the negative consequences of the financial crisis” (1533-VI of Juen 23, 2009), which, for example, introduced a moratorium on evicting those who bought housing with mortgage loans, etc. On the one hand, this allowed the borrowers to keep their homes and avoid social tension; on the other hand, it later led to an increasing share of problematic loans in bank portfolios. The global economic crisis dealt a heavy blow to housing construction, labor market, and the Ukrainian economy in general.

The Ukrainian real estate market completed almost the entire path of development of mortgage lending before the crisis (it was not characterized by securitization because banks had other sources of liquidity), so the following claim by Biliovsky is rather paradoxical:

“The emergence of ‘price bubbles’ on the residential real estate market should be viewed as evidence of its underdevelopment” (Більовський, 2012: 34).

The US, Spain, Ireland and other countries which faced the most serious consequences of the global economic crisis, on the contrary, had very highly developed real estate markets, particularly secondary mortgage markets, but this did not help them avoid real estate “bubbles” or their collapse! The development of mortgage lending is not always the solution for the housing problem, sometimes it only exacerbates the problem by tying households to financial markets.

## Regulation of mortgage markets

Where were the laws that were supposed to prevent this?  
The Law of Ukraine “On the National Bank of Ukraine”



defined the achievement and maintenance of price stability in Ukraine as the priority goal of monetary policy. Why, then, was it not possible to maintain the price stability of real estate markets? When the exchange rate of the hryvnia to US dollar was kept stable, the National Bank had no options for inflation targeting and inflation remained high. The monetary policy could have been coordinated with the fiscal policy, but the latter was in the Cabinet's hands, while the head of the National Bank was appointed by the President. Due to the constant political crisis and politicians' unwillingness to limit crediting before elections, the National Bank had very few opportunities to exert influence. Growing housing prices attracted borrowers who started seeing real estate as a safe investment which promised revenue. This encouraged speculative demand during the boom in the construction and banking sectors. Liquidity from western banks, growing demand for mortgages, and competition between creditors also led to weakening standards for issuing loans.

Could taxation have helped curb the demand for loans and the speculative demand for real estate? One of the most popular fiscal instruments for developing mortgage lending is to exclude a share of the amount of interest on a mortgage from the income. However, in addition to this norm, Ukrainian tax law also has very liberal regulation of real estate taxation in general. In the previous chapter, we mentioned that the real estate tax was only introduced recently and involved tax credits for every apartment owned, and the tax rate itself is not progressive. If we add the shadow market of private renting to this, it becomes clear that all conditions are present for the development and functioning of the rentier class. Instead, at a roundtable at the National Institute for Strategic Research in 2012, Ivan Saliy, Head of the Association of Manufacturers of Construction Materials, claimed:

"The report (Більовський, 2012) includes a wrong claim about the need to introduce a mechanism to limit the investment demand for housing. It is too early to take this step. [...] We shouldn't rush to limit the investment demand for housing, let at least some of the private individuals buy two or three apartments and rent them out."

Why were fiscal restrictions never enacted after all? Because this could potentially have an electoral effect: reducing tax credits could limit the demand for loans, but at the same

time it could harm “economic growth” and the subjective feeling of growing household wealth.

## ● Government housing programs

### Social housing

What options for the implementation of the right to housing were offered by the government to those who were unable or unwilling to buy housing or take a mortgage loan? In 2005, the Cabinet of Ministers approved the Concept of the Social Housing State Program (Order 384-r of September 3, 2005). The plan was to provide social housing in the period between 2006 and 2015 to people who were on the apartment list as of January 1, 2005. This was an attempt to turn the “apartment queue” into a list of individuals in need of social housing which would not be eligible for privatization, reservation or purchase and could not be used as collateral.

Half a year later, in January 2006, the Verkhovna Rada adopted the Law of Ukraine “On social housing stock” (3334-IV of January 12, 2006). Article 10 of the Law defines the reasons for the right to be registered on the social apartment list and indicates that being on the social apartment list is not a reason to deny registration on the apartment list. Essentially, the government undertakes to provide housing twice: first via the social housing queue, and then once again via the queue to improve residential conditions.

### Housing for the youth

In addition to non-existent social housing, the government housing policy in Ukraine is completely oriented towards expanding housing ownership. Back in 1992, the Cabinet of Ministers adopted a Decree that established the Fund for Facilitating Housing Construction for the Youth (369 of July 4, 1992). In 1996, President Kuchma signed the Decree “On additional measures to implement the state youth policy,” and a year later the Cabinet adopted the Decree “On

measures to carry out the Order of the President of Ukraine of December 4, 1996, #1165,” which established another fund, the Fund for Facilitating Housing Construction for the Youth under the Ministry of Family and Youth Affairs, on the basis of the aforementioned fund.

Another year later, the Cabinet adopted the Decree “On additional measures to implement the youth housing policy” (1352 of December 3, 1997), which approved the Provision on the Procedure for providing discount long-term government loans to young families and young single citizens for the construction (reconstruction) of housing. In 1999, the Order “On facilitating the development of youth housing construction” was signed (244 of October 6, 1999), and in 2000 the Cabinet adopted the Decree “On organizing housing credits for the population of Ukraine” (885 of June 2, 2000).

In 2002, the Cabinet of Ministers Decree “On approving the State Program for the Provision of Housing to the Youth for 2002–2012” (1089 of July 29, 2002) introduced a strategic program. A year later, the Procedure for partial compensation of interest rates on loans from commercial banks for young families and young single individuals for the construction (reconstruction) and purchase of housing (CMU Decree 853 of June 4, 2003) was adopted.

We agree with Biliovsky in saying that both programs are “economically and socially ineffective, since they are oriented towards providing government aid for solving housing problems to families with rather high incomes and do not meet the criteria of social justice” (Більовський, 2012: 83).

Since 2010, as a part of implementing the State Program for Providing the Population with Affordable Housing in 2010–2017 (Cabinet of Ministers Decree 1249 of November 11, 2009), the Fund began to implement the mechanism of providing government support to citizens for the construction of affordable housing: the “70/30” programme, in which a share of the price of a housing unit is compensated from the state budget.

In 2012, the Decree “On approving the Procedure for reducing the price of mortgage loans in order to provide affordable housing to citizens who need to improve their residential conditions (343 of April 25, 2012) was adopted. In

autumn the same year, the Decree “On approving the State Program of Providing the Youth with Housing in 2013–2017” (967 of October 24, 2012) was adopted.

We describe the Fund’s programs and their results in more detail in Chapter 4.2.

## Housing for everyone

In addition to the government housing programs implemented by the State Fund for Facilitating Housing Construction for the Youth, a number of other government housing programs are active:

- Complex program for providing housing to the military, rank-and-file and high-ranking staff members of internal affairs bodies, the criminal enforcement system, officials of customs bodies and their family members (CMU Decree 2166 of November 29, 1999);
- State program for discount long-term crediting of individual rural developers “Own house” and the State targeted program for the development of Ukrainian countryside until 2015;
- Housing provision program for railway transportation workers;
- State budget program “Providing housing to citizens affected by the Chornobyl disaster”;
- Program for resettlement and accommodation of deported Crimean Tatars and individuals of other ethnicities who return to live in Ukraine, for their adaptation and integration in Ukrainian society for the period until 2015.

In 2011, the Program for providing housing to discharged military servicemen or reserve officers became invalid due to the reduction of the number of targeted government programs and their consolidation.

Ukraine also has categories of citizens who must be provided with state-funded housing or receive housing support from the government:

- people with vision and hearing disabilities (CMU Decree 279-r “On additional measures to solve the problems with rehabilitation of people with vision and

hearing disabilities and providing them with social protection” of May 15, 2003);

- people disabled in World War II and those equated to them (Law of Ukraine “On changes to the Housing Code of the Ukrainian SSR” of June 29, 2014, 1924-IV);
- war veterans (Law of Ukraine “On the status of war veterans, guarantees of their social protection” of October 22, 1993, 3551-XII);
- scientists from the National Academy of Sciences (Presidential Decree 207 “On celebrating the 80th anniversary of the National Academy of Sciences of Ukraine of March 20, 1998, and Presidential Decree 315 “On additional measures to support young scientists” of April 9, 2002);
- education and science workers (Presidential Decree 1013/2005 “On urgent measures to ensure the functioning and development of education in Ukraine” of July 4, 2005);
- judges (Law of Ukraine “On justice system and the status of judges” of June 2, 2016, 1402-VIII);
- public servants (Law of Ukraine “On public service” of December 10, 2015, 889-VIII).

As we can see, instead of a single comprehensive policy, there is an entire list of sectoral programs which are implemented or not implemented with varying success that is difficult to assess.

Moreover, attempts to create new programs did not end there. In 2010, the Cabinet adopted Decree 243-r “On approving the Concept of the development of housing cooperation and implementation of housing construction savings associations in Ukraine” (February 17, 2010), the so-called “German model,” but it was made invalid by Cabinet Decree 347-r of June 13, 2012. Could this savings model work in Ukraine? The experience of Poland, which copied this German experience, shows that with high inflation rates, construction savings associations have trouble accumulating resources, because when discount rates are high, these funds can be deposited in banks.

## Latest innovations

The annexation of Crimea by Russia and the war it started in the east of Ukraine created many temporarily displaced people and veterans who were integrated into legislation as individuals in need of housing. The Law of Ukraine “On ensuring the rights and freedoms of internally displaced people” charges local state administrations with “providing housing units or social housing suitable for residence to displaced people for temporary use, under the condition that they pay [...] the cost of utilities.”

The Affordable Housing program was adapted for them with the 50/50 rate. The Discount Loans for the Youth program has not been funded from the state budget since 2015 and is instead implemented solely by local budgets according to local housing programs.

In 2017, the State Mortgage Institution launched a new housing provision program, particularly for police officers and emergency service workers, based on financial leasing terms. This mechanism involves providing housing for limited-term paid ownership and use, and when all lease payments are completed, the housing unit becomes the tenants' property. Essentially this is renting with the right to purchase, which is more affordable than mortgage because no down payment is needed. The difficulty with implementing this program is that funding is needed to purchase the housing for rent, and this funding is hard to find (Фролов, 2019).

In 2017, the Minregion began to work actively on updating the Law “On complex reconstruction of blocks (neighborhoods) of outdated housing stock” (525-V of December 22, 2006). A number of roundtables were held, but as of November 2019, the bill had not been adopted, and its final version (to see whether the concerns of experts and the public were taken into account) had not been published.

In 2018 and 2019, the Minregion and Verkhovna Rada Committees also worked on the bill “On protecting the rights of the victims who invested in residential real estate construction,” because MPs recalled the previous 2013 bill.

In 2018, representatives of the Minregion and the then-minister himself made multiple statements about the need to regulate the rental housing market, both in the case of

renting from private individuals and by adopting a bill “On rental buildings” with the aim to create a housing stock (state, municipal, or private) which would not be eligible for privatization and would only be available to rent. As of November 2019, no such bill was adopted or even considered.

Ukraine has a lot of various legislative acts which regulate the functioning of the housing sphere. Some of them contradict one another and therefore need coordination. Despite the popular ideas about the need to modernize the legislation, Ukraine did adopt a regulatory framework which allowed a real estate bubble to develop and collapse within a few years. In addition to the so-called “apartment queue,” Ukraine has dozens of various sectoral housing provision programs; however, all of them aim to expand housing ownership. Social housing stocks and temporary housing stocks have never been developed. The public rental sector barely exists since the privatization, while the private rental sector is essentially unregulated and does not provide protections to tenants and landlords. Instead of numerous uncoordinated housing programs, Ukraine needs a holistic and comprehensive public housing policy which will clearly explain exactly how the government is going to create the conditions for realizing the right to housing.

In the next chapter, we will analyze the data from the State Statistics Service of Ukraine and the State Youth Housing Fund in order to understand what conclusions we can draw regarding the results of the current government housing policy. We will also analyze the results of a nationwide survey of the population’s residential conditions and needs, as well as the attitudes towards the state housing policy.



# CHAPTER 4 ● Data



In the previous chapters, we considered the theoretical foundations of housing research, provided a brief history of changes in the housing sphere, and analyzed the legislation that regulates the housing sphere and the government housing policy. In this chapter, we will analyze the data of the State Statistics Service of Ukraine and Derzhmolodzhytlo, as well as a survey we conducted in order to learn about the population's housing conditions and needs as well as its attitude to the government housing policy. Evidence-based decision-making should involve the use of data and research in order to develop and implement policies. Data collection and analysis can help identify and assess housing problems as well as understand the results of the current housing policy.

## Chapter 4 ● State Statistics Service of Ukraine

In this chapter, we will review the quantitative aspect of changes in Ukraine's housing policy since it regained independence by using government statistical data about the housing stock, construction, and the housing conditions of households. We decided to find out which data about the housing sphere the State Statistics Service of Ukraine (hereafter referred to as the Derzhstat) has and uses. These are the primary data cited in their statements by everyone who has anything to do with the housing sphere. These are the “most official” data about the housing sphere that the government has. They are supposed to be the basis for developing, implementing, and evaluating policies. The list of these datasets and their quality indirectly signify what the government in particular finds important to know about the housing sphere and for what.

## ● Housing stock

The Derzhstat<sup>1</sup> data are formed using a methodology which determines the lists of indicators collected for further processing. The State Statistical Observation Methodology for the Availability and Movement of the Housing Stock notes that its goal is the “information support for the monitoring of the state regional policy,” which shows that housing policy is not defined as a separate kind of policy.

The Observation Methodology lists three sources of information:

- data from the SSSU Form 1-housing stock (annual) titled *Housing Stock as of January 1, 20\_\_*, which is submitted to territorial departments of statistics by legal entities that have housing stock on their balance;
- data obtained as a result of the *Key Indicators on the Initiation and Completion of Construction*; nowadays the administrative data of state architectural control bodies are used for this purpose; and
- data on the availability and movement of the housing stock based on information from Technical Inventory Bureaus as of January 1, 2013—TIB data before they were handed over to the State Registry of Property Rights to Real Estate.

This observation serves as the foundation for the statistical collection *The Housing Stock of Ukraine*.<sup>2</sup> We have used the archive of data from these collections as well as archives of collections on housing construction and commissioning of housing in Ukraine.<sup>3</sup> We analyze these data in order to understand how the size of the housing stock—its area and number of housing units—has been changing, as well as where exactly the construction has been taking place, what forms it has been taking, and who has been paying for it.

As for the Housing Stock of Ukraine collection, it has been published in the electronic format since 2010, which means that we had to scan and digitize data before 2009 from paper copies. There was no reporting in 1999, so we “smooth

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<sup>1</sup> The State Statistics Service data we collected and analyzed within this study are presented in Annex 2

<sup>2</sup> The archive since 2009 is available on the Derzhstat website in the Settlements and Housing/Publications section.

<sup>3</sup> Available on the Derzhstat website in the Economic Activities/Construction/Publications section.

over” this year for all the indicators published in the collection as well as for the indicators which differ in methodology in different years. We were also unable to include the data for 1994 because we could not obtain the aggregated publication, and we were unable to “decipher” the report forms even with the help of employees of the State Statistics Service.

We take the number of apartments in the housing stock since 1995, because the data for 1991–1993 differentiated between different stocks by type of ownership without the “total number.” In 1993 and 1995, the indicators for dilapidated housing stock and housing stock in the state of disrepair were not listed for different regions, so we also “smooth over” them.

As for construction and commissioning, we have no indicators for commissioning per 1000 people for urban settlements before 2005, for the number of commissioned apartments in urban settlements before 1997, and no data on dormitories or the distribution of commissioned housing stock before 2005.

Derzhstat receives statistical data about construction via an agreement with the State Architecture and Construction Inspection about the exchange of administrative data on initiation and completion of construction; earlier, it used to obtain these data via the Reporting Form 2-constr (quarterly). Based on these data, the Housing Construction in Ukraine collections are issued every two years for the period of the previous 5 years. For example, the latest collection as of today, titled the Housing Construction in Ukraine in 2012–2017, was issued in 2018.

## Total area of the housing stock

The first and most general indicator which characterizes the housing stock is its total area. These are the data that are cited the most often in discussions of the availability of housing for Ukrainians. As we can see, in 1991, the total area of the housing stock in Ukraine was 923 million m<sup>2</sup>. 63% of it (577,000 m<sup>2</sup>) was located in urban settlements, and this share has never decreased since Ukraine regained independence. Although the rate of construction generally decreased in the 1990s, the total area of housing increased to over 1 billion m<sup>2</sup> in 1997. In 2013 (the last year that includes Crimea,

Sevastopol, and the occupied territories of Donetsk and Luhansk Regions), the total area reached almost 1.1 billion m<sup>2</sup>, and exceeded 700 million m<sup>2</sup> in urban settlements.

How has the housing stock changed regionally? If we take 1991 as the starting point, by today it has increased by 1.5 times in Kyiv, Kyiv Region, Ivano-Frankivsk Region, Zakarpattia, and Ternopil Region; the growth has been the lowest in Dnipropetrovsk, Donetsk, Zaporizhia, Kirovohrad, Luhansk, Mykolayiv, Poltava, Sumy, Cherkasy, and Chernihiv regions.

## Total number of apartments

Not only the total area of housing but also its distribution—how many potential homes for households exist—is important for housing policy.

In 1995, Ukraine had 18.3 million housing units (including 64%—11.7 million—in urban settlements), and another million of units had been added by 2013. The leaders in terms of general growth are Kyiv, Kyiv Region, Ivano-Frankivsk Region and Lviv Region, where the indicator had grown by over 20%; the situation for urban settlements is the same, although Vinnytsia and Ternopil Regions, where the number had grown by a quarter to a third compared to 1995, are also among the leaders.

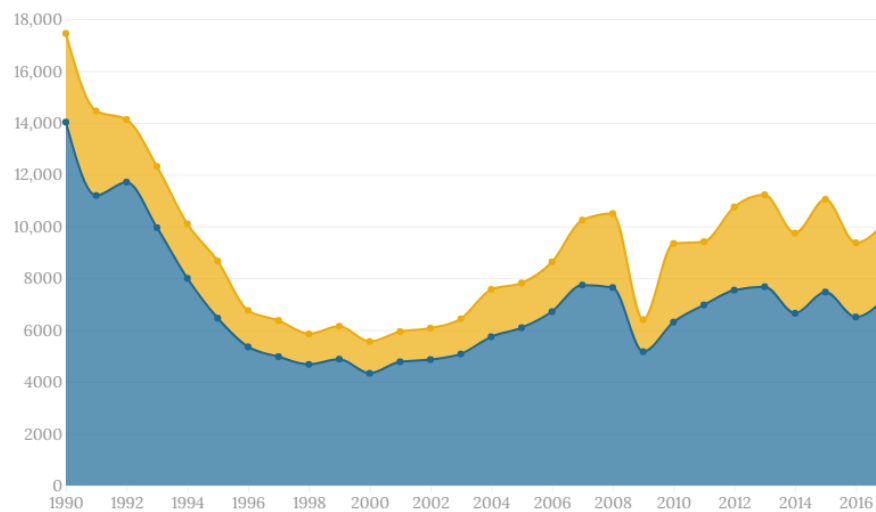
## Commissioning the housing

Where exactly was this housing commissioned? It was mostly in urban areas: the share of housing commissioned in rural areas varied from a quarter to a third of the total area. After the crisis, the share of rural housing increased somewhat because construction in cities slowed down, and lately it has been higher presumably due to construction in areas surrounding cities.

If we look at the dynamics in urban and rural areas, we will see that most of the growth happened in the 2000s in urban areas—that was where the Ukrainian real estate bubble was growing.

## Commissioning of housing in urban settlements and rural areas

thousand sq. m. of total area



Source: State Statistics Service

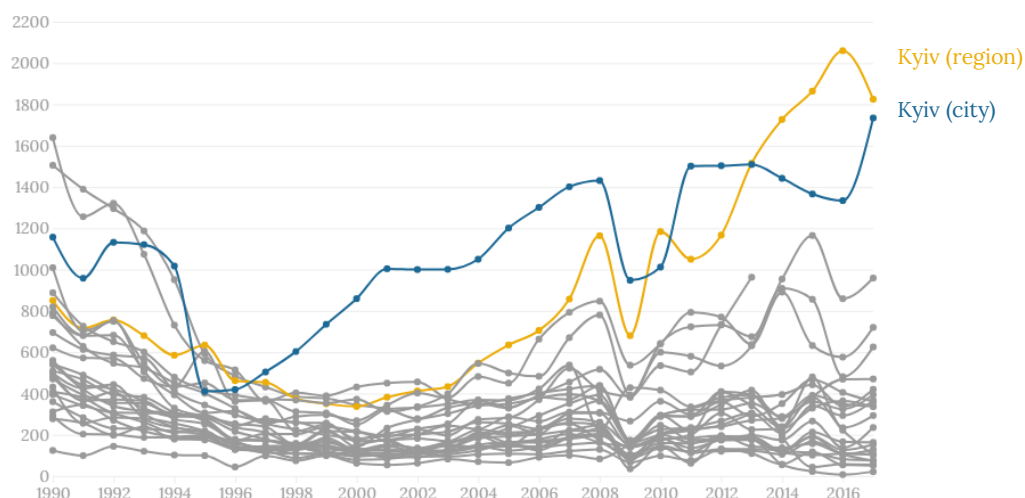
The absolute numbers of commissioned housing decreased by a factor of three between 1991 and 2000, from 14.4 to 5.6 million m<sup>2</sup> (from 11 to 4 million in urban settlements); in the period before the global economic crisis, the commissioning rate doubled to 10.2 million m<sup>2</sup> (7.7 million in urban settlements) and remained at approximately the same level after 2010. De facto, the total area of the housing stock in Ukraine grew by about 1% every year over the past decade.

However, it is important to understand where exactly this growth took place: while the majority of regions saw a decline in the commissioning of housing in the 1990s, Kyiv began to grow already in 1995, and starting in the early 2000s Kyiv Region started growing as well. Before the crisis, the commissioning rate was also increasing in Lviv and Odesa Regions, but after the crisis, Kyiv Region becomes the leader, followed by Kyiv, and Ivano-Frankivsk and Lviv Regions also see higher commissioning rates in addition to Odesa Region.

Housing commissioning rates in urban settlements reveal the same leaders: Kyiv and Kyiv Region, as well as Ivano-Frankivsk, Lviv, and Odesa Regions.

## Commissioning of total area of housing by region

thousand sq. m. of total area



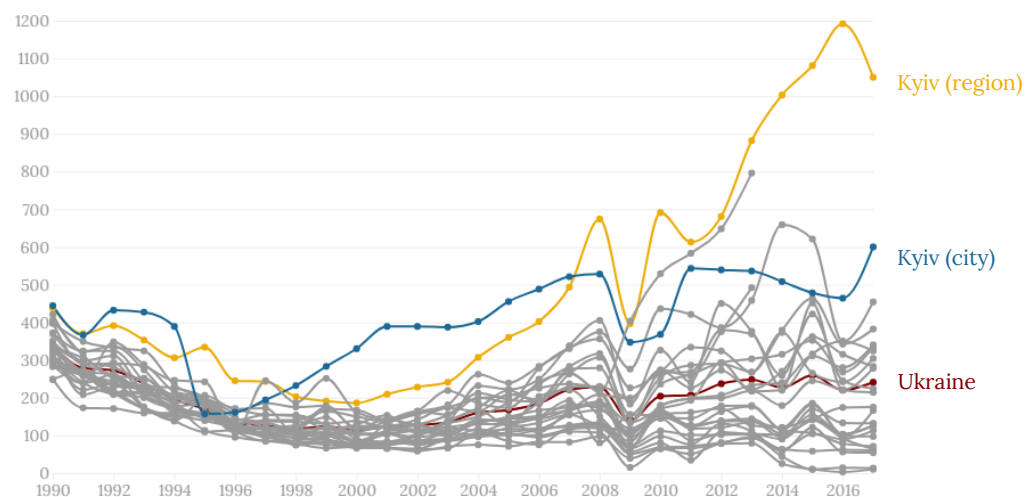
Source: State Statistics Service

The share of commissioned area in urban settlements is at 70–80% for most regions, but exceptions include not only Zakarpattia, but also Kyiv Region, where housing is built in rural settlements around Kyiv.

If we take into account the population of these regions (“commissioning of housing per 1,000 people), the undisputed leader is Kyiv Region, but also Kyiv, Sevastopol, and Ivano-Frankivsk and Odesa Regions. In 2015, the Lviv, Ternopil and Chernivtsi Regions also join the list of leaders. The numbers are the lowest in Zaporizhia, Kirovohrad, Mykolayiv, and Kherson Regions.

## Commissioning of total area of housing per region

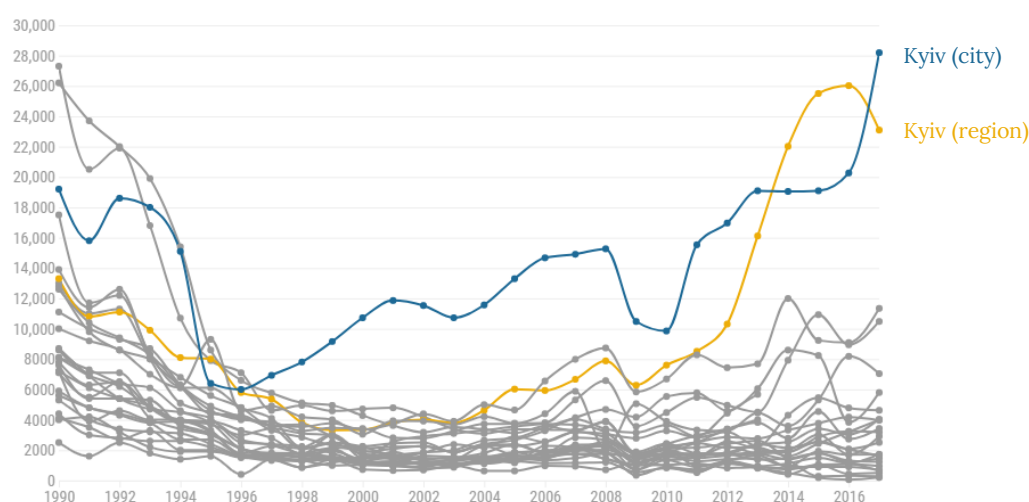
sq. m of total area per 1,000 people



Source: State Statistics Service

An analysis of the number of commissioned apartments, rather than just square meters, reveals a decrease by a factor of four in the 1990s (from 225,000 in 1991 to 62,600 in 2000). Before the crisis, the indicators rose back to 93,000–94,000 per year; in 2009, the number fell to 66,000, and since then it has grown constantly by additional 5,000–10,000 per year up to 125,000 in 2017. In the majority of regions, at least 70% of commissioned apartments are located in urban settlements; exceptions, once again, include the Kyiv Region, where less than a half of apartments in recent years have been built in urban settlements.

### Number of constructed apartments by region units



Source: State Statistics Service

The leaders include Kyiv, with the number of units there doubling between 1995 and 2000 and tripling by 2007. After the crisis in 2010, about 10,000 apartments were built here, and the number only grew thereafter—up to 28,000 in 2017. Kyiv Region started catching up with the capital a little later. Before the crisis, the number of constructed apartments also doubled in Kharkiv Region and tripled in Odesa Region; in addition, it almost doubled in Ivano-Frankivsk and Lviv Regions in the 2010s. The regions where the construction of housing units was stagnating or decreasing included Dnipropetrovsk, Zaporizhia, Kirovohrad, and Kherson Regions.



## Types of housing

The statistics of distribution of commissioned buildings by type show that the share of apartment buildings is growing. While in 2003, the ratio of single-family to apartment buildings was 3:2, the situation in 2017 was the exact opposite. We also see that the share of dormitories does not even reach 0.5%, which shows that there is no alternative to ownership or renting from private individuals anymore. In the period since 2005, almost 100 dormitories with a total area of 420,000 m<sup>2</sup> were commissioned in Ukraine. Their regional distribution is very uneven: in 2013, dormitories were built in only half of Ukraine's regions; and in 2010, 13 were commissioned in Kyiv Region.

In addition to the lack of construction of new dormitories, the total residential area of dormitories has been shrinking in all Ukrainian regions. It has shrunk by almost a third, from around 30 million m<sup>2</sup> in 1991 to less than 20 million m<sup>2</sup>. In terms of regions, it has decreased the most in Kharkiv (from 2.3 to 1.3), Dnipropetrovsk (from 2.3 to 1.6), and Zaporizhia (from 1.5 to 0.8) Regions, as well as in Crimea (from 1.5 to 0.8) and Kyiv (from 2.3 to 1.5). In general, the area of dormitories decreased by a quarter to a half in all regions. Of course, some of this housing became the private property of the residents of dormitories who used their right to privatization, but no replacement for this housing stock has been created; the state budget has funded only a miniscule number of dormitories, plus the state in general has not been an active agent of housing policy: before the crisis, it built 100,000–200,000 m<sup>2</sup> per year, and after the crisis it has been building less than 50,000, of which a lion's share has been built in Kyiv.

## Dilapidated housing stock and housing stock in the state of disrepair

The last thing we can learn about the housing stock from statistical information are the data on dilapidated housing stock and housing stock in the state of disrepair, particularly on its total area and the number of people living in it.

Compared to 1991, the area of dilapidated housing stock has at least doubled in Vinnytsia, Kyiv, Poltava, Sumy, Cherkasy,



and Chernihiv Regions. The regions with the biggest area of such housing include Dnipropetrovsk, Odesa, and Kharkiv Regions (300,000 to 500,000 m<sup>2</sup>), as well as Vinnytsia, Zhytomyr, and Poltava Regions (about 200,000 m<sup>2</sup>). The number of residents of dilapidated housing stock has decreased by a factor of four since Ukraine regained independence: from 220,000 to 60,000 in 2018. Even if we look at the latest data that include Sevastopol, Crimea, and the currently occupied areas of Donetsk and Luhansk Regions, the number of residents in 2013 was still at around 90,000, with 25,000 of them living in Dnipropetrovsk and Odesa regions.

Compared to 1991, the area of the housing stock in the state of dangerous disrepair has almost tripled, but in urban settlements it has increased by about 1.5 times (from 370,000 to over 1 million m<sup>2</sup> and from 346,000 to almost half a million in 2013). The number of residents has decreased almost by half: from 24,000 in 1991 to 15,000 in 2013. Almost all of this housing stock is located in urban settlements, which is why the characteristics for cities echo the general indicators.

What conclusions can we draw?

- The data themselves are “accounting rather than statistics” (Герасименко, 2019). The data on the housing stock should have been formed as a result of a complex audit of the housing stock and its characteristics and aggregated into registries.
- The quality of the data is questionable due to the respondents. Moreover, there is no data whatsoever for some years.
- The statistical observation indicators do not reveal anything about the effectiveness of policies, even indirectly: we have the number of constructed apartments but not their price or information on who bought them and for what.
- What the indicators show:
  - The total area of the housing stock has been growing steadily, albeit very unevenly. Interestingly, the growth is the highest both in economically strong Kyiv and Kyiv Region and in Vinnytsia, Ivano-Frankivsk, Lviv, and Ternopil Regions.
  - The increase in the number of apartments is

also uneven and similar to the changes in the area of the housing stock: the leaders also include Kyiv and Kyiv Region, Vinnytsia, Ivano-Frankivsk, Lviv, and Ternopil Regions.

- The construction of this new stock and apartments mostly takes place in cities: the share of housing commissioned in rural areas was within the range of a quarter to a half, and it started growing in the 2010s, probably due to construction on vacant lands around cities.
- Kyiv began to grow back in 1995, and in the early 2000s the region started growing with it. Before the crisis, Lviv, Odesa, and Kharkiv Regions built a lot; after the crisis, Kyiv, Ivano-Frankivsk, Lviv, and Odesa Region did.
- Commissioning of housing in these regions is even more impressive when their population is taken into account: the leaders in terms of numbers per 1,000 of population include Kyiv, Ivano-Frankivsk, Lviv, and Ternopil Regions; the numbers are the lowest in Zaporizhia, Kirovohrad, Mykolayiv, and Kherson Regions.
- The ratio of apartment buildings to single-family homes has become the opposite, from 2:3 to 3:2, and the share of dormitories is no more than 0.5%.
- The total residential area of dormitories has decreased everywhere by a quarter to a half.
- The area of dilapidated housing stock and housing stock in the state of disrepair has been growing, but also unevenly. Importantly, the number of residents of this housing has been decreasing.

## ● Housing conditions of households

To assess the housing conditions of households, we use data from the *Social and Demographic Characteristics of Households in Ukraine* collection. The collection has been published electronically since 2009; we were also able to

obtain data for our analysis for the period of 1999–2008 in response to a public request we sent to Derzhstat.

A household as a unit of observation indicates “an individual or a group of individuals who live together in one housing unit or part thereof, provide themselves with everything they need for life, have a shared economy, combine and spend their funds together in full or in part.”<sup>4</sup> These individuals can be in a family relationship or any other type of relationship.

The main source of information about the sociodemographic characteristics of households in general is the census; however, Ukraine has conducted only one 2001 census since it regained independence. During periods between censuses (and the next Nationwide Ukrainian Census is to be conducted in 2020 after multiple postponements), data on the composition of households and their characteristics are obtained by selective examination of the living conditions of households. This examination involves 3 types of data collection:

- main interview (conducted at the beginning of the examination, collects data about the general characteristics of households);
- observation of spending and income of households over three months (conducted using a weekly journal of current spending filled out by the household directly and a quarterly questionnaire used to conduct a quarterly survey of the household in the first month after the reporting quarter in order to collect data on significant and irregular spending);
- one-time thematic surveys (conducted using questionnaires during the quarterly survey to collect data, in particular, about household spending on the construction and renovation of housing and household buildings).

## State of housing and its characteristics

As of 2018, the overwhelming majority of households in Ukraine (94%) live in separate apartments (47%, mostly in cities) or detached houses (48%, mostly in rural areas), and

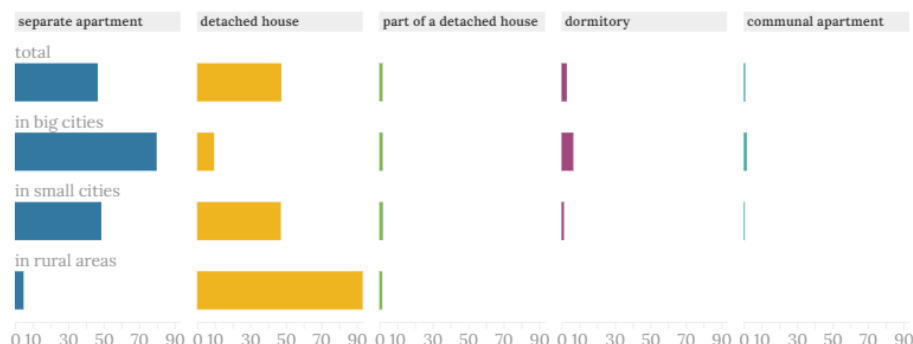
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<sup>4</sup> Statistical collection Social and Demographic Characteristics of Households in Ukraine in 2018, p. 63.

this number has remained without any significant changes over the entire period of 1999–2018.

### Where do households live?

2018



Source: State Statistics Service

The majority of households also own<sup>5</sup> the housing they live in. Since 1999, the number of households living in housing units they own has been growing, having reached 95% by 2010. In turn, the share of those who live in public housing has been steadily decreasing over these 18 years: from 18% in 1999 (20 years ago, about a third of all housing still lived in publicly owned housing in big cities<sup>6</sup>) to just 1% in 2018.

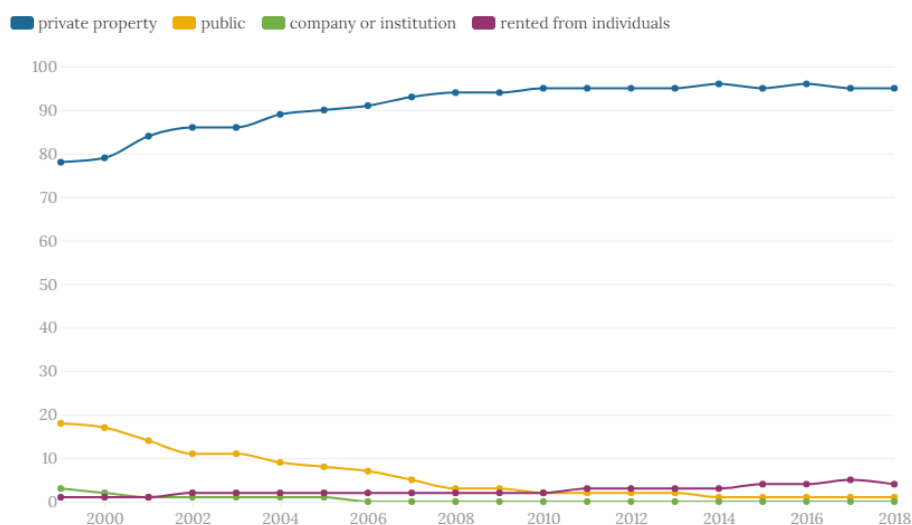
The decreasing trend also applies to the share of households living in company- and institution-owned housing. In 1999, there were 3% of such households, while by 2006 this type of housing had practically disappeared. Even though we have no data for 1992–1998, we can assume that in the previous years their number was decreasing even faster. The reason is that many government-owned companies were closing in this period, so this housing was transferred to the balance of cities or privatized.

According to Derzhstat data, only a very small share of the population, 1 to 4%, lived in housing rented from individuals in the period of 1999–2018. However, given the scale of the shadow rental market in Ukraine, the share of tenants is in fact significantly higher.

<sup>5</sup> This includes both privatized and purchased housing.

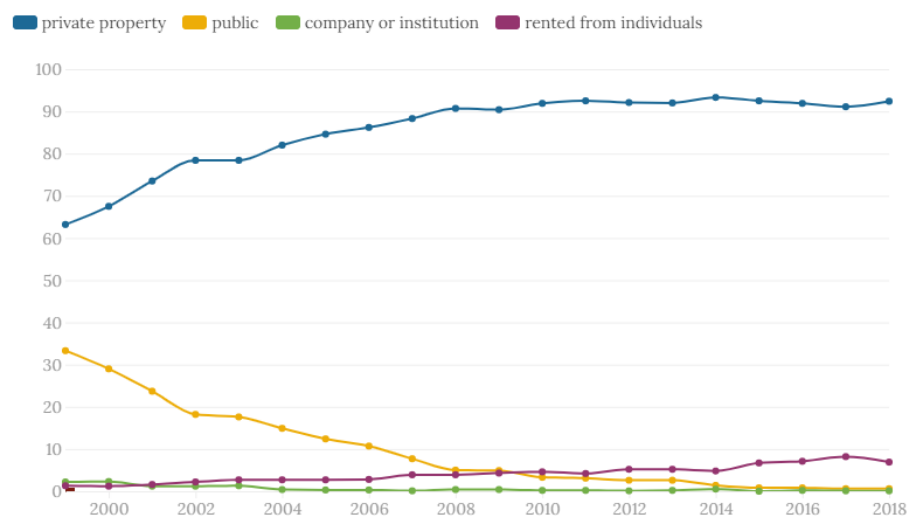
<sup>6</sup> In the selective observation of households in terms of their sociodemographic characteristics, the “big cities” category in different regions is formed by cities and city councils with populations of 100,000 or more; in turn, “small cities” are cities and city councils with populations of less than 100,000. – Statistical collection *Social and Demographic Characteristics of Households in Ukraine in 2018*, p. 68.

## Changes in the distribution of households by type of ownership, Ukraine



Source: State Statistics Service

## Changes in the distribution of households by type of ownership, big cities



Source: State Statistics Service

Dormitories were also home to 1 to 4% of the population in this period. In big cities, the share of households living in dormitories is higher than average for Ukraine at 6–7%.

One of the indicators used by Derzhstat to characterize housing conditions is overcrowding of housing. It is important to note right away how exactly this indicator is obtained. In the calculations, an individual is considered to

be a resident of overcrowded housing if they belong to a household that does not have a certain minimum of required rooms. The required minimums are the following<sup>7</sup>:

- one room for the entire household;
- one room for a couple in the household;
- one room for every individual aged 18 and above;
- one room for a pair of individuals of the same sex aged 12 to 17;
- one room for every individual aged 12 to 17 who does not belong to the previous category;
- one room for a pair of children under the age of 12.

The size of the room is not taken into account here. The reasonability of the calculation of the minimum required residential area in a number of cases for a pair of people (adults or children) rather than an individual is also questionable.

Based on this approach, more than a half of Ukraine's population (54%) live in overcrowded housing—and this indicator does not even take into account the households living in dormitories. Residents of big cities are more likely to find themselves in these housing conditions (around 62%) than residents of small cities and rural areas (a little less than a half). The share of children under the age of 18 who live in overcrowded housing is even higher at 74–76%. Among children living in big cities, the share of those who live in overcrowded housing is 10% higher than among their peers in small cities and rural areas. Since 2015 (the year when this indicator began to be calculated), the situation with overcrowding has remained practically unchanged.

Despite the impression that the scale of housing construction in some cities is unprecedented, the majority of Ukraine's population lives in buildings built in the period of mass construction of the USSR housing stock. As of 2018, two thirds of households (70%) lived in housing built in the 1960s through 1980s. Among city residents this number is 73%, and in rural areas it is 64%. This distribution has not undergone any significant changes over ten years. A little less than a quarter (19%) of households live in buildings constructed in the 1950s or earlier (the share of these

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<sup>7</sup> Statistical collection *Social and Demographic Characteristics of Households in Ukraine in 2018*, p. 79.

households is higher in rural areas at 26%, with only 16% in cities).

Twenty years ago, in 1999, 14% of all households lived in buildings constructed before the 1950s. Over 20 years, their number decreased by half and stood at 7% in 2018. As of 2018, only 11% of households lived in buildings constructed after 1991 (in 1999, their share was 1%).

Only 38% of households in 2018 lived in buildings that were thoroughly renovated in 2001 or later. In turn, a little less than a half (45%) of all Ukrainian households in 2018 lived in buildings which had never been thoroughly renovated. Their number had, of course, decreased over 16 years: back in 2002, three quarters (75%) of all households lived in such buildings. Households in big cities find themselves in this situation more often (60%) than in small cities (40%) and in rural areas (30%). In 2002<sup>8</sup>, the situation in big cities was even worse: back then, 87% (!) of households there lived in housing that had never been thoroughly renovated.

This difference can be due to the fact that in rural areas, as well as in small cities to an extent, households are much more likely to live in detached houses which, as we noted above, are their private property in most cases, owned by a single individual. Thus, renovating the house is somewhat simpler for them than for residents of apartment buildings in big cities, who face multiple bureaucratic and management procedures as well as the need to renovate shared-use areas or equipment, which is more complicated organizationally and financially.

As of 2018, 20% of all households in Ukraine still lived in housing without running water or a sewerage system, and a quarter of housing units had no baths or showers. Compared to 2005<sup>9</sup>, the number of households living in these conditions decreased by about 17 and 30%, respectively. There is a significant difference between the housing of urban and rural residents: in the latter case, only about a half of housing units are equipped with these amenities (compared to 94% in cities). However, 13 years ago the indicators for the availability of running water and sewerage systems in housing in rural areas were even lower, at 20% and 15%, respectively.

<sup>8</sup> We only have the data on the latest thorough renovation from 2002 onward.

<sup>9</sup> We only have the data on the amenities in housing units from 2005 onward.



## Satisfaction with housing conditions

More than a half of households in Ukraine (56%) in 2018<sup>10</sup> consider themselves to be satisfied or very satisfied with their housing conditions; this share is higher among city residents (61%) than among rural residents (45%). Among the latter, the number of those who are not satisfied with their housing conditions is almost twice as high: 20% versus 12% among city residents.

### Satisfaction with housing conditions

2018



Source: State Statistics Service

The share of those who are dissatisfied is the highest in Zakarpattia, where more than a third (34%) of all households are dissatisfied or very dissatisfied with their housing conditions; as well as in Vinnytsia and Cherkasy Regions (around a quarter). Households in Kyiv and Kyiv Region, as well as Odesa, Poltava, and Kharkiv regions are at the opposite end of the spectrum. In these regions, more than two thirds of households are satisfied or very satisfied with their housing conditions.

## Spending on housing purchase, renovation and construction

We have also considered how much Ukrainian households spend on purchasing, renovation, and construction of housing. In order to analyze which share of the structure of household monetary spending is dedicated to real estate purchases as well as thorough renovations and the

<sup>10</sup> Compared to 2005 (we only have the data on households' satisfaction with their housing conditions from 2005 onwards), the satisfaction with their housing conditions among households in Ukraine has increased, but only by up to 12%.



construction of housing and other buildings, we used data from the collection *Spending and Resources of Households in Ukraine*. The collection has been published electronically since 2009; we were also able to obtain data for the period of 1999–2008 in response to our public request from Derzhstat.

The statistical collection covers the data on consumer and non-consumer monetary and total spending, monetary and total spending in general, monetary income and other sources of subsistence for households in each group. This information is obtained by selective examination of the living conditions of households in Ukraine which consists of three parts:

- collection of data on the general characteristics of the household (its composition, housing conditions, ownership and use of land plots, characteristics of its members: their levels of education, employment statuses, etc.) using a basic interview at the start of the examination;
- observation of spending and income of households over three months using two instruments: 1) a weekly journal of current spending, in which households record all their spending daily and provide their detailed description; 2) a quarterly questionnaire to collect data on significant and irregular spending<sup>11</sup> as well as on household income;
- one-time thematic surveys using questionnaires during the quarterly survey.

The share of spending on real estate purchases as well as thorough renovation and construction of housing in the general structure of monetary spending of households in Ukraine was insignificant in the period for which we have the data, 1999–2018, and did not exceed 2% of the total monetary spending. The dynamics of spending on real estate purchases is more uneven and characterized by significant fluctuations. The peak of real estate spending was in 2001 at 2.1%. The share of spending on renovation and construction was the highest just before the crisis, in 2008, constituting 1.6% of the total spending.

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<sup>11</sup> Households are evenly distributed into rotation groups which keep the journals on different weeks of each quarter. The data from them is multiplied by 6.5 (the number of weeks in a quarter, 13, divided by the number of weeks when the journals are kept, 2). This approach is based on the assumption that these two weeks of journal-keeping are typical for the entire quarter.

At the same time, the share of households that report during the examination that they spent any money whatsoever on thorough renovation or construction of housing as well as on purchasing real estate has remained rather small in Ukraine over 20 years. In the case of purchasing real estate, the share does not exceed 1% throughout the entire period of 1999–2018. In turn, the share of households that reported any spending on thorough renovations or construction has been gradually growing from 1.4% in 1999 to the maximum share of 6.5% in 2008. After the economic crisis, their share began to decrease and fell below its 1999 level in 2018, when only 0.7% of Ukrainian households reported this type of spending.

The structure of spending differs significantly between households in urban and rural areas. Among urban households, the share of spending on real estate purchases is higher on average, while in rural areas the share of spending on thorough renovation and construction of housing is much higher.

The lack of clear public housing policy goals means that the data about the housing sphere is also hardly collected or analyzed. This, in turn, creates difficulties while analyzing and evaluating the effectiveness of the current policy and developing potential recommendations. The existing publications about the housing stock, housing construction, and the population's housing conditions do not allow us to understand either the population's housing needs or the changes in the housing supply. As of today, Ukraine does not have a unified registry of individuals who need to improve their housing conditions.

## Chapter 4.2 ● Government housing programs of Derzhmolodzhytlo

The State Specialized Financial Institution “State Fund for Facilitating Housing Construction for the Youth” (hereafter referred to as Derzhmolodzhytlo) is a government organization managed by the Minregion whose goal is to help conduct the government housing policy, particularly by implementing government housing programs. Its central and regional offices work to provide for central and local government housing programs for the construction and purchase of housing.

This organization was initiated by the Association of Youth Housing Complexes back in 1991 as the Ukrainian Fund for Youth Housing Construction and originally aimed to provide targeted financial aid to youth construction companies and cooperatives that build housing for the youth. However, the Fund was soon transformed into a public institution which came under the management of the Ministry of Youth and Sports. From that moment on, the Fund began to manage discount loan provision for young families to build or purchase housing, departing from its initial goals.

Throughout the period of Derzhmolodzhytlo’s existence, the institution has been implementing various government housing programs. One of the characteristics of its work is its exclusive orientation towards supporting ownership of housing.

### ● Discount loans for the youth

The first program implemented by the Fund, Discount Loans for the Youth Funded by the State Budget, which began in 1998 (CMU Decree 1352 “On additional measures to implement the youth housing policy” of December 3, 1997; and later CMU Decree 584 “On the procedure for providing discount long-term loans to young families and single young individuals for the construction (reconstruction) and purchase of housing” of May 29, 2001). The program later became a part of the State Program for the Provision of Housing for the Youth for 2002–2012 (CMU Decree 1089 of

July 29, 2002), and then for 2013–2017 (CMU Decree 967 of October 24, 2012).

The program involves providing discount loans for the construction/purchase of housing using funds from the state budget. The loans are provided for the period of up to 30 years, and the area of housing is calculated as the norm of 21 m<sup>2</sup> per family member and additional 20 m<sup>2</sup> for the family. The price of the housing must not exceed the average cost of construction of a housing unit for the region. The down payment must be at least 6%, and the size of payments depends on the number of children: the annual interest rate for using the loan is 3% for borrowers without children; the interest is canceled for those who have one child; a second child makes a family entitled to cancellation of a quarter of the amount of the loan; a third child allows a family to cancel a half of the loan.<sup>12</sup> The opportunity to obtain such a loan depends on the potential borrowers' position in the ranking system. This program was funded both from the state budget and from local budgets (and since 2009 also from Derzhmolodzhytlo's own funds, its authorized capital); however, it has not been funded from the state budget since 2015 due to budget austerity.

As a result of the program, almost 13,000 apartments were provided since it became active, of which almost 10,000 were provided before 2009. In particular, in the years before the crisis (2000–2005), at least a thousand apartments were realized every year; but as the increase of housing prices accelerated, even with a certain cut to funding, the number of apartments decreased to about 600. In 2008, with funding at the same level as in 2005, 486 apartments were received, in contrast to 1,089 apartments in 2005. In total, in the period of 1998–2018, about UAH 2 billion were used from the state and local budgets, as well as another 400 million from the Fund's authorized capital.

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<sup>12</sup> Interestingly, Derzhmolodzhytlo's reports for 2005 and 2006 emphasized claims about the program's "pronatal orientation": "the program emphasizes solving the demographic problem which is very acute in Ukraine," "the program has a powerful demographic effect," "on average, every family that received housing via the state program had at least one additional child."

## ● Partial compensation of interest rates

The next program was implemented in 2003, and it could have been viewed as a mechanism for engaging non-budget funding to finance the construction/purchase of housing (CMU Decree 853 of June 4, 2003). It provided partial compensation of the interest rates of commercial banks: the borrowers only paid the difference between the bank rate and the National Bank's discount rate.<sup>13</sup>

The Derzhmolodzhytlo report for 2006 notes that “we should note the *innovative nature* and *effectiveness* [of the program], which has significantly expanded opportunities for young citizens to receive their first housing. [...] De facto, within the two years (late 2003–2005) of project implementation, the Fund has provided over 17,000 loans to young families with partial compensation of the interest rate.” Indeed, while the state budget spent UAH 26.5 million, almost two (1.84) billion of banks' financial resources were engaged. However, already in 2009 the programme ceased to exist, and the report for 2010 remarked that “the program [...] proved to be an ineffective mechanism for providing housing to the youth”: “the seemingly positive result [...] is negated by the need for constant spending from the budget over 15–20 years to pay the compensation.” The compensation debt for 2009 was repaid as late as 2012. Since the borrowers who used the program relied on these compensations, essentially they had to either deposit bigger payment amounts on their own or risk their housing if the terms of their mortgage contract are not met. In 2015, the programme created the need to increase budget funding once again due to the rapid increase of currency exchange rates and an increase in the National Bank's discount rate.

In the period of its operation in 2003–2009, the programme allowed people to receive almost 18,000 housing units, and in total it cost a little over 1 billion hryvnias as well, of which just 413 million was spent during the “active period,” while the rest was a result of further servicing of existing contracts. 2005 was the peak year for it: the number of apartments that year was 15,800, and the total amount of credit funding reached UAH 1.7 billion. Even in 2008, when

<sup>13</sup> In 2005, when the majority of the loans, 15,800 out of 17,885, were issued, the discount rate was 9% until August and 9.5% afterwards.

the prices were the highest, the program still received UAH 100 million of funding, which funded 675 apartments.

## ● Affordable housing

Another housing program developed as a part of implementing the State Program for Providing the Population with Affordable Housing in 2010–2017; it was titled the State Program for the Construction (Purchase) of Affordable Housing (a.k.a. the Affordable Housing Program). In essence, the program participants received support to make housing cheaper for them in the form of a government subsidy in the amount of 30% of the normative price of the housing unit. The income of the potential participants could not exceed the triple amount of the average salary in their region. In the last years, IDPs and ATO participants also became entitled to participate in the program, and for them the subsidy reached 50%. De facto the program supported those who were able to afford housing anyway, so it can be seen as socially unjust. For example, during the first year of the program, there were more participants in Kyiv (over 225) than in all the other regions combined—both because the population is more well-off here and because the local government increased the government support to 50% using funds from the city budget. In total, the plan was to allocate about UAH 1 billion from the state budget throughout the program's validity, but only a little more than a half of this amount was used. The population invested another UAH 1.5 billion, which served to provide a little more than 4,000 apartments.

## ● Loans from authorized capital

The next program was a consequence of the accumulation of funding in the Fund and took the shape of providing loans funded by its authorized capital (CMU Decree 488 of May 11, 2011). It involved loans in the amount that covered the indirect cost of construction of a housing unit with the area of 21 m<sup>2</sup> per individual and an additional 10.5 m<sup>2</sup> per family. The interest rate was the National Bank's discount rate at the moment when the decision was made to provide such a loan. The income of the potential participants must be



sufficient so that the remaining amount of their average monthly income after paying the monthly installment does not fall below the triple amount of the subsistence wage per each working individual in the family. Essentially the program was an attempt to resume lending to young families, but not based on discount interest rates (3%), but rather based on the “value of money” (the National Bank’s interest rate) in the country in general.

## ● Lowering the cost of loans

In 2012, a program was implemented which resembled “partial compensation” and was supposed to make mortgage loans cheaper (CMU Decree 343 of April 24, 2012). The participants of this program had the opportunity to receive a mortgage loan from a commercial bank to purchase housing, and pay interest for it with the annual interest rate of 3%. The decision about whether to issue a loan was up to the bank, and the government was responsible for compensating the difference between the “actual” rate and 3%—but no more than 13% for up to 15 years from the moment when the contract is signed. This program also subsidized those who already had money: the monthly payment for the loan after accounting for the compensation was not supposed to exceed 40% of the family’s total income. This program processed UAH 400 million during the period of its activity, and about the same amount of funding was engaged from citizens, providing 3,500 apartments.

Throughout the period of its activity, the Fund implemented various programs, but all of them had one thing in common: they funded the ownership of housing—either the cost of housing directly or the cost of servicing a loan to purchase it. In 2018–2019, there was an attempt to develop a bill “On rental buildings,” but up until now the Fund’s operations are focused on subsidizing the ownership of housing.

The programs were evaluated in 2012 by Oleh Biloovsky, an expert of the National Institute for Strategic Research, who wrote that these Derzhmolodzhytlo housing programs were

ineffective both economically and socially (Більовський, 2012).

## Chapter 4.3 ● Findings of a survey on housing conditions and attitudes towards the government housing policy

As a part of a complex analysis, the Cedos Think Tank also commissioned a survey to learn about the housing conditions which Ukrainians live in and about their attitudes towards the government housing policy. The survey was conducted by Info Sapiens, and its findings were analyzed by Cedos. This chapter describes the key findings of the survey.

### Survey information

The survey was conducted on June 15–July 17, 2019.

**The method** used was pen-and-paper personal interviewing (PAPI).

**Survey sample:** 2,500 residents of Ukrainian cities with a population of 100,000 or above, aged 18 or older. The sample is representative by sex, age, region, and size of settlement for the population of Ukraine aged 18 or older that lives in cities with a population of 100,000 or above. The theoretical margin of error for the sample is up to 2.0% with the probability of 0.95%.

**Data control:** 18% of the sample was verified using quality assurance procedures.

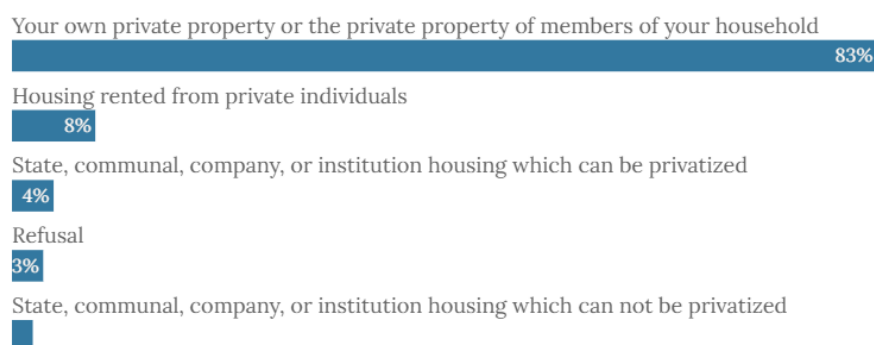
Using telephone control (the respondents' phone numbers were recorded in the form during interviews), quality assurance managers verified the fact of conducting the interview and its length, the correctness of filling out the form (by comparing answers to control questions). In particular, 100% of the sample was verified using the specialized Info Sapiens software which selects suspicious



forms. In addition, QA checked for duplication of the respondents' phone numbers.

## ● Housing conditions

### Who owns the housing unit which you live in?



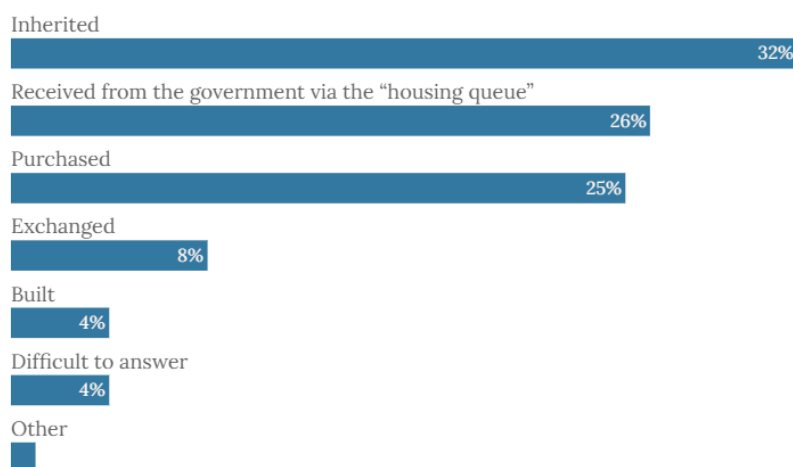
Note: “Who owns the housing unit which you live in?”, N=2500

If we focus on the cities with populations over 500,000, the share of renters is the highest in Zaporizhia, Kharkiv, Lviv, and Mykolayiv. However, it should be noted that the relatively low share of the rental sector in Kyiv (8%) can be associated with the high share (12%, see Annex 1, Table 1.2) of refusals to answer the question about the form of housing ownership here.

Among those whose housing is their property, a third (32%) inherited it, 26% received it from the government via the “housing queue,” and 25% purchased the housing. Among those who bought their housing, only 4% used a mortgage, a loan, or payment in installments (Annex 1, Table 1.4).

Among those who live in housing received from the government, the share of households with incomes lower than UAH 10,000 is higher. Those who bought their housing have somewhat higher incomes on average than those who received it from the government (Annex 1, Table 1.6); however, the share of refusals to answer about their household income is very high in this category (39%).

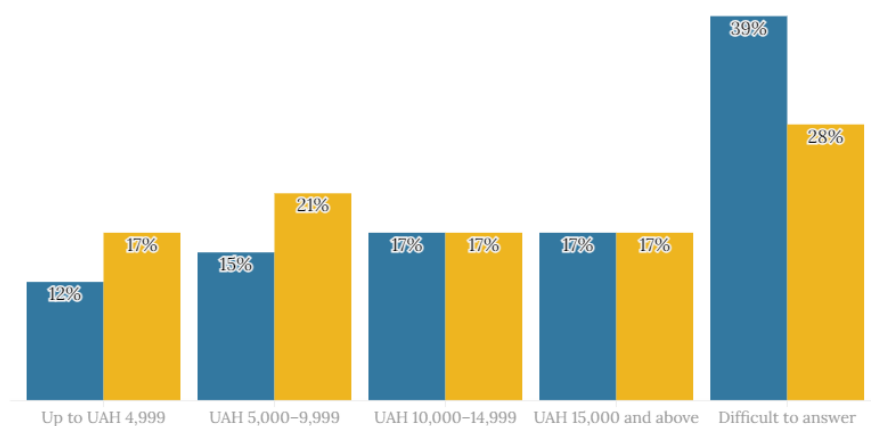
## How did your household obtain the housing you currently live in?



Note: "How did your household obtain the housing you currently live in?", N=2078

## If you combine all the income and monetary revenue of all members of your household per 1 month, which income group does your household belong to?

Purchased or received from the government?



Note: "If you combine all the income and monetary revenue of all members of your household per 1 month, which income group does your household belong to?", purchased: N=397, received from the government: N=1209

If we compare incomes in terms of what households can afford rather than in nominal values, among those who received housing from the government, the share of households which cannot even afford food is higher than among those who live in housing they bought (8% versus 3%, Annex 1, Tables 1.8–1.9). The share of those who can afford food but not clothing is also higher in this category (26% versus 21%).

Among those who live in purchased housing, the share of those who can afford “household appliances and other expensive goods but not a car or an apartment” is almost twice as high as among those who live in housing received from the government (17% versus 9%), but only 1% (!) of them replied that they can afford to buy a car or other goods of similar value.

More than a third of the surveyed (35%) have lived in their current housing for 30 or more years. 25% have lived in it since 1991–2000, and 22% since 2001–2010. Another 18% have lived in their current housing only for the past 8 years.

### Since what year have you lived in this housing?



Note: “Since what year have you lived in this housing?”, N=2245

Among those who moved into their current housing relatively recently, within the past 19 years (2001–2019), 40% bought the housing (of whom only 7% used a mortgage, a loan, or payment in installments), and a third (32%) inherited it (Annex 1, Table 1.15). Among the households that moved into their housing since 2001, 23% have total monthly income over UAH 15,000. Meanwhile, among the households that moved into their housing earlier, only 14% have this level of income (Annex 1, Table 1.16).

The majority of households live in apartments with an area in the range of 31–50 m<sup>2</sup> (41%) or 51–70 m<sup>2</sup> (36%). Only 10% live in housing with an area over 71 m<sup>2</sup>. Notably, among those who live in housing with a large meterage (70 m<sup>2</sup> or more), 15% are not always able to afford to buy clothes, and 2% are not always able to afford food (Annex 1, Table 1.20).

42% of the surveyed live in a housing unit with two rooms (excluding the kitchen and the bathroom), a third (32%) have three rooms, and another 18% live in single-room homes; 5% live in housing units with 4–6 rooms (Annex 1, Table 1.21). 27% of those who live in three-room apartments live there alone or with just one other person, and a third of those who live in apartments with 4–6 rooms live there alone or with just one other person (Annex 1, Table 1.22–1.23). Among those who live in three-room homes, a quarter (25%) are not always able to afford clothes, and 7% are not always able to

afford even food; the numbers are similar for households with 4–6 rooms at 28% and 3%, respectively (Annex 1, Table 1.24–1.25).

A little more than a half (52%) spend up to 30% of their total monthly household income to pay for utilities, and a third spend 30% to 50%. Another 15% of the surveyed spend 50% or more of their total monthly household income to pay utility fees. The highest share of income is spent to pay for utilities by those who live alone (in this category, 21% spend over 50% of their monthly income to pay utility fees), especially elderly people who live alone, among whom almost a third (28%) spend more than 50% of their monthly income on utilities (Annex 1, Table 1.27 – 1.28).

The share of spending on utility fees also differs among households with different levels of income and monetary revenue.

For instance, among the respondents from households whose monthly income exceeds UAH 15,000, the share of those whose spending on utility fees is up to 20% of their household income is the highest at 34% (Annex 1, Table 1.29). Meanwhile, households with incomes below UAH 5,000 find themselves in the opposite situation: 38% of them spend 30% to 50% of their monthly income, and 16% spend a half of their income or more. The share of such households is the lowest in Kyiv at just 5% (Annex 1, Table 1.30); instead, the share of those who spend up to 20% of their income on utilities is higher in Kyiv (34%).

As a part of the survey, the respondents were also asked to evaluate their satisfaction with the housing conditions their households live in: the area of their housing, the condition of their apartment and the number of rooms in it, and the condition and location of their building. Based on the evaluations of these characteristics, we also calculated an aggregated index of satisfaction with housing conditions,<sup>14</sup> which was 3.7 for the whole sample. No significant

<sup>14</sup> The index is calculated on the basis of indicators: "Please evaluate the extent to which you are satisfied with the following characteristics of the housing unit you currently live in, on a scale of 1 to 5 where 1 is 'very dissatisfied' and 5 is 'absolutely satisfied': area of housing; number of rooms; condition of apartment; type of building (Stalinka, Khrushchovka, etc.); condition of building; location of building." All indicators had the same weight in our calculations. Cronbach's alpha for the reliability of the aggregated scale is 0.87, which signifies sufficient internal consistency of the 6 indicators for describing the concept of satisfaction with housing.

difference was discovered between residents of different cities, nor between respondents who have lived in their current housing for only the past 20 years versus those who have lived in their current housing for longer.

As for satisfaction with specific aspects, the satisfaction rate is the highest for building location: 81% are rather or absolutely satisfied with it; the share of those who are satisfied with this aspect is the lowest in Kyiv (71%) (Annex 1, Table 1.32 and 1.33). The satisfaction level is the lowest in the case of the condition of buildings: only a half (53%) are rather or absolutely satisfied with it.

**Please evaluate the extent to which you are satisfied with the following characteristics of the housing unit you currently live in**



Note: "Please evaluate the extent to which you are satisfied with the following characteristics of the housing unit you currently live in, on a scale of 1 to 5 where 1 is 'very dissatisfied' and 5 is 'absolutely satisfied': area of housing; number of rooms; condition of apartment; type of building (Stalinka, Khrushchovka, etc.); condition of building; location of building," N=2500

No significant differences in terms of satisfaction with specific characteristics of housing were discovered between those who moved into their current housing before 2000 and those who moved in later (Annex 1, Table 1.34 and 1.35). However, what really does affect the evaluation of satisfaction with housing is the number of cohabitators. The aggregated index of satisfaction with housing characteristics consistently decreases as the number of people living in a housing unit increases: from 3.75 for residents of households with 1–3 members to 3.3 for residents of households with 6 or more members.

Thus, the level of dissatisfaction with practically all characteristics of housing grows as the number of its residents increases. The most revealing is the evaluation of meterage: the share of respondents who are rather or very dissatisfied with the area of their housing almost doubles as the size of their household increases by 1-2 people.

It is no wonder that the number of residents in a housing unit also significantly affects the satisfaction with the number of rooms. Less than a half (44%) among households of 6 or more people are satisfied with this number, compared to 70% among households of 1-3 people. Among those who are satisfied with the number of rooms, 42% live in two-room apartments, 39% live in three-room apartments, and only 11% live in single-room apartments (Annex 1, Table 1.42).

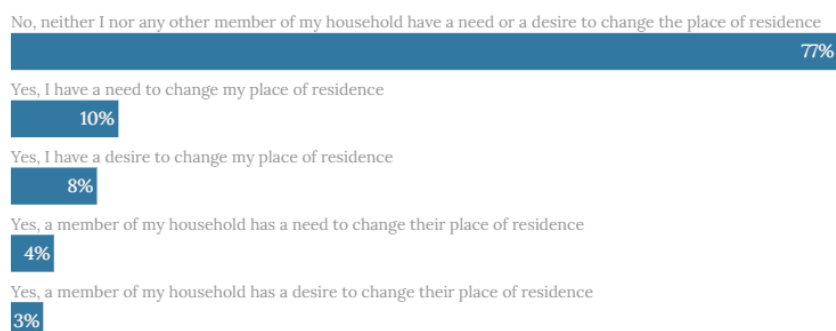
Somewhat unexpectedly, those who live in bigger households were more likely to say that they were dissatisfied with the conditions of the building itself in which their apartment was located.

## ● Changing the place of residence

Dissatisfaction with housing conditions can, under certain circumstances, encourage people to change their place of residence. According to the results of the survey, the majority of the respondents—77%—generally say that neither they nor other members of their households have a need or a desire to do that.

If we look at the residential conditions of these 77%, we will see that the majority of them (80%) live in apartments with average area (31-70 m<sup>2</sup>), another 11% live in bigger apartments (71 m<sup>2</sup> and more), and only 9% live in apartments with an area of up to 30 m<sup>2</sup>.

## Do you or another member of your household have a need or a desire to change your place of residence?



Note: "Do you or another member of your household have a need or a desire to change your place of residence?", N=2500

Focusing on the three housing characteristics which the respondents are the most dissatisfied with—specifically the condition of the building, the number of rooms, and the area of housing—we can see that dissatisfaction with the condition of the building is the weakest motivator to move. 60% of those who are dissatisfied with it have neither a need nor a desire to move (Annex 1, Table 2.4). In turn, among those who are dissatisfied with the number of apartments or the area of their housing, only 41% do not need and do not want to move (Annex 1, Table 2.2–2.3), while 26% of them have a need and 22% have a desire to change their place of residence.

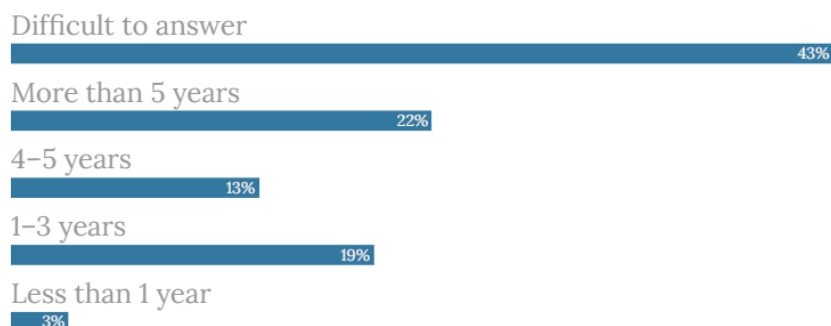
The desire to move is also affected by the number of people who live in a household. For instance, 82% of the respondents who live in small households of 1–3 people stated that they or members of their household had no desire or need to move (Annex 1, Table 2.5). In turn, this sentiment is shared by only around a half of that fraction—44%—in households with 6 or more members. Meanwhile, the desire to change their place of residence is stronger among those who live in bigger households: 18% report a desire to move in households with 6 or more members, while only 7% report a similar desire among those who live alone or with 1–2 other people (Annex 1, Table 2.6). Similarly, the share of those who report a need to move grows with any increase in the number of cohabitators (Annex 1, Table 2.7).

Among those who have a need to change their place of residence, more than a third have felt it for over 5 years (Annex 1, Table 2.10). Almost a half of the respondents (43%) found it difficult to answer the question about how much time needed to pass for them or any member of their



household to be able to move. Another 35% will need 4 or more years to do it.

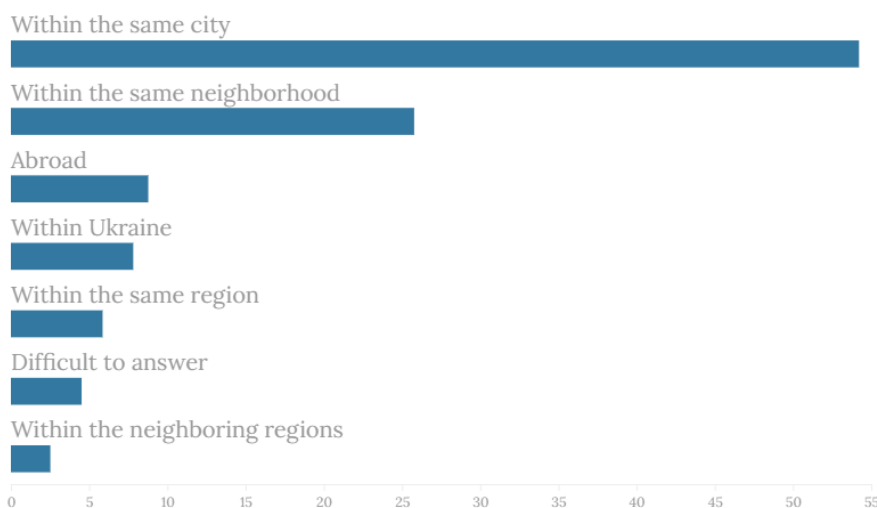
### How much time has to pass for you or members of your household to be able to change your place of residence?



Note: "In your opinion, how much time has to pass for you or members of your household to be able to change your place of residence? Please assess it at least approximately", N=574

Among those who are thinking about changing their place of residence, a half (54%) do not intend to leave their city, and a quarter (26%) do not even intend to leave their neighborhood.

### Readiness to move



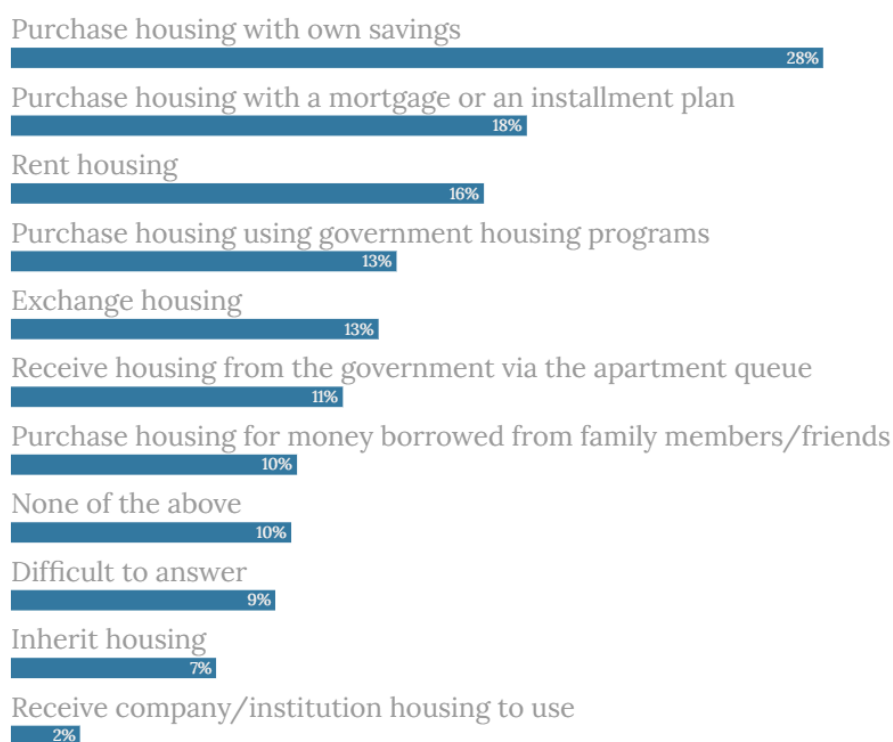
Note: "Which options for moving do you or members of your household consider? Please pick all the options that apply", N=574

Changing the place of residence involves certain options to choose from. More than two thirds of the respondents (68%) hope to change it by buying their own housing, with a third (28%) relying on their own savings to do that, and another 10% planning to borrow money from their family or friends; 18% believe it is realistic for them to buy housing by taking a mortgage or an installment plan, and 13% wish to use



government housing programs. In turn, 16% of the respondents are considering the option of renting, and 11% look at the option of receiving housing from the government via the apartment queue. Among those who consider it likely that they will purchase housing using housing programs or receive housing from the government, the share of those for whom it is difficult to answer how much time they would need to be able to change their place of residence are the highest at 46% and 68%, respectively (Annex 1, Table 2.14-2.15).

### Ways of changing one's place of residence



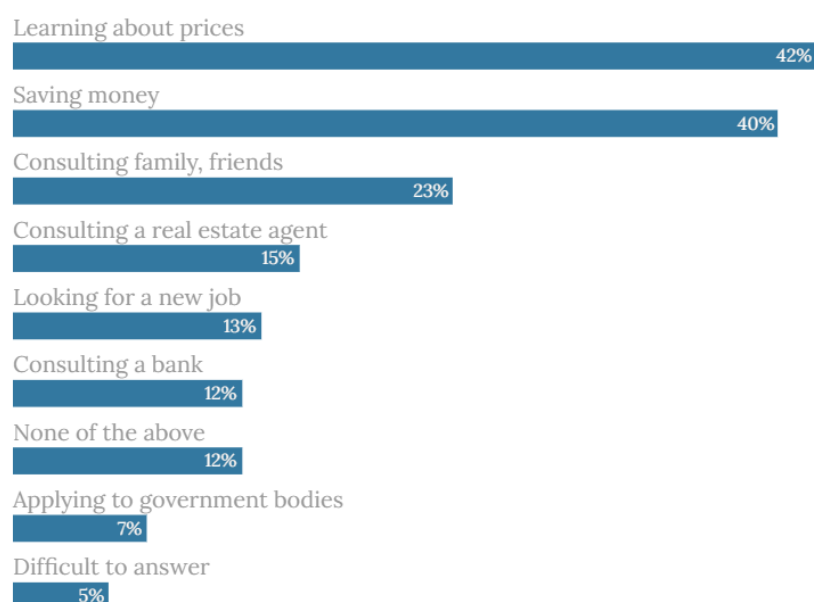
Note: "Which options for changing your place of residence do you or members of your household consider to be realistic for yourselves in the nearest 10 years, provided that your household income and the situation on the housing market will be stable? Pick no more than three", N=574

27% of the respondents answered that they knew someone who had received housing from the government. Interestingly, among the respondents who know such people, the share of those who consider it realistic to receive housing from the government via government housing programs or the "housing queue" is not higher (which would be expected) but rather lower than average across the sample, at 5% and 4%, respectively (Annex 1, Table 2.26).

When it comes to real steps possibly taken by the respondents to change their place of residence, rather than

abstract plans, the most widespread actions are: saving money (40%), looking for information about housing prices (42%) and consulting (51%).

### Measures to change one's place of residence



Note: "What have you or members of your household already done or been doing in order to change your place of residence?", N=574

The main factor that prevents those who need or want to move from doing so is lack of money (89%). Another quarter find that the lack of a suitable option on the housing market is a rather or very considerable obstacle. 18% cannot move due to the need to live together with their family.

Moving can also entail certain life changes; the need to change their job is seen as the biggest obstacle among them (17%). The need to change their usual way of life stops 12%, changing their children's school is a reason not to move for 9%. Lack of time prevents another 12% of the respondents from moving.

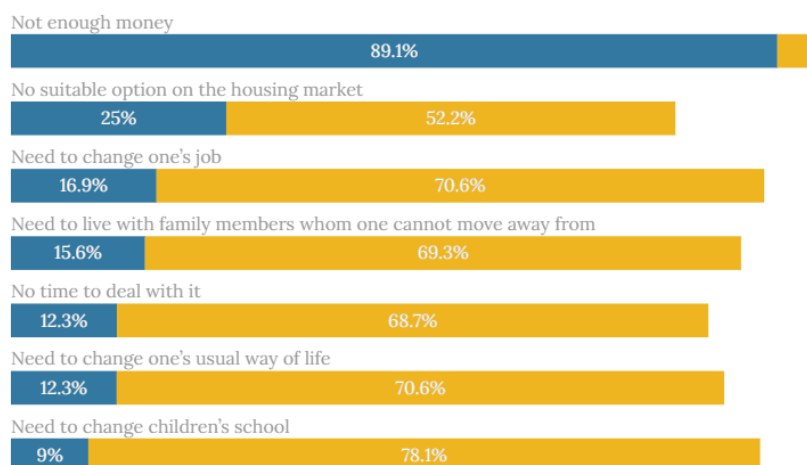
Men are somewhat more (by 5–6% on average) restrained than women by the need to live with family members whom they cannot move away from, as well as by the need to change their usual way of life (Annex 1, Table 2.35–2.36).

If we look at how the obstacles to moving change with increases in the household income, we can draw the following conclusions. The need to change one's usual way of life due to moving concerns all groups of households by income almost equally (Annex 1, Table 2.41). Surprisingly, lack

of money also prevents both poorer and wealthier households from moving: lack of money is an obstacle for 93% of households with the lowest income (up to UAH 4,999 per month) and for 85% of households with the highest income (UAH 15,000 and more per month; Annex 1, Table 2.37).

### Obstacles to changing one's place of residence

Rather or completely agree, absolutely or rather disagree



Note: "Please evaluate on a scale of 1 to 5 to what extent you agree with the following statements, where 1 is 'absolutely disagree' and 5 is 'completely agree'"

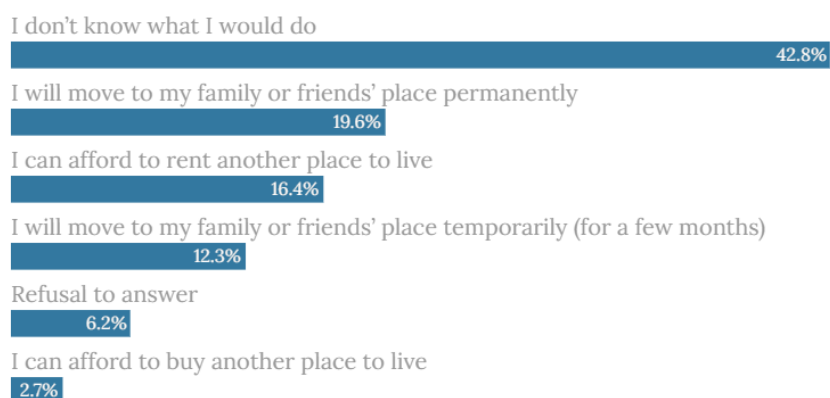
Note: We have eliminated the option "Difficult to say, both agree and not" from the calculation and combined "Completely agree" with "Rather agree" and "Rather disagree" with "Absolutely disagree."

However, the share of those who lacked a suitable option on the housing market was lower by almost a half among the wealthiest respondents (19% versus 36% among households with income of up to UAH 4,999; Annex 1, Table 2.38). There is also a rather significant difference in the case of changing children's schools and lack of time: households with a monthly income of 15,000 or more are twice as likely to view these factors as obstacles to moving than households with an income of up to UAH 4,999 (23% versus 11% and 13% versus 7%; Annex 1, Table 2.43, 2.40).

In addition, respondents from lower-income households are somewhat more likely to say that they are prevented from moving by their inability to leave family members whom they have to live with, while higher-income households find the need to change their jobs to be a bigger obstacle (Annex 1, Table 2.35, 2.42).

Sometimes changing one's place of residence can also be involuntary. Almost a half of the surveyed (43%) do not know at all what they would do and where they would live if they lost the housing they currently live in. Almost one fifth (22%) hope to find shelter with their family or friends, another 16% will be able to rent another place, and only 3% will be able to buy it.

### Where to look for shelter?



Note: "In your opinion, what would you do if you lost the housing you currently live in?", N=2500

Among those who will be able to purchase housing if they lose their current place, the majority (74%) live in Kyiv and the four biggest cities: Kharkiv, Odesa, Dnipro, Lviv, and Zaporizhia (Annex 1, Table 2.45). Buying new housing in case of losing their current place is mostly an option for wealthier households: 44% of them have an average monthly income of UAH 15,000 and more (Annex 1, Table 2.46).

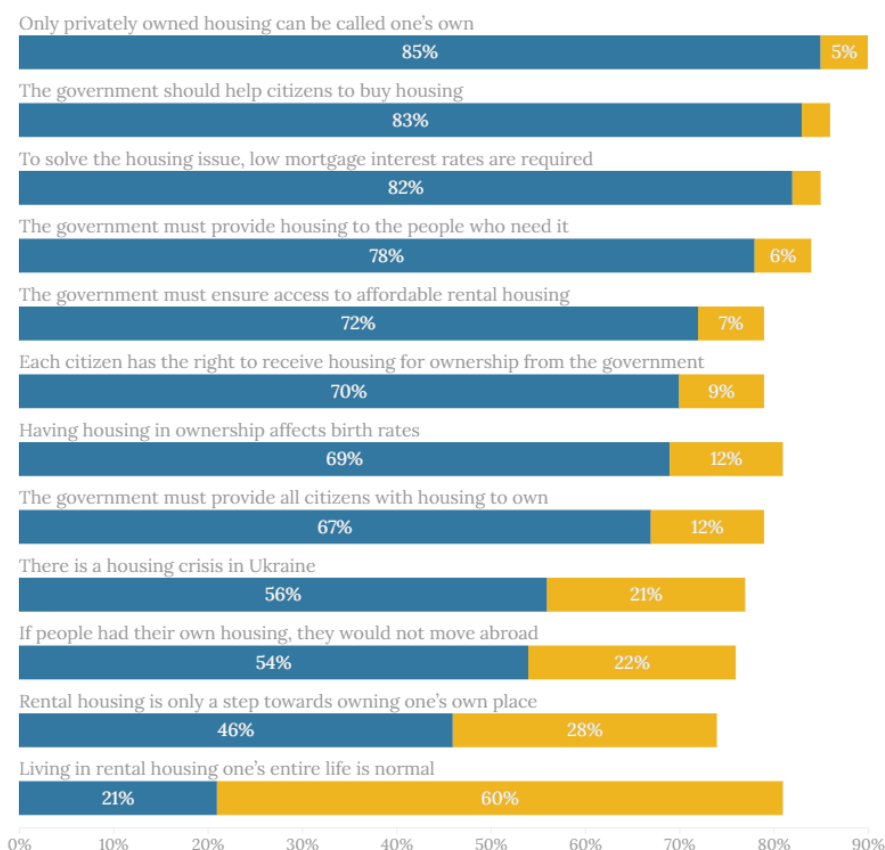
## ● Attitudes towards the government housing policy

We also included a number of questions about attitudes towards the government housing policy and housing programs in the survey. In general, the survey demonstrated that there are high expectations in society regarding the government's participation in housing provision. Support for the government's responsibility in all the statements that evaluated it was never lower than two thirds; in some aspects, the overwhelming majority considered the government to be responsible. For instance, 83% of the

respondents rather and completely agreed that the government should help citizens to buy housing.

### To what extent do you agree with the following statements?

Rather or completely agree, absolutely or rather disagree



Note: "Please evaluate on a scale of 1 to 5 to what extent you agree with the following statements, where 1 is 'absolutely disagree' and 5 is 'completely agree'", N=2500

Note: We have eliminated the option "Difficult to say, both agree and not" from the calculation and combined "Completely agree" with "Rather agree" and "Rather disagree" with "Absolutely disagree."

It is important to highlight the strong support for private ownership of housing. The overwhelming majority (85%) is convinced that only privately owned housing can be called one's own, and 67% believe that the government in particular is supposed to provide housing for ownership (and 70% are convinced that this right belongs to everyone).

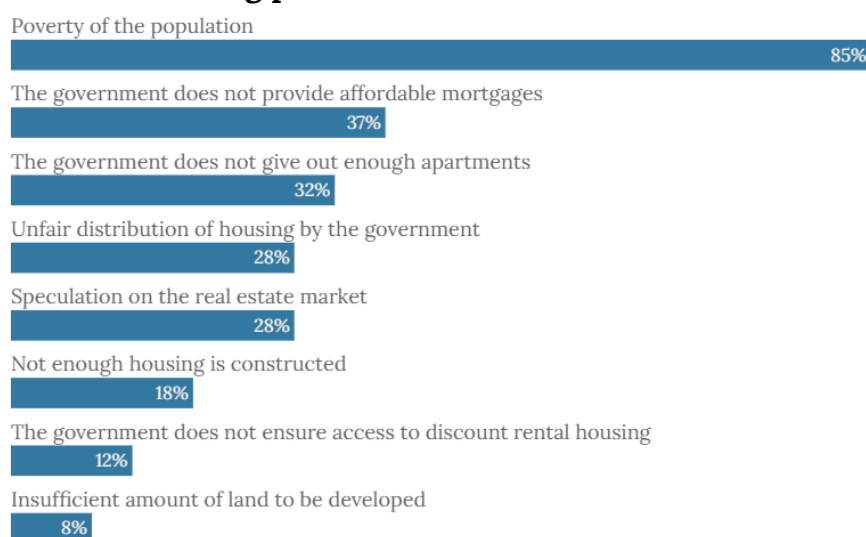
Most respondents consider purchasing housing as property to be the way to solve the housing issue. 82% believe that it could be solved with low mortgage interest rates. However, almost a quarter of the respondents also see a different way: 21% are convinced that it is completely normal to live one's entire life in rental housing. In general across the sample,

72% believe that ensuring affordable rents is the government's task.

No considerable differences in views depending on age, income, or education level were discovered.

The population's housing needs are most associated with its poverty—this is the opinion shared by 85% of the respondents. Two thirds (61%) believe that unfair and insufficient distribution of housing by the government plays an important role. Only 12% associate the population's housing problems with the fact that the government does not ensure access to discount rental housing.

### Causes of housing problems



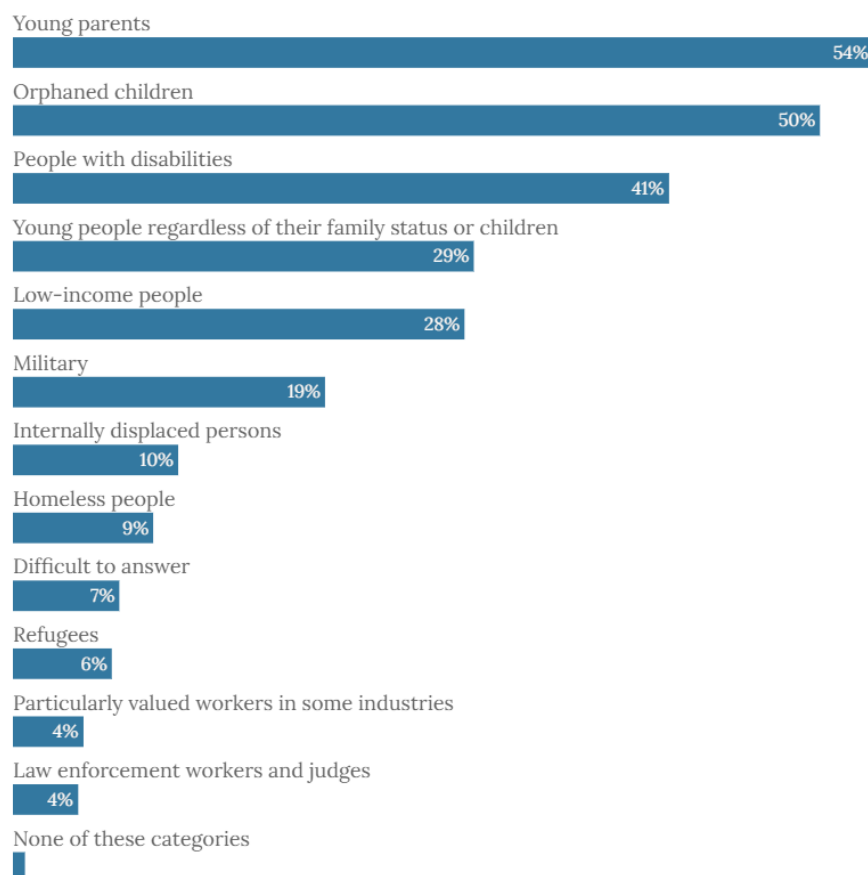
Note: "In your opinion, which aspects affect whether the population's property needs are met the most? Pick up to three aspects", N=2500

According to a half of the respondents, the key category which government housing provision programs must target are orphaned children; according to 54%, it should be young people with children. Another third (28%) believes that these programs should primarily target young people in general. Among socially vulnerable population groups, people with disabilities and low-income people have the highest support: 41% and 28% of the respondents, respectively, support prioritization of these categories in government housing programs.

Paradoxically, only 9% consider the homeless—people who have no place to live—to be a category which should be targeted by government housing programs. The share of those who support this belief is somewhat higher among people with an income of UAH 15,000 or more (Annex 1,

Table 3.9). The attitude towards refugees and IDPs is similar, even though the unsolved housing issue is one of the most urgent problems for IDPs.<sup>15</sup>

### Target groups of housing policy



Note: “In your opinion, which categories of people should be primarily targeted by government housing provision programs? Pick up to three options”, N=2500

Those who live in households which include children are somewhat more likely to prioritize young people with children: 59% of them believe that young people with children are the priority group for government housing

<sup>15</sup> The study on [Contemporary Ukrainian Internally Displaced People: Main Causes, Strategies of Moving and Problems with Adaptation](#), conducted in autumn 2014 and led by Oksana Mikheyeva, demonstrated that most IDPs expected solutions for their housing problems as the main aid from the government. Lack of housing and problems with searching for it were the reasons that forced some IDPs to go back; they are also the main source of social tension and discrimination. The study showed that this issue is the most urgent for elderly people. In addition, the process of searching for housing was the situation in which the displaced respondents were the most likely to face discriminatory practices. In 2018, when CEDOS researchers developed the [IDP Integration Index](#), an instrument for assessing and measuring IDP integration in the cities they have moved to, only 12% of internally displaced people owned their own housing (while among the rest of the population, the overwhelming majority live in housing which they own).



programs, versus 51% among households without children (Annex 1, Table 3.10). The distribution by age is similar: respondents aged 18 to 25 were 10% more likely than average across the sample to prioritize the group “young people regardless of their family status or children” (40%; Annex 1, Table 3.11). The “25 to 34” group supports “young people in general” at a similar level as the average across the sample (30%). However, the number of those who are convinced that government housing programs should primarily target young parents is somewhat higher among them (59% compared to 54% across the sample; Annex 1, Table 3.12).

Attitudes towards government policies and their understanding are exemplified by the fact that only 7% of those who need or wish to move have already appealed to government bodies. A quarter of them consider the option to receive housing with the government’s help specifically, by participating in housing programs or via the “housing queue.” Those who consider it realistic to receive help from the government to receive housing are more likely to appeal to government bodies. The share of such people among those who are considering the possibility of purchasing housing using government housing programs is 11%, while among those who expect to receive an apartment via the “apartment queue” it is 32% (Annex 1, Table 2.19 – 2.20). Of those who expect the “apartment queue” to help them, 37% are already registered on the list (Annex 1, Table 2.21). Meanwhile, among all the respondents, only 4% are registered in the queue (7% in Kyiv; Annex 1, Table 2.22 and 2.23). Among the households for whom the index of satisfaction with housing conditions is lower than 3 and among those who know someone who has received housing from the government, the share of those registered in the “apartment queue” is 9% (Annex 1, Table 2.25 and 2.28).

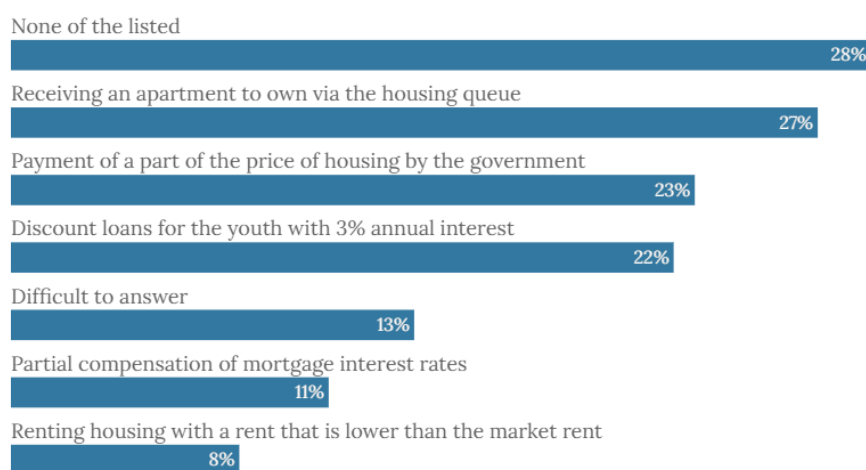
The most popular government program among the respondents is the one which the government intends to abandon in the future, namely the “apartment queue” (27%). About a quarter of the surveyed would like the government to subsidize the cost of purchasing an apartment for them, either by paying a share of the price (23%) or by paying the interest on loans as a part of a youth credit program (22%).

Across the entire sample, a third (28%) would not like to use any of the listed programs at all. If we look at the



distribution by city, the number is a little below one third everywhere except Kyiv, where it is lower at 17% (Annex 1, Table 2.31). It should be noted that in some specific cities, this share is much higher than average across the sample: for instance, in Kherson, Vinnytsia, Mykolayiv and Melitopol, more than two thirds of the respondents do not wish to use any government housing programs (Annex 1, Table 2.32).

### Willingness to participate in government housing programs



Note: “Which government housing programs would you like to use? Name no more than two options”, N=2500

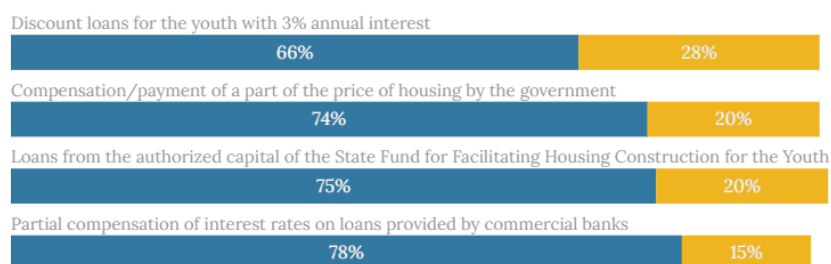
The results are different among those who wish or need to move and who are considering the option of purchasing housing with the help of government housing programs. A half of the (53%) would like to take a loan with 3% annual interest, another half (49%) would like the government to pay a part of the price of housing, and 38% would like to obtain ownership of an apartment via the “apartment queue.”

Discount loans for the youth with 3% annual interest turned out to be the program which people are generally the most aware of: about a third (28%) of the respondents know at least something about it.

Awareness of the housing programs that exist in Ukraine, which could theoretically be used to change their place of residence, is rather uneven among the respondents from different cities. Awareness of the programs is the highest among the people surveyed in Kyiv (from a quarter to a third) and the lowest in cities which are not regional centers (less than 10% of the respondents know about some of the programs).

## Awareness of housing programs

Aware, Unaware



Note: “Do you know something about the conditions of the following housing programs?,” answers: “Yes” or “No,” N=2500

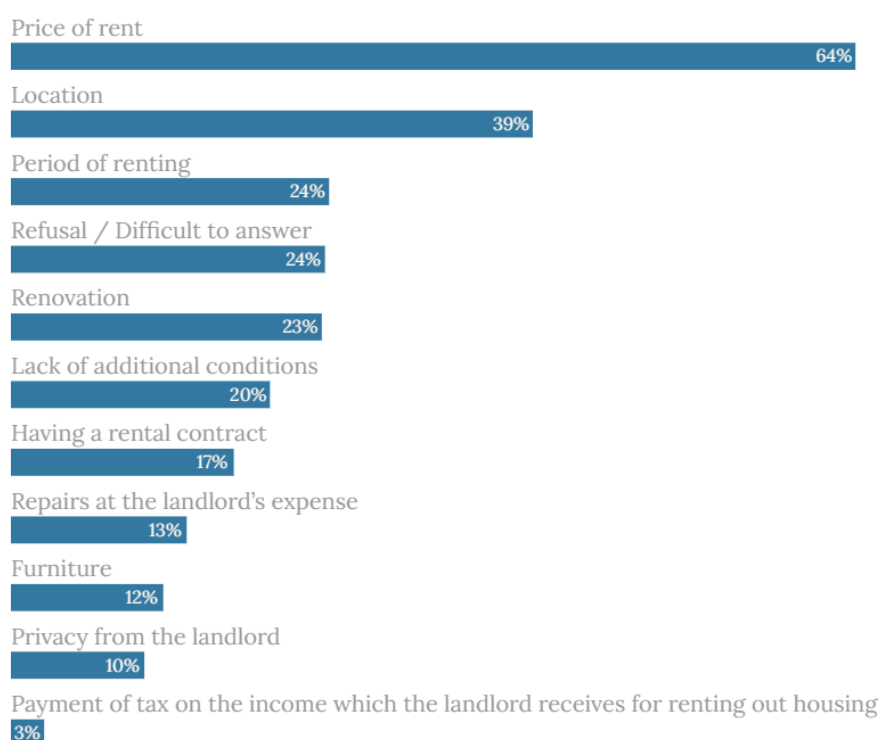
## ● Rental housing

The issues we wanted to study included the rental housing sector and attitudes towards renting. 8% of our respondents live in housing which they rent from private individuals (Annex 1, Table 1.1). Only 19% of them live alone, while 81% live in households with one or more other people; 3% live in households with more than 4 people (Annex 1, Table 4.21 and 4.22). In comparison, among those who own housing, this share reaches 10% (Annex 1, Table 4.23). Among those who do not live alone, only 6% live with people who are not their family members (Annex 1, Table 4.24).

The most important criteria while choosing housing is the cost of rent (68%) and location (48%); a quarter believe that the period of renting (24%) and whether the apartment is renovated (23%) is important. Surprisingly, even though three criteria could be listed at the same time, only 17% (!) noted the importance of a contract that would protect the rights of the parties.

We also asked the respondents to evaluate each of the proposed criteria for choosing housing to rent separately. In the figure below, we can see that almost all of the proposed criteria are rather or very important for at least two thirds of the respondents. And factors such as the price of rent, rental period, lack of additional conditions (to have no partners, children, pets, not to bring friends home, etc.), and location are very important for at least a half of the respondents or more (Annex 1, Table 4.1). The payment of tax on their landlord's rental income was the least important for the respondents (34%).

## Criteria for choosing housing to rent



Note: "Please pick the three criteria that are the most important for you while choosing housing to rent", N=197

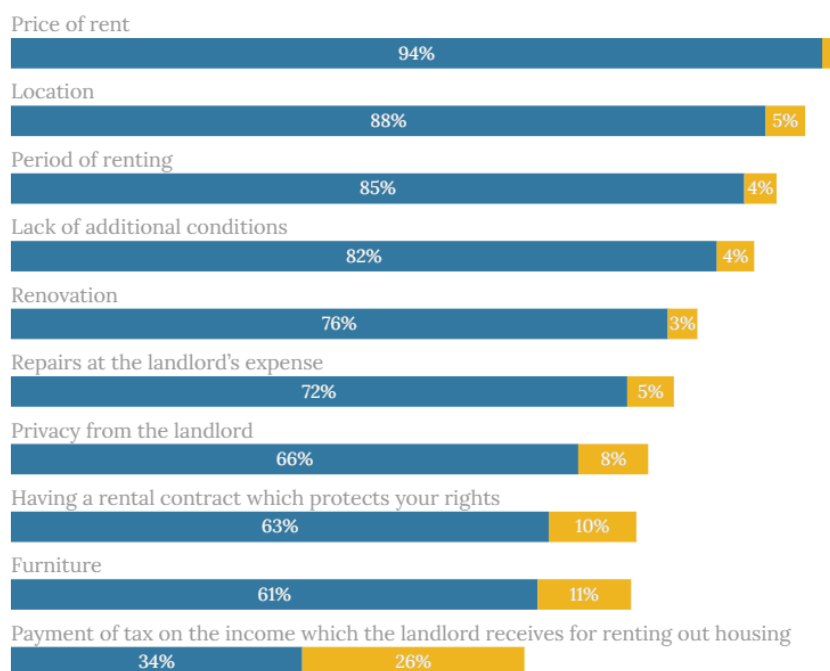
Almost a half of the respondents (41%) spend from a third to a half of their total monthly household income on rent. Another quarter spend 20% to 30% of their household income, only one fifth spend less than 20% of their total monthly household income, and 10% of households spend more than half of their income on rent.

The answers to the question about the maximum share of their household income which the respondents were prepared to spend on rent if their place of residence changes were distributed in essentially the same way as the answers to the question about current rent. A fifth of the surveyed (17%) said that they would not be able to pay a higher rent than they currently pay.

Only a quarter (22%) of the respondents say that they are alright with living in rental housing rather than their own. A half feel that they are unable to live a full life because they live in rental housing.

## Importance of criteria for choosing housing to rent

Rather or very important, absolutely or rather not important



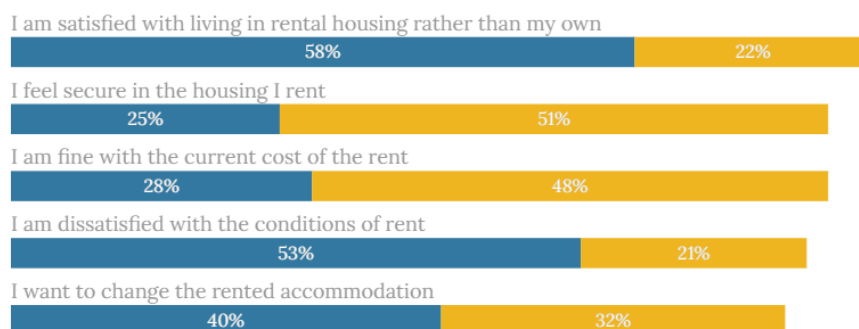
Note: "Please evaluate on a scale of 1 to 5 how important the following criteria for choosing housing to rent are for you, where 1 is 'absolutely not important' and 5 is 'very important'", N=197

Note: We have eliminated the option "Difficult to say, both important and not" from the calculation and combined "Very important" with "Rather important" and "Rather not important" with "Absolutely not important."

Only a half of the surveyed (53%) like the housing they currently live in. Approximately the same number are satisfied with the current price of their rent (48%) and its conditions (53%). Only a half (51%) feel secure in rental housing. One fifth (19%) experience fear of eviction without a warning. A third of the respondents (32%) would like to move out of the apartment they currently rent. Almost a third of the surveyed (29%) cannot say that they have a good relationship with their landlord. A half (46%) of those who live in rental housing have to save up on other types of spending. A quarter (22%) cannot change the interior of their home at will, 15% cannot have pets. Only 15% noted that there was nothing they could not afford or could not do because of living in rental housing.

## Conditions of renting housing

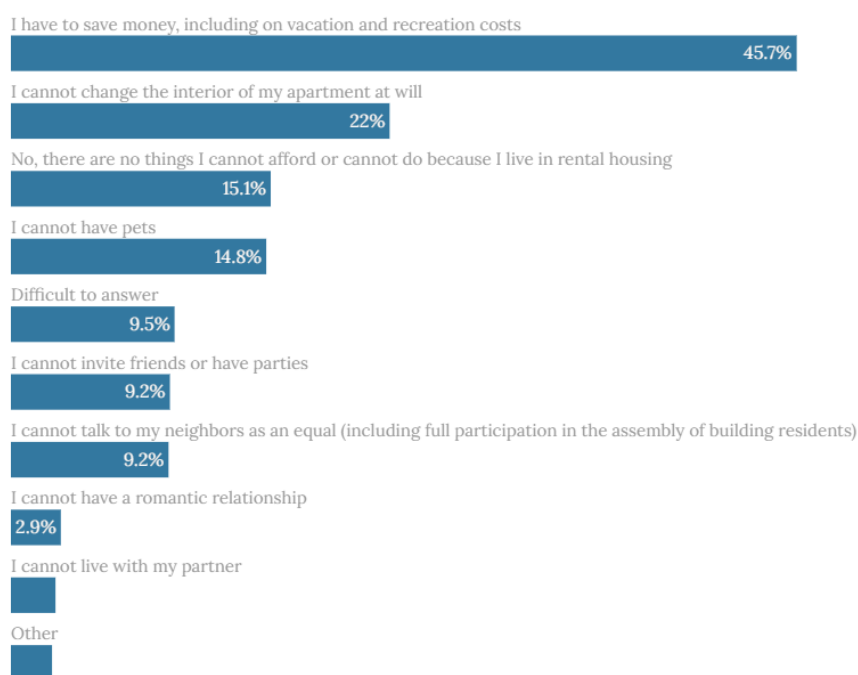
Rather or completely agree, absolutely or rather disagree



Note: "Please evaluate on a scale of 1 to 5 to what extent you agree with the following statements", N=197

Note: We have eliminated the option "Difficult to say, both agree and not" from the calculation and combined "Completely agree" with "Rather agree" and "Rather disagree" with "Absolutely disagree."

## What are the things you cannot afford or cannot do because you live in rental housing?



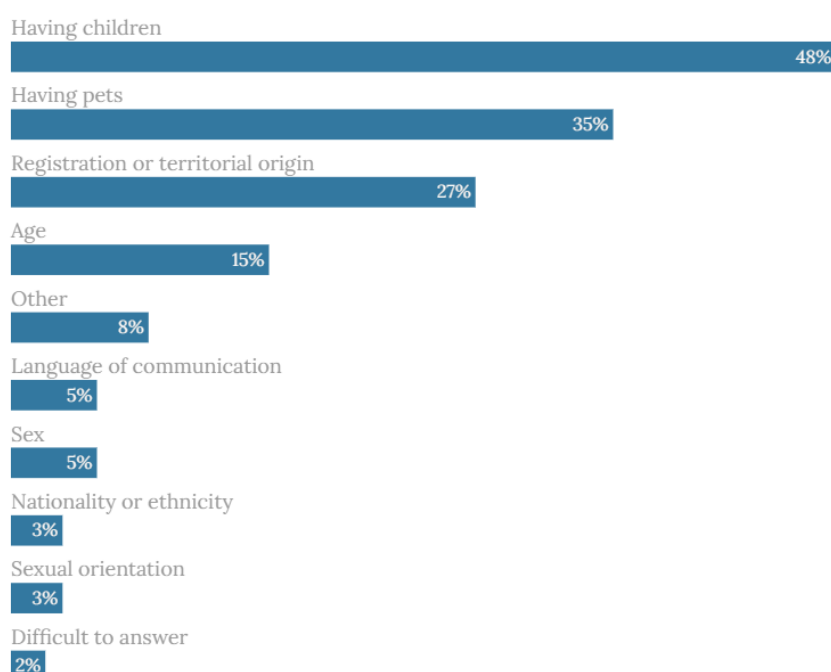
Note: "Are there things you cannot afford or cannot do because you live in rental rather than your own housing? You can choose several options", N=197

As for the general financial state of tenants versus those who live in their own housing, among the respondents who rent housing, the share of those whose monthly income is not higher than UAH 4,999 is lower by half than among those who live in their own housing: 8% versus 16% (Annex 1, Table 4.17). Instead, the share of those who live in a household with a total income of over UAH 10,000 is higher among them:

41% versus 34% among those who live in their own housing. However, it should be noted that the number of respondents who rent housing in the sample is only 197, which only allows for cautious assumptions while making this comparison.

A fifth (18%) of those who rent housing have faced biases while searching for it and while renting. A half of them have faced prejudice due to having children (48%); a third due to having pets (35%); and almost a third (27%) faced prejudice due to where they come from territorially or where they are registered. Another reason for biased treatment was age, which was reported by 15%.

### Which biases have you faced while looking for a place to live and renting it?



Note: “Based on which characteristics have you experienced biased treatment while looking for and renting housing? Pick everything that applies to you specifically”, N=197

One of the questions we asked to evaluate the potential of the rental sector was ownership of housing which the respondents do not live in. Across the sample, 90% answered that they had no such housing, but 6% said that they had such housing, and a third of them (2%) receive income from it. In Kyiv, these numbers are 85%, 8%, and 7% of refusals, which may mean that the real number is even higher (Annex 1, Table 2.11). A half (52%) of those who own housing which they do not live in are members of households whose total monthly income exceeds UAH 10,000, and a third (29%) are members of households whose

total income exceeds UAH 15,000 per month (Annex 1, Table 2.12). This privately owned housing stock in which households do not live should become a part of the rental housing sector through tax incentives, namely higher tax rates for unoccupied real estate.

## ● Conclusions

1. The findings of our survey generally confirm that realization of the right to housing, both by purchasing and by renting, involves a lot of difficulties. The main obstacle for those who would like to change their housing conditions is financial: 89% of the respondents cannot afford it.

The difficulty of solving the housing issue in Ukraine is probably best illustrated by the fact that almost half (43%) of those who want or need to change their place of residence could not answer the question about how many years they or their family members would need to be able to do it.

Among those who live in rental housing, almost a half (46%) have to save on other costs because they have to pay rent. Which is not surprising, since almost a half (41%) of the respondents spend a third to a half of their total monthly household income on rent, and 10% spend even more than a half.

Almost a half (43%) of the respondents have no idea or plan of action for what they would do and where they would live if they lost the housing they currently live in. Tenants mostly say that they would not be able to pay a higher rent than they currently pay.

2. The unregulated shadow rental housing market in Ukraine creates conditions that prevent tenants from living a full life in such housing. Almost a half (44%) of tenants speak to this. The existing renting practice also makes citizens experience insecurity and instability. Only a half can say that they feel secure in rental housing, and a fifth experience fear of being evicted without a warning. Another problem is discrimination by landlords: a fifth of the respondents have faced it at least once while looking for housing. The most prevalent reason for bias is having children



or pets, territorial origin or registration, and age.

3. In these circumstances, the majority (85%) are convinced that only housing that is one's property can be called one's own. Thus, a significant share see the path towards solving the housing problem in purchasing housing to own: among those who feel a need or desire to change their current place of residence, more than two thirds (68%) hope to take this path. However, as noted above, a significant share of the respondents were not able to even approximately say how many years they would need to do that.

Therefore, it is also not surprising that of the existing housing programs, those which involve the realization of the right to housing specifically by gaining ownership of housing with the government's help had the highest support: the "apartment queue" and government subsidies to cover the cost of a purchased apartment—either in the form of paying a share of its price, or as a part of a youth credit program. In general, the role of the government in providing housing to *own* is considered to be very high: 83% of the respondents rather or completely agreed that the government should help citizens to purchase housing.

4. Nevertheless, even in the existing conditions for renting, one fifth (21%) believe that it is completely acceptable to live in rental housing all your life. The survey reveals a high demand for the government's participation in regulating renting and ensuring access to it (72%).
5. In general, awareness of the housing programs that currently exist in Ukraine, which could theoretically be used by the respondents to change their place of residence, is low: only a quarter to a third of the respondents know about these programs.
6. As for the dominant views on who should be the primary target of government housing programs, the survey findings mostly reflect the trends in the views on welfare which are typical for the populations of many other countries. For instance, the more universal public welfare programs which apply to the entire population or a large share of it receive more support, while those which target a narrower group (especially one that is stigmatized or othered) receive

less support.

7. Another important point demonstrated by the survey is the widespread situation of a certain discrepancy between one's socioeconomic status and the housing they live in. For example, among those who live in housing with a large floor area (70 m<sup>2</sup> or more), 15% reported that they could not always afford to buy clothes, and 2% reported not being able to afford food. Among those who live in three-room homes, 25% cannot always afford clothes, and 7% cannot always afford food; and even among residents of homes with 4–6 rooms (!), these numbers remain high (28% and 3%, respectively).

The lack of clear public housing policy goals means that the data about the housing sphere is also hardly collected or analyzed. This, in turn, creates difficulties while analyzing and evaluating the effectiveness of the current policy and developing potential recommendations. The existing publications about the housing stock, housing construction, and the population's housing conditions do not allow us to understand either the population's housing needs or the changes in the housing supply. As of today, Ukraine does not have a unified registry of individuals who need to improve their housing conditions. The latest evaluation of government housing programs was conducted back in 2012 and showed that the programs were economically ineffective and socially unjust. The findings of our survey showed that society expects the government to pursue an active housing policy, but the government should also organize active information campaigns to explain exactly how access to housing is going to be ensured.

In the next chapter, we will review the examples of other countries in terms of ensuring access to housing the instruments of government housing policies which can be used in Ukraine.

# Chapter 5 ●

## Examples and models: international experience

Government housing policy shapes the balance between forms of housing ownership: renting and private property. The use of its resources—financial, fiscal, regulatory, etc.—depends on whose interests dominate it. In this chapter, we will consider examples of the housing policies of other countries to see how the balance between forms of ownership is shaped there and what Ukraine could potentially borrow for its own housing policy.

In the first chapter, we wrote that the research approach of “divergence between housing systems” states that housing systems can be very different even in similar countries. According to Jim Kemeny, these differences are determined by the role of rental housing, particularly social housing, in the system (Kemeny, 1995).

The understanding of “social housing” varies considerably in different European countries: some of them may not have this category of housing in their legislation at all (e.g. Czech Republic), while in others the share of such housing is significant, but it is not seen as “social housing” (e.g. Sweden). What does the term “social housing” mean, then? The simplest and one of the most widespread definitions goes as follows: housing profit is not the main motive for the providers of this housing, and its distribution is determined depending on need rather than ability to pay (Harloe, 1995).

The rent charged for social housing can be determined using various principles—depending on the cost of construction, on the cost of housing, or on the income of residents. Moreover, rent can be determined depending on the housing unit itself, the building, the neighborhood, or the owner (Whitehead, 2014: 319). Rent will also directly depend on how exactly the housing is funded: from the rent revenue from the residents, from loans, or from “someone’s” money: government grants or subsidies, funding from the municipality, from charities, etc. (ibid., 318).

What is the place of social housing in housing systems? Jim Kemeny distinguished between integrated (or unitary) and dual rental markets. In the former, non-profit landlords compete with for-profit ones, while in the latter there is a division which does not allow this competition to develop (Kemeny, 1995). What does this mean? Depending on how big the non-profit sector is, it can be “secondary” (or residual—a safety net for the most vulnerable groups who cannot secure housing via market mechanisms) or unitary

(i.e. integrated, accessible to the broader population). In the latter case, housing policy can also pursue goals other than being a “safety net,” such as social cohesion, employment in the public sector, or energy efficiency through this housing sector.

In this chapter, we will look at countries with unitary rental markets (they are the ones that are usually referred to when examples of European countries with high shares of renters are given), post-socialist countries and their housing policies, as well as Russia, Belarus, and Kazakhstan.

## ● Integrated rental markets in European countries and the role of the non-profit sector in them

The economic philosophy of the “social market” originated in the 1930s in Germany and became popular in postwar experiments that aimed to stimulate competition between for-profit and non-profit service providers. Jim Kemeny showed in his research how this approach was applied to housing systems in Germany and some other European countries where German cultural influence was high: Austria, Denmark, the Netherlands, Sweden, and Switzerland (Kemeny et al., 2005: 855).

The defining characteristic of these rental markets is that social housing can be provided regardless of household income, but in order to make it possible, a significant share of it must be provided by the non-profit sector, and it must be available to various social classes (ibid., 856). Kemeny argues that there is no guarantee that dual rental markets will inevitably evolve into completely integrated ones, or that the non-profit rental sector will always be expanding. Integrated rental markets with a significant non-profit sector give obvious advantages to households and the economy in general, but whether they will be created and supported depends on political choice (ibid., 857). The non-profit sector can offer renters an affordable alternative to the for-profit rental housing sector of comparable or better quality, but in order to do that, it must be well-represented in terms of the age of the housing, its locations, sizes, types of buildings, their quality, etc. (ibid., 858).

Integrated rental markets begin with a small non-profit sector which will be non-competitive both due to the price of the rent (which will initially be comparably high) and because it will not have a sufficiently big stock to compete with the for-profit sector of the market. Even when there are no regulatory barriers, a unitary rental market will initially have low levels of competition between the for-profit and non-profit sectors (ibid., 859).

Eventually this sector will become more attractive, because the costs of its establishment will be compensated from rent or subsidies, so the pay will be able to be set at a level required to maintain the housing stock in a decent condition. Thus, this sector can provide housing for an affordable price and with high stability. If there are no tax incentives in favor of ownership, this rental sector can compete with privately owned housing, and a significant share of households will be willing to use it, including high-income households (ibid., 860).

In addition to the fact that the emergence and development of this integrated rental housing market with a significant non-profit rental sector is not “natural” but rather depends on political choice, they also need this choice to be consistent over long periods of time. A biggest threat to this sector is its sale or privatization, because that would shrink the housing stock itself and change the socioeconomic composition of its residents: mostly those who cannot or do not want to privatize the housing will remain tenants in this sector.

Below, we will review specific examples of the role which the non-profit rental sector plays in unitary housing systems (systems without regulatory obstacles to competition between the sectors).

## Germany

In the past few decades, the term “social housing” has undergone significant changes in Germany. While initially it referred to the federally funded program to build housing for the broader population, today it means support for those who cannot afford housing on the housing markets on their own. The marketization (commodification) of housing began when legislation about non-profit rental housing was

canceled in 1989, public housing was privatized, and responsibility for social housing was transferred to the purview of federal lands with their local versions of solutions to the local problems and needs in 2006 (Droste and Knorr-Siedow, 2014: 183).

The need for affordable housing is bringing social housing back to the political agenda, but now it is much less about increasing the supply of housing and more about stimulating demand by regulating rents and housing allowances for households. After the Second World War, the western and eastern parts of the country developed social housing in different ways. In the western part, it was built on the grounds of agreements between regions and the owners of such housing: the owners received construction and management subsidies in exchange for setting the maximum cost rent and providing access to low-income or socially vulnerable households. Since the payment depended on the cost, the quality of this housing was high. In the eastern part, meanwhile, mass construction was supported by the state, municipalities, enterprises, etc.

The construction of this social housing was funded by large direct state and regional grants given to landlords, but later they were replaced by cheap mortgage loans (whose term was defined by the length of the discount period for social housing) and by tax incentives for investors. Until 2006, social housing was funded from the federal and land budgets, but since 2006, lands have had to invest at least 50% of their own funding in order to receive federal funding (ibid., 189).

The right to social housing depends on the income and size of the household. The income level is determined depending on the region and the city and reflects local incomes and the price of rent on the market. Access is guaranteed by a certificate from the municipality which candidates use to apply for housing from private or public landlords.

Other types of social housing (or housing with below-market prices) included housing from non-profit housing cooperatives, trade union and municipal housing companies. When Germany was reunited, municipal housing companies were established in its eastern part which acted specifically as non-profit landlords. The housing stock in their ownership has decreased due to privatization and partial demolition.



The last form is the so-called “virtual” social housing whose cost is covered from welfare payments to households. These programs for subsidizing a part of rental costs were introduced in order to reduce the pressure on the social housing stock, which was shrinking, and allow households to rent housing on the private rental market. Over 1 million households could expect to receive this welfare payment to cover their rent in 2010, but the difficulty of the application process repels some of the potential recipients. The landlord usually does not know that their residents receive this aid. Another type of aid is unemployment payments or payments to socially vulnerable citizens, which also cover rent. The amount of this social aid today is several times higher than funding for social housing construction programs (*ibid.*, 193), which reveals a change of priorities from subsidizing the supply to subsidizing the demand and supporting households on the private rental market.

## Austria

Austria is considered to be a country with a balanced housing system characterized by historic laws that protect tenants, a well-developed system of subsidies, and a strong role of non-profit housing companies which together have allowed the country to restrain the market forces for a long time. Although there is no official definition of social housing in Austria, the term usually means the housing owned and managed by the non-profit sector, including public housing, associated with a system of subsidies and rent regulations (Reinprecht, 2014: 61).

The share of the rental sector here is around 40%, and around 60% of it is social housing; that is, about a quarter of the total housing stock is social housing; a third is owned by municipalities; and the rest is owned by non-profit housing associations. There are significant regional differences—for instance, in Vienna, almost a half of all housing units are social housing, and a quarter of those are owned by the city (*ibid.*, 62).

When social democrats won the election in Vienna after the First World War, the Red Vienna period began, characterized, in particular, by large-scale housing construction which was a key part of building the local social provision system. After the Second World War, social

housing became the foundation of the welfare state. In the 1980s, the management of construction subsidies and social aid was transferred to the regional level.

Social housing is provided mainly by non-profit housing associations and municipal organizations. Housing provided by the latter is characterized by regulation of the price of rent depending on the age of the building and the quality of housing, as well as by protections for the tenant. For non-profit associations, the size of rent depends on the cost of construction. Of around 200 non-profit housing companies, about a half of the housing stock is managed by housing cooperatives, a quarter has a public organization as its primary owner, and another quarter is owned by a different type of company: a trade union, a church, a private association (ibid., 65).

The main instrument for stimulating the housing supply in Austria has been direct subsidies for construction by both private and public actors, but the system of housing aid has also been developing. Both programs are regulated by the regions, although subsidies come from the federal budget. In general, the Austrian housing system is characterized by an important role of non-profit developers, direct state subsidies for construction, regulation of rents for the old housing stock, and cost-based rents for the new housing stock. Another important feature is the role of developers who rely on profits from construction rather than on speculative profits due to social control over the planning and supply of municipal land (Donner, 2011; Matznetter, 2002).

## Denmark

Social housing in Denmark is housing provided by non-profit housing associations for a fee linked to the cost of the building. Although these associations are subsidized and regulated by the government, they are owned by the members of the associations themselves (a legacy of the housing cooperative movement): the provision of social housing was never a task of the central or local government. Social housing became the foundation of the post-war welfare state and meant “housing for everyone.” Today, the social housing stock comprises around 20% of the total housing stock (Vestergaard and Scanlon, 2014: 77).

Since 1994, decisions about the construction of new social housing have been approved by local governments. Surprisingly enough, the system of national quotas used to be approved by a single (!) official who determined how much new social housing can be built in each municipality. When this official retired, a new “objective” model was developed (ibid., 79).

The cost of new social housing is covered by a mortgage loan (88%), and the remaining amount is paid by the municipality in the form of an initial capital loan (10%) and by the future residents (2%). Social housing is exempt from the income tax and the real estate tax. According to the law, this housing must be rented for a price linked to the cost of the building, which is based on historic levels rather than calculated according to market rates. Since rents are calculated on the basis of historic levels, even though the social housing construction boom happened in the 1940s and it was funded by 50-year loans, many of which have already been paid back, the rents are still based on the same rates as when the loans were still being repaid. A share of these profits is sent to the National Non-profit Housing Association Fund, which covers the costs of repairs and modernization of the existing housing stock, even though the government would prefer to use these funds to pay for the construction of new housing (ibid., 80-1).

Social housing and the rental market in general are facing the challenge of shrinking due to the high “effectiveness” of the mortgage system developed in Denmark. The financial deregulation of the 1990s led to increasing household debt and higher demand for housing among those who are unwilling or unable to take loans, so social housing will continue to play an important role in Denmark’s housing system for a long time (Lunde, 2016).

## The Netherlands

Social housing stock in the Netherlands is one of the largest in Europe after France and the UK. Of the total number of 7.2 million housing units in 2011, about 2.3 million were social rental housing. A third of the total housing stock is owned by housing associations, 9% is rented on the private rental market, and about 60% is privately owned housing (Elsinga and Wassenberg, 2014: 25).

The social housing sector here, just like in the majority of European countries, developed mostly after the Second World War, when the government began to tackle the problem of the insufficient housing stock. Unlike most other countries where social housing providers do not usually buy housing, housing associations in the Netherlands buy and sell their housing units. Importantly, however, they can only sell vacant units, while those which are occupied by residents must be offered to the residents themselves, who can decide to continue renting (ibid., 27).

The 1901 Housing Code allowed housing associations and municipalities to take government loans and subsidies in order to build and manage housing. In the postwar period, when funding for the associations increased (although municipalities were also actively engaged in construction), the associations' dependence on the government increased, and they began to strive for more independence. An important moment for the sector's development was the Heerma report of 1989, as a result of which associations were given more freedom, but they were also obligated to provide housing to low-income households (Elsinga et al., 2016).

In 1995, housing associations received financial independence: their debts were written off in exchange for relinquishing future government subsidies for the sector. Low-income households are entitled to a housing subsidy both on the social and on the private rental market if they rent housing for less than 664.66 euros per month. This subsidy is sent directly to the landlord. Of all the residents of social housing, about 40% receive these subsidies, which comprise about 2 billion euros per year in total (Elsinga and Wassenberg, 2014: 32).

## Switzerland

Switzerland is one of the countries which have no national or regional (canton) policy on affordable or social housing, so the search for this type of housing depends on households and local policies and conditions. Switzerland is seen as a country of tenants and has the lowest levels of ownership in Europe, which is caused by the high cost of land and construction as well as by a lack of public programs to stimulate ownership (Glaser, 2017: 73).

The majority of rental housing here is owned by individuals or institutional investors (pension funds, insurance companies, etc.). The share of non-profit rental housing providers is at just about 5% of the housing stock, although in some cities, such as Zurich, non-profit housing stock reaches about a fifth of the total housing stock.

The housing policy and housing construction for low-income and vulnerable groups is a sphere of overlapping interests of different government levels: national, regional, and municipal. Housing aid programs exist mostly in big cities: Zurich, Bern, Basel, Lausanne and others. Their goal is to provide long-term and secure rental housing to socially and economically vulnerable people using various financial and non-financial instruments.

The Swiss housing system is interesting because it emerged from a unique welfare regime characterized by both conservative and liberal features, and the system itself is dominated by private landlords. Switzerland can be an example of how social housing supply can be maintained without subsidizing either the demand or the supply, although this has certain consequences for its scale and accessibility (Lawson, 2009).

## Sweden

In 1965, the Swedish government adopted the “million homes program” which provided a plan for the construction of a million new housing units in the next ten years. This high pace of housing construction meant that there was practically no need to build new affordable rental housing until recently (Lind, 2014: 91).

According to the Swedish welfare state and social-democratic tradition, there was not supposed to be any “social” housing as such in Sweden. This means that there should be no separate housing stock which would receive subsidies or aid and would be allocated for low-income or socially vulnerable households. About a third of the total housing stock in Sweden is rental housing, and a half of this rental stock is owned by municipal housing companies. In 2011, new legislation determined that municipal companies could either receive subsidies in exchange for commitment to provide housing to vulnerable categories, or maintain

universal access to housing for everyone, but without subsidies. Since access to the municipal housing stock has remained universal, subsidies are given directly to low-income or socially vulnerable households. The amount of aid depends on the household income, number of children, and cost of rent.

Until 2011, rents were determined by collective negotiations between local associations of residents and municipal housing companies. An association of residents had the right to negotiate on behalf of all residents, even if only a minority of them were members. In most municipalities, the local housing company was the biggest landlord, so it could set the “rules of the game” for all the other landlords, even private ones. Since 2011, private landlords have also gained the right to be present at the negotiations and even sign their own agreements with associations of residents (ibid., 95).

Unitary rental markets are rather widespread in European countries and successfully ensure the stability and accessibility of housing for tenants. The non-profit rental housing sector can vary in size and depends on the consistency of policies aimed to maintain it. The non-profit sector can be either publicly or privately owned, but its main characteristics are lack of orientation towards maximizing profit and provision of housing according to need.

## ● "Residual" rental markets in post-socialist CEE countries

When we speak about European experience, sometimes it is also worth looking at the examples of countries with shared previous experience but very different consequences for the housing sphere due to different policies and approaches. In this section, we will review examples of post-socialist countries and their housing policies.

The majority of post-socialist countries were characterized by a lack of any comprehensive plan for reforming the welfare system when the socialist bloc collapsed. By trial and error, specific policies were changed in response to specific social problems. Another characteristic feature of these countries was the decentralization policy, when



responsibility for the housing policy (such as housing stock management) was transferred to local governments, but the general economic policy (e.g. policies on mortgage lending and tax incentives) remained at the national level. The housing systems of these countries are also characterized by early mass privatization, decreasing formerly public rental stock, and growing social and regional inequalities (Pichler-Milanovich, 1994, 2001; Stanilov, 2007; Tsenkova, 2009).

## Hungary

When the political regime changed in the early 1990s, mass privatization of the housing stock began, which led to a situation when 85% of municipal housing stocks (or 20% of the total stock) was sold to its residents for about 15% of its market value, which made Hungary one of the countries with very high levels of housing ownership. As a result of this mass privatization, municipalities were left with a housing stock which required renovation and whose residents had social problems or were poor (Hegedus and Horvath, 2018). Privatization of the municipal housing stock, even stock of this quality, continued later because local governments decided to transfer the responsibility for the “problematic” residents to private organizations: if the municipality evicted them on its own, it would have to provide some kind of housing instead of the old one.

In the conditions when the household need for affordable housing was many times higher than the existing housing stock, in the early 2000s the government introduced a program of grants for the construction of social housing, covering 75% of the cost of construction. But in 2005, the program was closed and replaced with a rent allowance program: up to 30% of rent could come from the central budget, but municipalities had to add at least the same amount.

Why did municipalities find it disadvantageous to build new social housing? First, building such housing without a system of subsidies from the central government would mean cuts in the potential funding of other spheres: health care, education, infrastructure, etc. Second, in addition to financial risks, local governments are concerned about having political problems: if they have a social housing stock, it will make poor households move there, so not only social



problems will not be solved, but the general state of affairs will become worse.

- What happened in the housing sphere in general?

After the public housing stock was privatized, the underdeveloped private rental market and the shrunken public stock meant that people had to purchase housing in order to meet their housing needs. In response to the population's insufficient funds, mortgage lending was liberalized. This led to a situation when banks, instead of barring access to loans for high-risk clients, just gave them higher interest rates. Moreover, currency liberalization meant that Hungarian households gained access to foreign currency mortgages (so-called FX loans), for which the rates were lower than for loans in the national currency—the most popular option was the Swiss franc. The currency risk and the risk of changes in discount rates manifested during the global economic crisis, but in the early 2000s there was an expectation of economic growth that would outpace growth in the Eurozone, so loans in other currencies and their servicing were expected to become cheaper over time.

When the crisis came and the number of borrowers who faced difficulties with servicing their loans (the share of so-called non-performing loans, NPLs) increased, an idea emerged in 2010, and in 2012 the national asset management company was founded. It was supposed to buy out mortgaged real estate and then rent it out to residents with the right to purchase it over the next 5 years.

A certain share of borrowers were also given the opportunity to pay back their debts early in 2011–2013, when their loans were recalculated according to the 2008 exchange rate. This policy was very regressive because it could only be used by a number of the richest households that were able to pay back the entire amount of the loan at once. In 2015, mortgage loans in foreign currencies were converted and recalculated in forints, which shifted the costs onto the banking sector.

- What were the mechanisms for developing social housing?

In 2011, a plan was also developed to build cheap rental housing for debtors with foreign exchange mortgages. To

make the construction cheaper, a land plot 30 kilometers from Budapest was chosen. The need to build new infrastructure there actually made the construction more expensive than was planned, and the fact that the land plot was rather far from the city meant that it was difficult for the residents to find jobs and commute. When the construction of the project began in 2012, only 80 units were built instead of 500. In December 2014, half of the residents moved in.

In addition to social renting for mortgage borrowers, there was also the idea of developing social rental agencies (SRAs). Local non-profits or government bodies were supposed to enter the private market and lease housing there, and then rent it out to low-income or socially vulnerable households. The government was supposed to guarantee the contracts, and landlords, in exchange for a guaranteed income in a slightly lower amount than the market price (e.g. 70%) were given the right to choose the residents who would pay rent that would be slightly lower than the market rate (e.g. 80%) (Hegedus, 2014).

## Czech Republic

The Czech Republic has no unified housing policy and no social housing as such. It did not adopt a nationwide mass privatization policy. Its public housing stock was handed over to municipalities which then independently began the policy of housing privatization by its residents for low prices.

The Czech Republic also conducted a property restitution: about 7% of the total housing stock was returned to its former owners or their heirs, which allowed the private rental market to develop. An important characteristic which slowed down the privatization to an extent was the highly regulated rental market, both for municipal and for private (restituted) housing: households did not have to spend a lot because rent amounts continued to be regulated for a long time.

- What happened in the housing sphere in general?

In 1993, the Czech Republic introduced a housing savings model ("the German model"). Households received a premium on their savings two years after depositing the

funds if they took a loan, and six years after the deposit if they did not take a loan. The interest rate on these loans was fixed, and there was an option to pay back the loan in advance without a fine.

Although mortgage legislation was adopted back in 1995, macroeconomic instability and high inflation rates (over 10%) repelled households. The share of loans in foreign currencies remained miniscule, so the country did not have the problems which, for example, Hungary had. Despite the global crisis, all Czech banks remained profitable and none of them went bankrupt. Even though almost all the banks were owned by foreign capital, the Czech banking sector practically does not depend on external funding due to a high ratio of savings to loans and high prevalence of savings among Czech households (Sunega and Lux, 2016).

- What were the mechanisms for developing social housing?

In 1995, the government began to support new construction of municipal housing for rent via a system of grants. By 2002, the number of housing units built with this funding was rather considerable compared to other post-socialist countries at 62,000. However, the problem was that this housing was essentially quasi-property: what was supposed to be support for municipal rental housing turned into support for the construction of cooperative housing. The “tenants” paid a significant share of construction costs, so they received more than just the right to live there. Moreover, the program did not take into account income levels, so it allowed relatively wealthy households to participate (Lux et al., 2009). When the program was modified in 2003 to eliminate these shortcomings, construction decreased significantly: only 10,500 units were built between 2003 and 2007.

A system of housing subsidies for socially vulnerable population categories was also introduced in 2003. It targeted those who found themselves in a difficult life situation (with 2-year contracts) or people older than 70. The apartments were supposed to continue to be rented to these population categories for 20 years and could not be sold within that period. About 3,500 of these housing units were built in 2003–2010.

In general, in the Czech Republic municipalities are the only owners of rental housing provided at lower-than-market rates. Another important feature is that the housing policy is almost entirely decentralized and fragmented. This country with a population of around 10 million has about 6,000 independent municipalities and no nationwide regulation of the rental sector. Given that rent rates have been deregulated since 2013, this leads to even more significant differences in municipal strategies in the housing sphere (Lux, 2014).

## Poland

When the socialist bloc collapsed, there were three categories of the housing stock in Polish cities: housing owned by the state or by state companies or organizations, cooperatives built by state companies or organizations, and individual housing in rather low numbers. The first two categories were approximately equal in size. After the mass privatization policy was adopted, half of the cooperative housing was privately owned already by 1995 (Markham, 2003). Nevertheless, although the housing sphere was significantly reformed by 1994, a ten-year transition period was established for liberalizing rent rates for the existing housing stock (Muziol-Weclawowicz and Habdas, 2018: 261).

The Polish rental housing market is famous for the case of Hutten-Czapska vs Poland, in which the landlord sued for her right to change the price of rent. The case reached the European Court of Human Rights in 2006 and launched the deregulation of rent not just in Poland but also in other countries.

Today the rental sector is gradually developing, but its share remains low. Although during the 1990s governments did use various tax incentives to develop the private rental sector, these measures in general did not encourage its development (ibid., 263). The public rental sector was not developing either due to a lack of financial resources and a consistent policy to support the development of the social rental sector (Muziol-Weclawowicz, 2014: 46).

In 1996, a system of social housing associations (rental cooperatives) was established for the purpose of building and managing rental housing. In some cities they worked

closely with municipalities, while in others they built mostly using funding from the future residents. The program did not target the least well-off households: the residents were expected to be able to pay contributions and occupy the housing units until they saved up enough money to buy their own housing. But the logic was that this would potentially vacate social housing units for those in need. In 2009, the national housing stock which provided discount loans to the associations was liquidated, and in 2011 a regulatory amendment was introduced, allowing the residents to privatize this housing (Muziol-Weclawowicz, 2013: 204-206).

During the 1990s, the government experimented with various models of loans and programs aimed at developing the market systems of housing finances. The risks of high inflation rates slowed down the development of this type of lending. Instead, since the mid-2000s ownership has become the most popular option for Polish households: there is support via tax incentives, a developed mortgage lending system, and government subsidies for people buying their first home. Subsidizing ownership is expensive: two subsidies, Separate Family (2006-2012) and Housing for the Youth (2014-2018), have been receiving more than a half of the annual budget spending on housing. At the same time, support for the public rental sector makes up around 5%, and support for landlords to renovate their own housing makes up 1% (ibid., 268).

## Slovakia

Like many other post-socialist countries, Slovakia handed its housing stock over to municipalities in 1991 and created legislation for the privatization of housing by its residents. The units that were not privatized could not be sold or transferred to anyone other than the residents, who had rent rate protection, protection from eviction, and the right to buy out their housing. The private rental housing stock was formed from housing received by its owners or their heirs as a result of restitution (Hojsik, 2014: 56).

Government support for the development of the rental sector focuses on expanding the supply by building new housing for specific groups of residents. Between 2001 and 2010, over 30,000 municipal rental housing units were purchased for government grants. The newly purchased

units must be used as social housing for at least 30 years, and the annual rent must not exceed 5% of the unit price (ibid., 57-8).

In addition to irrevocable construction grants, the government also provides loans for purchasing housing: from 2013, the support of municipalities or non-profits also applies to the private rental sector. The loans are given for 30 years (the housing must be rented for this entire period) at 1% interest and can cover up to 80% of the cost, or up to 60,000 euros. Slovakia is characterized by a very high share of owners and an insufficient market that would also be affordable for low-income households. Due to the lack of rental housing, especially in bigger cities and places with jobs, rents are very high and comparable to the cost of purchasing housing. The policy of supporting the development of the rental sector will continue by stimulating supply using government financial aid in the form of grants and loans (ibid., 63; Hegedus et al., 2018: 369).

Post-socialist countries have varied experience and have introduced different housing policy measures. The public housing stock has decreased everywhere due to privatization, but tenants remain protected by rent rate regulations. Despite the general liberalization, the development of the housing sphere took different paths depending on monetary and tax policies as well as on measures to expand and support the rental sector. One innovative instrument is using the private rental sector for social needs by creating non-profit social rental agencies that act as intermediaries between tenants and landlords.

## ● Post-communist countries

### Russia

Mass privatization in the 1990s turned Russia into a country with high levels of housing ownership and an underdeveloped rental sector. From the very beginning of the development of its housing system, the emphasis was on



ownership, particularly the development of mortgage lending. The priority of ownership is also reinforced by the fact that in the 1990s, there was a tax credit for purchasing housing but not for renting it.

Russia was the first of the former socialist countries to actively adopt legislation to develop mortgage markets. Even before 1998, the market infrastructure for developing secondary mortgage lending was created, but macroeconomic instability and the 1998 crisis prevented its development (Plotnikova et al., 2016: 325).

In 2004, a bundle of laws to develop the affordable housing market was adopted. It included a new Housing Code which declared the government's obligation to provide housing only to low-income categories. The period that began in 2005 and lasted until 2011 is described as a period of private rental market outside the national housing policy (Puzanov, 2018: 291). The aforementioned laws did not affect the regulation of the private rental market, since the new policy's main priority was to improve access to ownership. This policy made the Russian housing system's neutrality with regard to ownership even weaker. The public rental sector continued to become residual, and the private rental sector was not taken into account at all (*ibid.*, 292).

The global economic crisis significantly affected the mortgage lending market and the real estate market. In 2012, new legislation was adopted, a government program whose goals included the development of an affordable and professional rental market. Rent legislation was adopted in 2014 and defined both rental housing and social (non-profit) housing. Social housing is provided with a contract for the period of up to 10 years, and the rent must cover the landlord's costs of housing maintenance and management. In order to receive the status of a social rental building, at least half of the housing units in the building must be rented according to social rental contracts, while the rest can be rented out at a market rent rate. Land plots are allocated for this rental housing at land auctions, and funding for it is covered by the Russian mortgage agency via loans for the period of up to 30 years (*ibid.*, 294).

In general, the Russian housing system began its market transition very early—it was here that the first secondary mortgage market operator in post-Soviet countries was created—but mass privatization, which reinforced and



deepened inequalities, and low purchasing power created a system of “property without markets” (Zavisca, 2012). The current strategy of housing sphere development for the period until 2025 defines its priorities as the development of both commercial and non-commercial (non-profit) rental housing, but mortgage lending and improving access to it remain the most important. While the indicator for mortgages is defined as “more than half of families can afford to take a mortgage,” there are no defined goals of this sort for rental housing.

## Belarus

Belarus, like the majority of post-Soviet countries, implemented the policy of mass privatization which shrank the public housing stock. In 1999, the government stopped building social housing (UNECE, 2008: 3) and began a program of discount loans provided to households via public banks with a below-market interest rate. Social-use housing which remains in municipal ownership is intended for certain categories of citizens—socially vulnerable, low-income, families with many children, etc.—and cannot be privatized.

Interestingly, legislation to develop mortgage lending was introduced in Belarus relatively “late”: the law came into force in 2009. A new Housing Code also came into force in March 2013, and a month later the Concept of the Government Housing Policy until 2016 was adopted. It was an umbrella program which included the development of a mortgage market (tax incentives and a state agency for facilitating the functioning of the secondary mortgage market), construction savings banks, the development of individual construction, etc. The main trend of the program was correspondence to the broader economic processes: decreasing the share of budget funding and increasing non-budgetary sources. Although the program aimed to “provide broad options for ways to solve the housing issue: new housing construction, its purchase on the secondary market, rent in the public and private sector, etc.,” its continuation eventually became solely about ownership. The main instrument for supporting ownership is the so-called subsidized housing with discount loans for up to 20 years which can cover up to 90% of construction costs and be serviced with 5% annual interest. Social housing in Belarus

changed its priorities from construction of new units to purchase on the secondary market, which was supposed to reduce the waiting time for this housing. Other mechanisms of the development of the rental sector include municipal rental housing, but there is very little of it available, because funding mostly goes to ownership programs.

## Kazakhstan

The economies of Kazakhstan and Ukraine have features in common: the price boom for raw materials in the 2000s and reforms led to significant economic growth, but by the end of the decade the growth rates slowed down due to the global economic and financial crisis and the rapid decrease of the prices of raw materials.

The main law regulating the housing sphere, the law “On housing relations,” was adopted in 1997. It has been revised several times since. The housing policy aims to create conditions to help provide the population with affordable housing. Housing construction is defined as a priority in the Strategy of Kazakhstan’s development until 2030. Several government programs for housing construction and programs of financial support for households have been developed to incentivize it.

The umbrella housing program is the Nurly Zher housing construction program adopted in late 2016. It comprises the goals of two programs: the regional development program until 2020 and the Nurly Zhol government program of infrastructural development for 2015–2019. The program includes construction of rental housing for socially vulnerable population categories, development of individual construction, construction savings banks, improvement of access to mortgage lending—in general, all kinds of possible elements but without specific funding priorities (UNECE, 2018: 4).

In general, Kazakhstan began to search for alternative sources of funding for housing construction rather early: a credit mechanism was introduced for the first time in 1995, but the conditions of loans were unsatisfactory for the population. Over the next five years, the government and the national bank were developing legislation, and in 2000, a system of housing construction savings was created and the

Kazakhstan mortgage company was established as the secondary mortgage market operator. Nevertheless, mortgages were not popular in Kazakhstan until 2005–2007, when the government launched a program of construction of affordable housing to be sold using loans with discount interest rates (ibid., 6). The global economic crisis caused a decline both in construction and in the economy in general—the mortgage market began to restore slowly only in 2011, but in late 2014 Kazakhstan experienced another financial crisis and its national currency was devalued, which once again led to a decline of the real estate market and decreased the affordability of housing.

Post-Soviet countries are characterized by a lack of visions which would define the structure and the path towards the realization of the government housing policy. There is no unified government strategy that would determine the goals for the development of the housing funding sector and systematize the existing housing programs and reforms. Privatization, the underdeveloped shadow rental market, umbrella programs which supposedly propose different programs for different categories but in fact do not meet anyone's needs. There is also a lack of social rental housing, and government support is aimed at subsidizing ownership.

# CHAPTER 6 ●

## Recommendations

In the first chapter, we wrote that housing was political. Housing is a place of struggle between different interest groups. Depending on whose interests prevail, that will be the group whose needs are met by the housing policy: the need for housing as a place of residence, or the need for housing as an asset to receive profit, speculate, or protect savings.

1. Our first recommendation is to initiate a broad discussion about what housing is, whose needs are targeted by the government housing policy, and how exactly it is going to ensure the constitutional right to housing. We advocate for the government housing policy to be based primarily on guaranteeing Article 47 of the Constitution of Ukraine and to ensure access to housing as a place of residence.
2. In order to implement this government housing policy, new editions of the Concept of the Government Housing Policy and the Housing Code should be adopted, enshrining the right to housing as the right to shelter. The ideology, goals, and instruments of the housing policy should be clearly defined and legislated.
3. The government housing policy should be comprehensive and replace separate sectoral housing programs. Orientation towards the interests of specific groups, such as young people or specific occupations, is an obstacle to comprehensive social policy.
4. Central and local governments should actively communicate and explain the provisions of the government housing policy. Our survey has shown that the population has inflated expectations about housing provision and at the same time does not believe that this provision is realistic. The study has also revealed a low level of awareness of the terms of government housing programs and of readiness to participate in them. The government housing policy should explain who will create the conditions for realizing the right to housing, how they will do it and for whom, and what resources exist for it.
5. In order to assess the existing resources and need for housing, the Ministry of the Development of the Economy, Trade and Agriculture, the Ministry of Justice, the Ministry of the Development of Communities and Territories, the Ministry of Social

Policy, the National Bank, the State Fiscal Service, the State Statistics Service of Ukraine and local self-government bodies must ensure the collection, analysis and presentation of statistical and administrative data about housing. The datasets must include aggregated results of a complex audit of the housing stock rather than scattered statistics in which housing and the population exist in parallel and do not intersect.

A) The number of constructed square meters is growing, but the population living in overcrowded housing is growing as well. So the data collected by relevant bodies must answer the questions about who buys housing, what is built, and what purposes the buyers use it for. This refers to sociodemographic data about the households whose spending structure has room for spending on real estate purchases, as well as the data on what the purpose and characteristics of this real estate are.

B) In addition, we need a complex study of connections between the data on the current housing conditions and about the sociodemographic characteristics of the population, so that government programs can work more effectively, primarily for the people who need to improve their housing conditions but do not have the resources to do it without the government's help.

6. The approaches to calculating the indicators used to evaluate the population's housing conditions also need to be updated. In particular, in the calculation of the indicator of overcrowding, the definition of the minimum requirement should be reconsidered by switching from a minimum number of rooms to a minimum meterage required for decent residential conditions.
7. We recommend the option of a balanced housing policy, neutral with regard to forms of housing ownership. The first step towards this must be to abandon the stimulation of housing ownership, first of all by banning the privatization of housing provided by the government in any way.
8. We also recommend to include the current government housing programs into a complex government policy oriented towards providing housing to use rather than towards expanding the

share of ownership. Subsidizing housing ownership for specific population categories does not fit the goals of economic effectiveness and social justice.

9. In order to limit the investment demand for housing and ensure its use specifically as a place of residence, we recommend to amend the Tax Code (Article 266) and cancel the tax discount for the real estate tax other than a land plot for every housing unit owned except for the first one. To stimulate the use of housing as a place of residence rather than a way to protect savings or an investment, the next step should be amendments to the Tax Code in terms of changing the basis of taxation: the rate must be differentiated and based on the price of a housing unit rather than its area.
10. In order to create alternatives to housing ownership, we recommend expanding and supporting the rental sector. International experience and the results of our survey show that without tax or other economic incentives for ownership, rental housing can be an effective way to provide housing to a significant number of households.
11. The first step in the rental housing sector must be to regulate the sector of renting from private individuals in order to create a transparent market which will protect and provide guarantees to both parties and prevent discrimination. Successful international experience shows that contracts must provide guarantees in terms of periods (at least 3–5 years), caps on rent increases (indexation according to inflation or the salary growth rate), and reasons for eviction. The issue of registration of the place of residence for people living in rental housing also needs to be regulated.
12. International experience also shows that in order to use the excess privately owned housing stock as fully as possible, collective rental contracts can be used. This role can be undertaken by social rental agencies which will make deals with private individuals who own housing about long-term renting for a lower price in exchange for the stability of rental income over the long period in question. This housing can be rented out to people facing any forms of discrimination on the private rental market.
13. The sector of housing rented from private individuals



must be amended by creating and expanding the public rental sector. For this purpose, legislation should be adopted to provide for the non-profit status of organizations that will work on the construction, provision and maintenance of this type of housing. International experience shows that integrated rental housing markets without administrative barriers between the for-profit and non-profit sectors successfully provide access to housing for various population categories. As the share of the public rental sector in the housing stock increases, it will successfully compete with the for-profit sector and have an indirect influence on it in terms of quality, periods, and prices of rent.

14. The public non-profit rental housing sector should, at the initial stages, perform the function of social housing and not be eligible for privatization. The right to receive aid from the government will mean specifically access to social housing. The registry of people in need of improving their housing conditions (the so-called “apartment queue”) should be transformed into a list of those who need social housing, while monitoring the needs and the financial status of these individuals. The public non-profit rental housing sector should become a replacement for the government housing programs and aim to provide housing to the most socially vulnerable groups; and as the sector grows, it should expand to target the rest of the population.

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## Interviews

Herasymenko, 2019: interview with Andriy Herasymenko  
State Statistics Service of Ukraine

Kolomiyets and Yakushenko, 2019: interview with  
Oleksandra Kolomiyets and Lyubov Yakushenko, National  
Institute for Strategic Research

Frolov, 2019: interview with Vyacheslav Frolov, State Mortgage Institution

Cherenko, 2019: interview with Lyudmyla Cherenko, M. V. Ptukha Institute for Demographics and Social Research of the National Academy of Sciences of Ukraine

## Annexes

### Survey data

The data of the survey conducted between June 15 and July 17, 2019, by the Info Sapience research agency and commissioned by the CEDOS Think Tank for the purpose of studying the housing conditions in which Ukrainians live and their attitudes towards the government housing policy.

### State Statistics Service data

The data of the State Statistics Service of Ukraine on the housing stock, construction, housing conditions and monetary costs of households which we analyze in the study.