



**Ministry of Regional Development
and Public Works of Bulgaria**

Sustainable Housing Management
The Perspective of Homeowners and Homeowners'
Associations

Discussion paper for the international seminar
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1 Introduction

Characteristic for the housing sector in many Central and Eastern European countries is the existence of so-called multi-family panel apartment blocks. In Bulgaria, about 11 thousand panel apartment blocks contain about 800.000 individual dwellings, corresponding to about 21% of the current total Bulgarian housing stock. More than two million people inhabit them. The share of panel dwellings in the urban areas is substantially higher.

The following main problems can be identified:

1. The housing stock had already deteriorated before the transition, partly because of low quality construction and maintenance technology, and partly because of under-investment in the stock before transition. In addition to the problem of deterioration, other elements played an important role, including the very low economic efficiency of the stock caused by inefficient land use in urban development, huge energy problems related to the low level of technology in construction; and low cost efficiency in organising housing related services (water, sewage, transportation etc.). The deterioration of the stock has accelerated in the last fifteen years because of the missing institutional, legal and economic conditions.
2. The poor performance of housing management of multi-apartment buildings is related partly to the lack of household incentives, and partly to an inefficient use of housing value. The underdeveloped housing market along with a mistrust of institutions and the uncertain legal framework make it difficult to realise the economic and financial importance of housing wealth in many countries in Central and Eastern Europe. But even in the cases where households do have the incentives to benefit from their property, the absence of efficient intermediaries (condominiums, cooperatives, associations etc.) render this impossible.

During the Ministerial EU Conference on Housing, which was held in March 2005 in Prague, the Netherlands Minister of Housing, Ms Dekker, called, therefore, for information exchange and co-operation between countries to improve the daily and long-term management of this building stock.

This paper will serve as a discussion paper for the international seminar “Sustainable Housing Management; The Perspective of Homeowners and Homeowners’ Associations” which will be organised in Sofia, Bulgaria, on November 17 and 18, 2005.¹ The paper lists the questions that will be addressed during the seminar in a combination of plenary sessions and parallel working sessions. The seminar will focus on the following three topics.²

¹ See www.bha-bg.org

² This seminar is organised within the framework of the MATRA project implemented by Foundation Housing + in cooperation with the Dutch housing organisations Woondrecht and De Nieuwe Unie, and the Bulgarian

1. Policy and regulation on homeowners and homeowners' associations.
2. Financing and project development.
3. Restructuring of housing estates and increasing property value for homeowners.

The seminar takes the perspective of homeowners and homeowners' associations and focuses on privatised condominiums, particularly in high-rise panel buildings.

2 Policy and Regulation on Homeowners and Homeowners' Associations

2.1. Background ³

Multi-unit buildings in Central and Eastern Europe were typically managed by state-owned management companies, which operated in an uncertain legal environment. The privatisation of the public housing stock was often followed by the implementation of a regulatory framework which laid down the obligations of owners with regard to the commonly owned property. However, in many countries, including Bulgaria, the current legal arrangements for ownership of common housing assets do not provide incentives for households to invest in their property.

In the case of multi-unit buildings there is a need for a legal form defining the relation of individual owners to and among each other. A condominium is a form of homeownership which combines the individual ownership of the unit with the shared ownership of common facilities. Each owner may have a separate mortgage for his individual unit, and is individually responsible for making the payments and real estate taxes upon it. A housing co-operative means joint corporate ownership of a housing development made by those who reside on the premises. It could be any type of organisation that is owned and controlled by its member-users for a common purpose; this follows the co-operative principles. A co-operative operates for the benefit of its members on a not-for-profit basis in order to provide the goods and services members need at the lowest practical cost. Members/shareholders own the co-operative and participate equally in the governance of the co-operative.

In Bulgaria, where the condominiums already existed before the transition, the problems are more complex than in other countries in the region. First, the municipal management companies historically had nothing to do with private apartments. As a result, no maintenance was provided for condominium buildings from the very beginning of their existence. Also, legislation regarding management of the

Housing Association BHA. MATRA is a wide-ranging programme of the Netherlands Ministry of Foreign Affairs designed to promote social transformation in Central and Eastern Europe. It supports existing private initiatives, focusing on activities that contribute to the development of a pluralist and democratic society, securely embedded in the rule of law.

³ For more extensive background information the reader is referred to the reports listed as references.

condominium stock is still lacking. The existing law originates from the 1950ties. The Law on Condominiums is currently being drafted in Bulgaria.

2.2. Questions Working Group 1: Legislation and Policy

Chair: Mr. Roderick A. Bredero. Chairman of Foundation Housing+ (Netherlands)

This working group will address the role of homeowners and homeowners' associations (HOAs) in housing policies and the question whether the tasks of the homeowners' associations are adequately addressed and facilitated in regulation. The following questions arise:

Policy

1. What is the status of housing policies in the different CEE countries?
2. Are homeowners and HOAs sufficiently recognised as key stakeholders in housing policies? If yes, are they sufficiently empowered to fulfil their tasks and meet their needs?
3. How can HOAs be supported by national or regional associations, such as those in Estonia and Romania?

Legislation

1. Is the legal status of HOAs adequately established?
2. What regulatory conditions should be created to allow homeowners and their associations to maintain and use their property efficiently?
3. Which countries in the region provide good practices in establishing the legal and regulatory framework, which can serve as a reference for, amongst others, Bulgaria?

The Bulgarian draft Condominium Law

The Bulgarian draft Condominium Law has been under discussion for some time now and is long overdue. Key issues from the draft will be presented and discussed in the working group. Any differences with the legislation in other CEE countries will be identified and discussed, particularly on the following issues.

- Status and governance of HOAs.
- Decision-making and enforcement. Are there in the proposed condominium law enough safeguards that also with a non-100% majority, housing associations might be able to go forward with renovation projects?
- Renovation and maintenance obligations and incentives.

3 Financing and Project Development

3.1. Background

When homeowners address the possible refurbishment of their property they face two key questions: where to find the money and where to get the capacity to develop and implement the project?

The development of efficient housing finance markets, therefore, is an important condition for the large-scale refurbishment of condominiums. The following main problems often occur:

- It is difficult to secure renovation loans with mortgages because the mortgage markets are not functioning adequately. The underlying property cannot be attached. Also, mortgaging the units of individual owners of condominiums is often unrealistic.
- The legal framework is often still underdeveloped.
- Residents cannot afford increases in household expenditures to cover common costs.
- The lenders perceive high credit risk, among others resulting from the low payment morale on common costs.
- Renovation of the building envelope often leads to long paybacks on investment.

The following is needed to secure (commercial) financing:

- Set up of associations of homeowners in condominiums. Governance of this entity should be clear.
- Improve payment morale. The legal entity (HOA) must be able to enforce claims against residents for non-payment of common costs.
- Secure property rights.
- Back up of the local and/or central government in risk management. Lenders could subsequently lower the down-payment on the mortgage lending due to the government back up.

3.2. Questions Working Group 2: Financing and Project Development

Chair: Mr. Erik H. Beijer. Managing Director Dutch International Guarantees for Housing DIGH

This working group addresses the perspective of a homeowner or a homeowners' association with the intention of rehabilitating the building, including the renovation of the building envelope. How can they secure the required financing for the investment, and the capacity for the development and implementation of the renovation project?

Financing

1. How can the creditworthiness of homeowners and homeowners' associations be improved?
2. How can the mortgage markets be further developed?
3. What are the benefits of a guarantee system backed up by government? How to implement?
4. What is the potential future role of financial intermediaries, particularly Energy Service Companies (ESCOs) in this market?
5. Within the National Housing Programme, the Bulgarian Government has announced a grant scheme, providing investment subsidies costs up to 20%. Is this sufficient?
6. For homeowners, associations, tenants and others, recently energy efficiency funds have been introduced (EBRD/REERCL and the Bulgarian Energy Efficiency Fund). Can these provide financing for investing in the renovation of condominiums? If yes, do these suit the needs of the homeowners?
7. The Dutch International Guarantee Fund for Housing (DIGH) can guarantee loans for renovation projects, e.g. in the Zaharna Fabrica project. What is the potential for such international financing institutions in supporting HOAs in getting access to affordable capital?
8. The European Union is now investigating an European Housing Fund. What contribution should and could this fund make?

Project development and implementation

1. Are homeowners' associations capable to act as contractors by themselves?
2. Could an intermediary organisation (project management and developing company) play a role? Can this business be economically viable?
3. Is the availability of local contractors and project developers sufficient in terms of availability, pricing, and quality?

4 Restructuring of Housing Estates and Creating Property Value for Homeowners

4.1. Background

Investment by homeowners in management and renovation of the building they occupy does not adequately result in an increased value of the property. The key questions are: how to increase property value and how to use the increased value in financing the refurbishment of the building? The key issues in this field are:

- Securing investments in the adjacent areas of condominium buildings.
- Securing the property rights of the owners.
- The current functioning and development of the market for condominiums in a country.
- The relation between the quality of the property and the market price.
- The possibility for the homeowners of purchasing the land on which the building is located, particularly as part of the renovation scheme. The municipality usually owns this land.

- The possibility of adding new constructions to the building (additional floors, for example) as part of the financing of renovation projects or securing the mortgage.

4.2. **Questions Working Group 3: Restructuring of Housing Estates and Creating Property Value for Homeowners**

Chair: Mr Stefan Todorov. Advisor to the Chair of Committee of Urban Planning and Local Self Government at the Bulgarian Parliament

This working group will address several issues that influence the value of the property that the homeowner holds. Increasing property value can be an important incentive as well as a prerequisite for securing sustainable management and for rehabilitation projects. The following questions will be addressed:

1. What are the opportunities to involve municipalities to increase the quality of adjacent area around the buildings – investing in infrastructure, landscaping etc.?
2. What are the conclusions from the attempts to use the structural funds in the new EU member states (Hungary, Czech Republic etc.) for investing in improvement of housing estates?
3. How can municipalities in Bulgaria be stimulated to invest in the improvement of housing estates (elaboration of “regional plans”)?
4. How is the housing market for condominiums developing, particularly on the lower side of the market? How can any difference between countries be explained?
5. Does the market value of a condominium substantially change after rehabilitation/renovation?
6. What legal framework is required for land-ownership and the right of homeowners to buy the land under the building?
7. In the EU and in the candidate member states Bulgaria and Romania, energy certification schemes are being introduced. Potential buyers will know the energy efficiency quality of building. Will this influence the market price of condominiums?

Selected references

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