

Pre-Conflict Housing in Ukraine: Real Estate Markets and Tenure Dynamics

Since October 2014, Ukraine's Emergency Shelter and NFI Cluster partners have repaired 20,526 houses, distributed 438,882 nonfood items, and supported 109,937 individuals with life-saving emergency assistance. Beyond these immediate statistics of humanitarian assistance, how has Ukraine's humanitarian crisis impacted future access to housing for internally displaced persons and the affected population? Current **absorption capacity** in Ukraine's housing sector has been shaped by a **troubled history of privatization** which has resulted in a shortage of housing supply stimulating an increase in people living in informal housing arrangements. Challenges with affordability of housing and decaying residential infrastructure further complicate access to adequate housing. Nevertheless, Ukrainian society's cultural attitude of self-ownership of housing as an asset critical to their economic wellbeing is demonstrative of their **resilience and presents an opportunity for recovery**.

In **1991**, Ukraine's declaration of independence from the Soviet Union marked the beginning of a gradual **mass privatization** in a housing sector which was already struggling with a lack of apartment supply to meet the demand for housing stimulated by urbanization. In privatization¹, the house as a unit² became the main focus of property tenure rather than a piece of land. The importance of a price value placed on the individual unit took over for the Soviet concept of communal housing where an individual only had to pay for heat, water, and electricity i.e. **communal services**. Maintenance of communal housing premises and services (hallways, elevators, pipes, roofs boilers heating, etc.) was neglected while the number of multi-story buildings and houses in need of heavy structural repairs increased.³

From **1999 to 2008**, individual privatization of the existing housing stock continued. Between 2000-2007, the Ukrainian economy grew by 8% per annum. During 2005-2008, the global housing boom stimulated growth in Ukraine's real estate market grew, and households were able to easily take credit in hard foreign currency. Housing supply, nevertheless, struggled to meet this surge in demand, because Ukrainian regulation did not facilitate the ease and speed with which construction permits could be issued. Corruption further easily dominated the industry, crowding out competition between construction companies.⁴

In **2008**, foreign demand and wealthy domestic investment had pushed housing prices beyond that of the average Ukrainian household. Domestic public and private investment slowed, with a glaring 50% decrease in construction investment.⁵ While Ukraine managed to avoid recession by allowing domestic and foreign debt to grow between **2008-2013**, the value of the *hryvnia* was falling at an alarming rate. The National Bank of Ukraine (NBU) introduced several initiatives to restructure debt in the housing sector according to preferential currency values, while Ukraine tried to settle both its external and internal debts, and the average household struggled with the affordability of housing and basic consumer goods.⁶

Therefore at the start of the humanitarian crisis, Ukraine's housing sector was characterized by 93.7% self-ownership of real estate property, with only 3.4% of households living in private-rental housing and 2.9% in communal housing.⁷ Households struggling with debt and the financial difficulties created by the global and national recession faced a barrier for affording rental apartments due to a lack of rental-stock. Lack of maintenance to multi-story buildings coupled with a lack of new construction of

¹ 9 months according soviet time practices (to be verified)

² 61,591 housing were transferred without a competitive way.

³ This situation is further exacerbated by Ukraine's complete development of a land cadaster. In certain village of Donbass up to 18% of homes to be repaired do not have full and completed documentation. Housing Land Tenure and Property technical working group discussion of the 6th of June 2016.

⁴ <http://www.globalpropertyguide.com/Europe/Ukraine/Price-History-Archive/Ukraines-unexpected-rise-in-house-prices-amidst-economic-slowdown-and-political-tension-1241>

⁵ United Nations Economic Commission for Europe Ukraine: Country Profiles on Housing and Land Management 2013

⁶ In fact negotiation were on going between reitailed banks and NBU about repayment rate fixed between 7.9 and 8 UAH/\$ according banks. <http://www.dsnews.ua/economics/bankiry-otkazalis-schitat-dollar-po-vosem-02032015090700>

⁷ UNECE 2013

apartments was exacerbated by a declining construction sector which was struggling with a decrease in foreign investment.

Outstanding privatization challenges, financial crisis

Social housing and housing policy established in the immediate aftermath of this financial crisis just prior to the start of Ukraine's humanitarian crisis was inadequate to address the housing needs of struggling low income households. At the local level, funds to finance such initiatives were limited. In 2013, at least 1.39 million people⁸ were found to be on a waiting list to receive social housing or shelter to replace old and structurally decaying houses. In 1990, 8.91 % of people on this list were receiving shelter in a given year with that figure declining to 0.46% in 2014 the last time such data was available.

As such for identifying factors for **integration** and **durable solutions**, it is important to consider how the Soviet legacy of care for common premises and housing utilities and unfulfilled privatization has resulted in neglect of residential buildings. Support programming can be designed based on the identity and specific nature of the cases including social programming, specialized institutions such as elderly care facilities, or access to credit to facilitate renting and acquisition of housing.

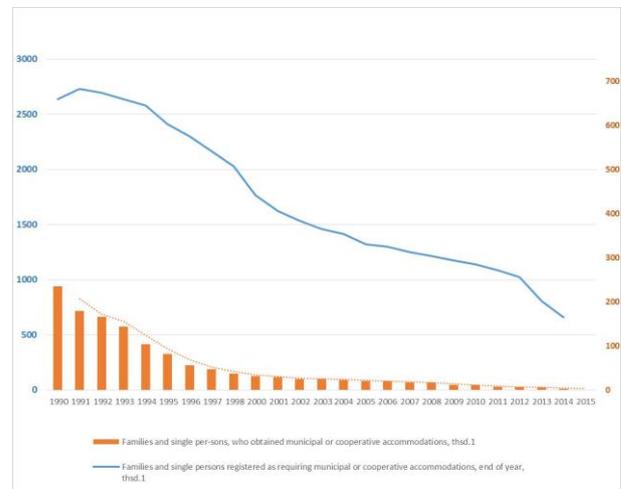


Figure 3- Shelter Cluster Visual; Source: State Statistical Services of Ukraine: http://www.ukrstat.gov.ua/operativ/operativ2007/zf/zf_u/2006_u.htm

Repairing Homes, Repairing Communities

From spring to autumn 2014, people fled the contact line areas of Donetsk and Luhansk Oblasts to take refuge in collective centres, temporary accommodation in apartments, or move in with relatives. As they had left behind property and income, they depended on their limited savings and volunteer groups in the first few months of their displacement. As the conflict has protracted for 3 years, this segment of the population is beginning to exhaust their coping mechanisms. Nation-wide, roughly 59% of IDPs prefer to return to their home of origin, because they have private property there, demonstrating the **centrality of private houses as a main source of capital**. 24% of IDPs report not feeling integrated in their place of relocation,⁹ requesting housing, regular income, and employment in order to better support them in their integration. REACH recorded that roughly 10% of IDPs in 2016 returned from government controlled areas in 2016 (excluding Donetsk and Luhansk oblasts) to non-government controlled areas. 6.24% of IDPs residing in Donetsk and Luhansk oblasts intend to move due to **lack of financing** impacting affordability of rental accommodation, **closure of collective centres, concerns with their current shelter situation**, or familial ties. Illustrating the dichotomy in reasons for return, 42% intend to move elsewhere in Ukraine while 39% intend to return to their house of origin.¹⁰ When asking motivations for moving back to their area of origin home, lack of money for rent and lack of jobs was mentioned 49% of the time. Of those returning to their area of origin home in Donetsk and Luhansk, 35% had reported that it is partially damaged and 2% claim that their home

⁸ The categories for these lists included: those without financial means to improve their housing conditions and who did not have access to government supported programs, households living in overcrowded units, those living in shared facilities such as hostels or flats, households living in residential buildings constructed more than 50 years ago which have never received structural repairs, households lacking basic amenities.

⁹ IOM NMS Round 4 September 2016

¹⁰ REACH 2016 IAVA

was fully destroyed and looted. This perception of home and the desire to return to private property after **3 exhausting years of displacement** has fueled a demand for social housing for those IDPs wishing to return home.

For those remaining in conflict-affected communities, 3 years of shelling has resulted in damage to 18,500 residential buildings in government controlled areas impacting 22,000-25,000 households¹¹ while humanitarian response is still required in places of ongoing shelling. While the number of damaged houses increased in 2014 through 2015, shelter partners aimed to ensure damaged houses had adequate levels of **habitability** by isolating at least one area of the house and preserving the damaged homes' foundation. This was beneficial for those not wanting to move, returning, and most particularly for those vulnerable persons unable to relocate to other accommodation.

Over the long term as the conflict protracts into its third winter; however, unaddressed damages in the houses' foundation particularly for private households in rural areas could further decay a structure that not only represents a place to sleep and protection from the elements. Due to this dominant culture of ownership, damage represents destruction of a households' main source of **capital**. Throughout 2015 into 2016, Shelter Cluster partners have been able to take on medium and heavy repair works to address the greater structural damages to these homes. This process of topping up on acute and primary repairs through larger structural and reconstruction works is a crucial and consecutive synergy with the early recovery process and should also include the revitalization of basic infrastructure to stabilize a **population at risk of displacement**.

However, the goals of humanitarian shelter repair programming are different from the goals of compensation programming for damages and losses imposed by conflict. While repairs and reconstruction aim to guarantee adequate living conditions, compensation involves securing the rights of citizens who have lost assets and family members. Consequently, the awarding of compensation requires much more time to develop a well targeted program.¹² This recovery approach is **triggered** by careful targeting of the humanitarian needs, while laying the ground work for recovery programming to address the other conditions that establish **durable shelter solutions for permanent stay** enabling the involvement of local authorities.

Integration/ relocation

The front line cuts like a **scar**, devitalizing the areas of Donetsk and Luhansk with man-made checkpoints surrounding shelled out residential areas creating a **ghost town effect** for towns robbed of the busy activity of rural or suburban life that once sustained them. In many communities in Donetsk

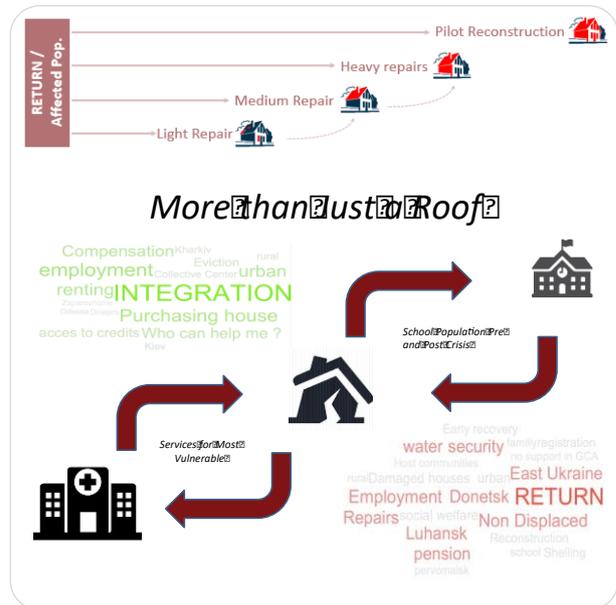


Figure 1 along contact line the linear reconstruction process encompass rehabilitation of more than just a roof. Shelter Cluster visual material

¹¹ Precise data is not available for NGCA, however a mirror impact could produce a similar figure, with the figure slightly higher in NGCA, due to the dominant residential and urban landscape.

¹² For example, 10 criteria were established in Colombia for awarding compensation which did not end with the monetary award but sought to ensure that full rights of the individual were addressed. The criteria also clarified that compensation was a separate concept from humanitarian assistance. The War Report: Armed Conflict in 2013, Oxford University.

and Luhansk, municipal authorities and residents have reported **displacement** and **secondary displacements** due to damaged housing or lack of adequate housing, unemployment, low wages, lack of available transportation (public/private), lack of social services, poor road conditions, and individual prospects for future. In 5 or 10 years, this **ghost town effect could spread** to other communities along the contact line. For those in non-government controlled areas, a regular mobile population that has to travel for job or family will reside side by side with those who are more limited in their movements. These populations will grow economically, socially, and politically further apart from those in government controlled territories indicating that rebuilding and recovery will require many years of comprehensive national and social reconciliation.¹³

Nevertheless, the Sloviansk-Kramatorsk- Konstyantinivka axis and Luhansk Oblasts' Lisichansk-Severodonetsk axis or in cities of regional significance such as Mariupol in southern Donetsk have become **economic** and **population catchment areas** benefitting from their strategic location near passenger railway and developed road infrastructure. This thin line between **municipal opportunity** and **ghost town effect** will be tied with the integration of IDPs who have resettled in these communities. While more than 1/3 of IDPs intend to stay in their current place of residence, housing challenges and expensive rent coupled with lack of medical and educational services put a displaced population at risk of secondary displacements and worsening humanitarian conditions. Therefore, complimentary recovery programming should seek to mitigate these risks of displacement by facilitating the conditions of a functioning housing market and equitable right to housing.

Opportunities starting at community level

Pragmatically, increasing **absorption capacity** for these local communities is firstly tied with building community support. Initiatives such as UNHCR's *City of Solidarities* event held in Mariupol in July 2016 should be replicated. Such initiatives can create momentum between **various stakeholders** to provide social housing to facilitate integration of lower income affected and displaced populations. Such forums can bring relevant private companies, humanitarian actors, and local authorities together to support and develop initiatives for social housing projects. It can also result in the creation of projects that will support the development of the community's absorption capacity, such as investments in social and community infrastructure, thus fostering the conditions for peaceful coexistence. Flexibility and regulation for social housing and rental property to provide adequate average living space per person can be encouraged.¹⁴ Therefore, partial tax exemptions could be implemented in these municipal opportunity areas to boost social economic activity for both those seeking to purchase or rent housing and those seeking to engage in the construction sector.

From the onset of the crisis, the choices made by humanitarian responders and those that plan longer-term development programming determine the future prospects for those impacted by Ukraine's humanitarian crisis. In 5-10 year from now, internally displaced persons and the non-displaced affected population will not only face direct conflict-related challenges but also obstacles to recovery, due to the lack of programs and policies from the state services to foster a competitive housing market and access to social housing, which encompasses an employment creation approach. The affected population's right to housing will clash with the reality of lack of housing supply and programs and policies that will foster the stimulation of a dormant social housing and housing market. Because of increasing risk of eviction, collective centre closure, and a number of people spending time in

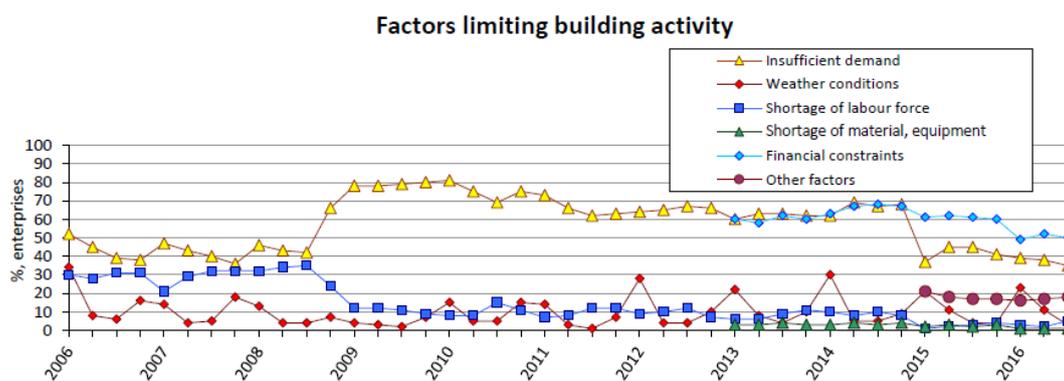
¹³ "Re-examining the social benefits of home ownership after the housing crisis" Paper originally presented at Homeownership Built to Last: Lessons from the Housing Crisis on Sustaining Homeownership for Low-Income and Minority Families – A National Symposium held on April 1 and 2, 2013 at Harvard Business School in Boston, Massachusetts© by William Rohe and Mark Lindblad. All rights reserved.

¹⁴ to stimulate the construction industry to achieve 21m² per person as a minimum standard for rental housing and 21m² +10 m for housing

inadequate housing particularly in NGCA, the demand for social housing significantly increased in 2016. While social housing is a government responsibility, authorities have approached humanitarian partners for assistance for these projects **due to lack of financing** and capacity challenges related with the ongoing conflict. In the area of self-repairs, those returning will face new challenges for rebuilding related with their housing, land, and property and other aspects they consider essential for their integration including employment and access to regular income.

Rental housing was only a temporary measure for many of the displaced, and those deciding to permanently settle will look for more permanent housing solutions. Since 2008, a **lack of stable employment** has made loans a less favourable option for affordability of housing. However; financial loans are often not an option for those recently impacted by conflict who have lost a significant portion of their life savings and household assets and face burdensome mortgages. Programs and policies that assist the crisis affected with affordability of housing should look at supporting the development of a **healthier housing market** which would stimulate the construction industry, purchasing and renting of housing, and generate employment. Due to the great burden that mortgage or regular financial activities may pose on the conflict-affected, creative government support programs should be implemented while the conflict-affected not only seek adequate housing but also try to rebuild their lives.

There are many opportunities to involve the construction sector as a pillar of development and recovery for Ukraine. The National Bank of Ukraine in its inflation report produced in April 2016 cited the critical role that investment in construction played in fueling growth and recovery. Nevertheless, in the Ukraine State Statistic Services projections on 2016 quarter 3 lack of demand and financing are challenging the industry.



Shelter interventions therefore need to involve local construction enterprises to enhance their productivity and to improve livelihoods and rebuild infrastructure to foster community support.

For the most vulnerable, particularly those who have disabilities and remain in collective centres, specialized institutions could be a short term solution as collective centres are being forced to close. Social housing projects and ensuring that social institutions have the capacity to assist this vulnerable population even in the short-term until more durable solutions need to be discussed between humanitarian actors and municipal and state authorities. Due to government limitations and mobilized development donors, humanitarian actors may have to intervene in the last resort especially during Ukraine’s harsh winter months. Such interventions should be implemented side by side with government stakeholders and mainstream local capacity building.

In the absence of effective mechanisms for assessing property values and a lack of electronic and complete land and property inventory, projects that assess property and available housing options should be encouraged. Such innovative programming can be paired with provision of credit support and transfer of tenure to the crisis-affected. From the perspective of housing, land and property,

liaison with local authorities will be required to address some of the judicial concerns. The risk of sabotage and corruption in such programs remains, and further liaison is required to protect the affected population from such financial rent seeking.

Displacement in Urban Contexts and Reforms in Ukraine

Globally conflicts and natural disasters have displaced 60 million persons with only one third of that population deciding to cross borders in their displacement and seek refugee status.¹⁵ Over 1.5% of those 60 million are internally displaced within the territory of Ukraine. The Guiding Principles on Internal Displacement¹⁶ establish the **joint role of national authorities and humanitarian and development actors** in facilitating durable solutions, as marginalizing the internally displaced creates obstacles to recovery, long-term stability and reconstruction.¹⁷ The opportunities to establish these durable solutions are great due to the country's pre-conflict capacities and policies. Apart from the crisis in the east and its "*war against corruption*," the Government of Ukraine is slowly attempting to conduct critical structural reforms, and three of them are directly related with the housing sector:

- I) State energy subsidies
- II) Transfer of responsibilities of communal property to apartment tenants
- III) Land Cadastre system

State Energy Subsidies

As a legacy of the Soviet system, electricity and gas providers were heavily subsidized. For a number of years, Ukraine's subsidy program was poorly targeted and inefficient benefitting the energy companies and not reaching the average consumer and definitely not the most economically vulnerable. In order to comply with the terms of an International Monetary Fund reform, Ukraine has made an attempt to reduce and streamline inefficient subsidies in order to reach the lower economic segment of the population. This, however, comes in parallel to a nearly 30% increase in heating and utility prices.¹⁸ Theoretically energy reform has an end result promoting better insulation and also indirect tax collection on the middle/upper class. As of the first year of implementation, this reform has met much opposition from the average consumer who is not aware of the individual gains in this reform and is facing new bureaucratic impediments related to application for the program.

Transfer of Responsibilities of communal property to apartment tenants

The second major reform is linked to the renewing of the property portfolio of main institutions in charge of communal property housing at the municipal level: the creation of condominium associations known as OSBB by their Russian acronym as administrators of communal property.

Following the fall of the Soviet Union and the start of the privatization process in Ukraine, responsibility for common premises within multi-story buildings fell under the jurisdiction of *zhek* or housing maintenance services. Linked with the Ministry of Social Policy at the local level, *zhek* are responsible for providing maintenance of communal areas within apartment buildings such as water supply, sewage systems, communal areas, elevators, electricity network, and heating and utilities and for collecting money from the residents of communal building residents to maintain these premises. Residents of these buildings have very little control over the companies that *zhek* contracts to provide such services, fueling the risk of corruption, high expense for residents, and

¹⁵ <http://news.trust.org/item/20160916104048-x43fd/>

¹⁶ Principles 28-30

¹⁷ IASC Framework

¹⁸ <http://zakon0.rada.gov.ua/laws/show/z0231-15>

inefficient building standards. Nevertheless, *zhok* has no accountability to the residents of multi-story buildings or to appeal to the wishes of its residents.

The Ministry of Regional Development, Building, and Housing has advocated for **condominium associations** as a way to channel accountability in the housing sector. The Law of Ukraine on Association of Apartment House Owners (known by their abbreviation as OSBB) was adopted in November of 2001. The law establishes OSBBs as legal yet non-profit entities. Due to the difficulties of creating such associations, Ukraine approved the May 2015 “Law on the Peculiarities for the Realization of a Right to Property in a Multi-Apartment Building.” In this law, the legislation requires all owners of apartments and non-residential premises to register as a condominium association or OSBB by the 1st of July 2016 or be left under the communal maintenance supervision of the *zhok*. In the mid-term, the transfer of decision-making powers from the municipalities to the **condominium associations composed of individual apartment dwellers** will be a critical component for ensuring adequacy of housing at the local level. However, these associations are not legally binding and not mandatory, and therefore are unable to advocate with local governments and utility companies on behalf of their residents.¹⁹ Culturally as well, decentralized private ownership is not a concept that is well accepted for generations that grew up under the system of communal ownership, where residents did not have the responsibility for accessing subsidies and maintenance of facilities.

In the current legislation and draft legislation, condominium associations would still lack the critical capacity to develop new property, conduct capital repairs, protect individual apartment dwellers through consumer protection laws, and conduct energy reforms. In 2017, the obstacles for transitioning humanitarian coordination capacities back to local governments will remain because of the legal framework’s ambiguity with respect to property rights and the relationships between owners, co-owners, operating agencies, local governments, and service providers. Moreover, within one apartment building, one can have income, cultural, demographic, and social differences which can result in vastly different resource prioritization between residents. Therefore, the formation of condominium associations can be linked with community support initiatives in addition to economic and legal literacy programming to foster local governance initiative which result in a housing policy framework that will ease the recovery phase for many of these conflict-affected communities.

Law of Ukraine on the State Cadastre System

In 2011, the Verkhovna Rada approved the law on State Land Cadastre as a single cadaster to streamline information on property and land availability. This important piece of legislation is linked with decentralization and enables local authorities to better know their assets and property at local level. Key to driving urban planning and development, the single cadaster is one key tool to foster construction and infrastructure projects while also ensuring that urban development corresponds with population dynamics. The development of this legislation was timely, because the economic crisis of 2008 had created significant demographic changes within many semi-urban areas and between various oblasts of Ukraine with the main motivation being economic emigration. The implementation of this legislation was postponed for implementation for 2013, the time period just before the beginning of Ukraine’s prevailing humanitarian crisis. The sudden mass influx of internal displacement complicated the successful implementation of this legislation. It has further put a strain on housing units in desperate need of repairs and the eastern regions’ dependence on external resources in

¹⁹ <http://voxukraine.org/2014/12/23/the-concept-of-reforming-of-housing-and-utilities-sector/>

financing housing initiatives. Over-crowding and a lack of social cohesion already threaten the future perspective of the internally displaced and those looking to resettle within Ukraine.

Conclusion

Housing projects seeking to create durable solutions and assist the conflict affected should be mainstreamed and focused to target the economic, political, social, financial, and legal components which will be required to shape the housing sector in Ukraine over the next few years. This will require humanitarian and development projects implemented in Ukraine from 2017 onwards to have housing and shelter projects with clear outcome indicators for adequacy of housing and milestones that support the necessary components of utilities reform. Cooperation with local authorities will also be key at local, state, and national levels. Humanitarian and development actors should also remember critical housing, land, and property issues that were directly created by the conflict, such as loss of documentation, forced evictions, illegal confiscation of property and lack of clear procedures for seeking and being awarded compensation for property damage caused by the ongoing conflict. Projects with dispersed resources which do not engage the proper stakeholders will cause further harm for reconstruction and recovery. The World Bank states emphatically in their review of thirty years of their engagements of housing and finance,

It follows that when managed effectively, shelter policy can be an important source of financial stability and economic resiliency, as well as a major component of the social development agenda. Perhaps equally importantly, when shelter policy is not managed effectively, the housing sector can contribute to financial instability and increased inequality.²⁰

Beyond the individual housing unit, such projects must also seek to tap into the potential of key catchment areas by improving infrastructure and access to services, while also fostering community engagement. Many of these areas have lacked access to capital for such projects and are facing additional pressure stemming from the increase of stable IDPs looking to rebuild their lives in these catchment areas. Ukraine's lack of a properly developed land market further complicates needed reform. City-level initiatives should build on community level engagement (as cited above) to ensure proper urban development and fostering the development of the land market. The path to recovery for Ukraine's crisis impacted housing sector will be long and difficult, though the opportunities for recovery lie through establishing robust housing and tenure security.

R. Wynveen, I. Chantefort; **Shelter Cluster Team for Ukraine**, November 2016

²⁰ "Thirty Years of World Bank Shelter Lending: What have we learned?"
http://siteresources.worldbank.org/INTHOUSINGLAND/Resources/339552-1153163100518/Thirty_Years_Shelter_Lending.pdf