

From a State Controlled
to a *Laissez Faire* Housing System
Local Government and Housing in Estonia

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INTRODUCTION

Estonia is a country in northeastern Europe with 1,361,000 inhabitants. Its independence—achieved in 1918, then lost during the Soviet occupation in 1940—was restored in 1991. Due to the relatively short duration of the last period of independence, current housing situation is, to a large extent, influenced by the period spent under the Soviet regime—the era when industrialized building technologies were introduced and housing construction volumes reached their peak.

Estonia is one of the smallest of the EU candidate countries in terms of its population and area (45,227 km²). Estonia has integrated itself smoothly into the global trading system and the degree of openness of the Estonian trading system (average of imports plus exports to GDP) was the highest of all candidate countries in 1998. Estonia has been transformed into a remarkably open and trade-oriented economy. The Estonian currency—the kroon—is fully convertible. GDP per inhabitant, at current prices in 1999, for Estonia was EUR 3,300 compared to EUR 21,200 in the EU15. Regionally, more than one-half of the national GDP was created by the capital city region in northern Estonia and its share in the national GDP grew continually from 1996–1998.

The biggest social problem in Estonia is unemployment. The unemployment rate (11.7% in 1999) is higher than in the EU15 (9.2%). Estonia differs from the EU in its employment structure: a large share of the people in Estonia are involved in the primary and secondary sector and a lesser share in the tertiary sector. In addition, the aging of the population is one of the most crucial issues in Estonia, because the proportion of the elderly is increasing considerably faster than that of children. This will result in the need for an increase in social support, the growth of health and pension fund disbursements, a decrease in the numbers and an aging labor force.

In the ethnic structure of the population, ethnic Estonians predominate with a 67.9% share (56.6% in towns and 91.3% in rural municipalities) [Census, 2000]. The rest of the population consists mostly of the Russian-speaking population, i.e. Russians, Ukrainians, Byelorussians, etc (in total 30.1%).

Administratively, the territory of Estonia is divided into counties (15), rural municipalities (205) and towns (42) (at the beginning of 2001, see Table 4.1). The local government units are rural municipalities and towns, whereas the regional administrative units are counties. The largest municipalities are Tallinn, the capital of Estonia, with 480,300 inhabitants (in Harju county) and Tartu with 101,700 inhabitants (in Tartu county) (Census 2000 data) (see Figure 4.1). The state administration in counties is carried out by county governors and the government agencies. In fact, counties are simply extensions of the central government; there is no directly elected representation of the people on the regional level. Thus, the local government system is one-tiered, taking place on the municipal level. All municipal units (towns and rural municipalities) are equal in their legal status.

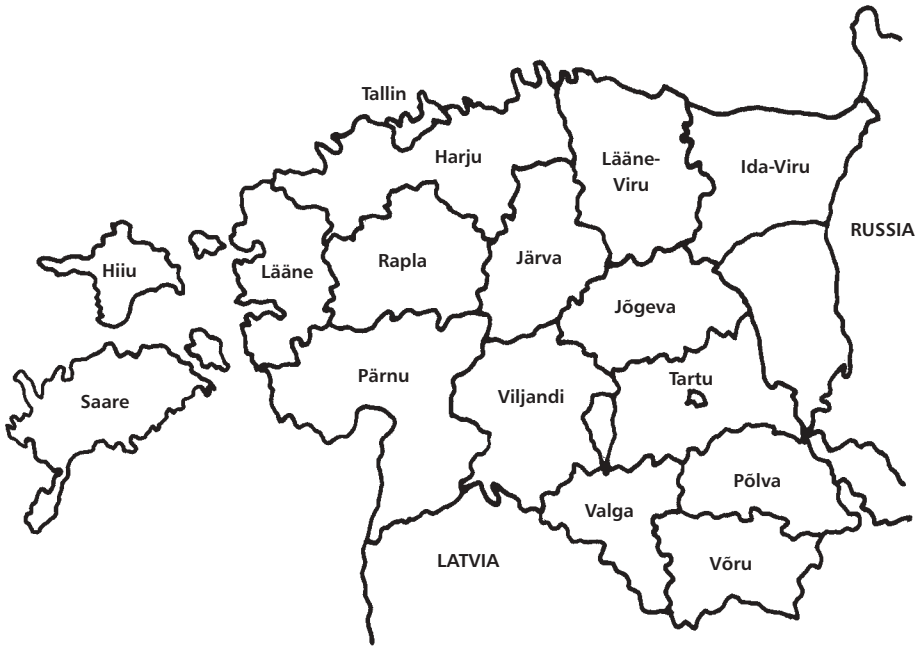
Table 4.1
Division of Municipalities in Estonia by the Number of Inhabitants,
at the Beginning of 2001

Number of Inhabitants	Number of Municipalities	[%]
under 1,000	32	13
1,001–5,000	179	72
5,001–10,000	22	9
10,001–50,000	11	4
50,001–100,000	1	1
100,001 and up	2	1
Total	247	100

SOURCE: Statistical Office of Estonia.

Compared to the other Central and East European post-socialist States, the housing reforms carried out in Estonia during the 1990s have been especially radical. Domestically, reforms in the housing sector have been more radical than in any other social policy field. In less than a decade, the housing policy turned from a state-controlled socialist housing system to an almost entirely *laissez faire* system. The reforms have most significantly changed ownership relations, resulting in the formation of a ‘homeowners’ society. In addition to the housing privatization and process of restitution of property nationalized by the Soviet regime, the reforms involved rent reform, i.e. the liberalization of the rental sector and housing management reorganization.

Figure 4.1
Estonian Counties



SOURCE: Regio Ltd (2002).

The study aims to give an overview of the main reforms that have taken place in the Estonian housing sector over the last decade and examines their social and economic consequences. The analyses are mostly focused on local governments. We show how the role of these administrative units has changed in influencing the housing sector, explain how and why local governments have reacted differently to the changing conditions and evaluate the efficiency of the current housing policies pursued by local governments. The analyses are based on Estonia's housing-related legislation, previous studies on housing, available statistical databases and the authors' own evaluations. A survey, the 'Local Government Housing Survey' (LGHS) was conducted among housing specialists working for local governments in Estonia. The survey involved all municipalities with more than 5,000 inhabitants (the total number of such municipalities is 37, response rate was 46%). In addition to the survey, two interviews were conducted with housing specialists from the local governments of the two biggest cities in Estonia: Tallinn and Tartu.

1. HOUSING AND NATIONAL HOUSING POLICY DURING THE TRANSITION

1.1 Housing Conditions

The regular data based on the summary of housing owners' reports in inter-census periods, indicates the number of dwellings to be 623,100 with a total floor area of 33,600,000 m² in Estonia at the beginning of January, 2000¹ (the Statistical Office of Estonia). The average per capita floor area was 23.3 m² and there were 432 dwellings per 1,000 inhabitants, making Estonia a country relatively well endowed with dwellings, compared to other European countries.

In the socialist housing system in Estonia, there were four types of tenure: state housing, municipal housing, private housing and cooperative housing, based on both private as well as public investments. In 1992, prior to the launch of the ownership reform, 26% of dwellings belonged to the State, 35% to local governments, 35% to private owners and 4% to housing cooperatives. Housing privatization and housing restitution were mostly completed by 2000. The restitution processes involved the majority of housing stock built before 1940. From the housing stock constructed during the Soviet period, the majority of the dwellings in multi-apartment houses were privatized, whereas detached and semi-detached houses were mostly privately owned by individuals already before the privatization.

In 2001, 94.8% of dwellings belonged to the private sector and 5.2% of dwellings were owned by the public sector, mostly by local governments (see Table 4.2). The cooperative dwellings are being privatized as well, firstly to the housing cooperatives and after that to individual owners, but this process is still ongoing. Dwellings returned to legal owners or their successors accounted for about 2.6% of the total dwelling stock. There were 22,500 households in those houses which were restituted (about half of them in the capital Tallinn) (*Tagastatud majade...*, 1998).

From the 1960s to the early 1980s, the rate of housing construction was quite high in Estonia (over 10 dwellings were constructed per 1,000 inhabitants annually). However, in that period the rate was not high enough to satisfy the housing needs of the population, which was growing rapidly due to extensive migration from the other republics of the Soviet Union. A decline in building volumes started in the second half of the 1980s and continued throughout the 1990s. Since 1996, the construction rate has remained at the level of 0.5–0.6 dwellings per 1,000 inhabitants. New housing construction has also been concentrated in northern Estonia. Until the 1980s, 1- or 2-room apartments accounted for over 50% of new housing built. In the 1980s, there was an increase in the prevalence of 3-room apartments. The share of one- and two-family

houses exceeded apartment dwellings during the second half of the 1990s. The new housing constructed in the 1990s has almost entirely been based on private funds—the funds of privately-held companies and individuals. Public sector investments in new housing construction have been minimal (Table 4.3).

Table 4.2

The Distribution of Housing Stock by the Type of Ownership in Estonia
(Beginning of 2001)

	By number of Dwellings [%]	By Floor Area of Dwellings [%]	Average Floor Area of Dwellings [m ²]
Public dwelling stock	5.2	3.8	39.2
..state	...0.6	...0.5	...39.7
..local government	...4.6	...3.3	...39.2
Private dwelling stock	94.8	96.2	54.8
..condominiums	...25.2	...25.2	...54.0
Total	100	100	54

SOURCE: Statistical Office of Estonia.

Table 4.3

Dwelling Completions by the Source of Finance

	Local Governments' Budgets		Private Individuals' Sources		Other Sources (Private Companies, etc.)		Total	
	Number	Floor Area [m ²]	Number	Floor Area [m ²]	Number	Floor Area [m ²]	Number	Floor Area [m ²]
1993	211	11,463	486	58,277	1,734	110,783	2,431	180,523
1994	26	1,906	507	64,527	1,420	92,742	1,953	159,175
1995	58	3,932	472	56,563	619	44,421	1,149	104,916
1996	30	2,293	500	64,183	405	37,054	935	103,530
1997	1	100	739	90,779	263	30,726	1,003	121,605
1998	0	0	525	66,487	357	32,828	882	99,315
1999	0	0	402	53,668	383	33,423	785	87,091
2000	1	99	314	45,084	405	33,680	720	78,863

SOURCE: Construction Register at May 1st 2001.

Due to negative migration rates and a natural decrease since 1992, the Estonian population has been on the decline. Therefore, despite the very low construction rates, the relative supply of dwellings (dwellings per 1,000 inhabitants) has improved slightly during the 1990s. There is no visible lack of living space in Estonia at the moment. According to Census 2000 data the number of dwellings exceeded the number of households by 5%. However, there are problems related to 'over-population' and the low quality of dwellings (e.g. different generations sharing one dwelling, a large percent of the living space is in a physically unsatisfactory state of dis-repair). Also, the population is unevenly distributed over the housing stock. Many small households occupy much of the living space and large families are relatively constricted. There is a geographical discrepancy between the housing market and labor market, with many vacant dwellings in geographically peripheral areas and overcrowded population centers. Although Estonia is among the leading Eastern European countries with respect to the number of dwellings per 1,000 inhabitants, it falls behind most of its neighbors in the quality of housing. About 40% of dwellings in Estonia were built before 1960. According to the data of the Living Conditions Study in Estonia in 1999 (*Living Conditions Study ...*, 2000), 72% of households in Estonia live in multi-apartment houses (41% in 5- and more story blocks of apartments) and 27% in detached houses. Households most frequently occupy two rooms (39% of all households) and they have the following facilities: 87%—running cold water; 84%—public sewage system; 77%—indoor bathroom; 72%—bath or a shower; 65%—central heating; and 63%—running hot water. The availability of the facilities has almost remained the same at the end of 90s as it was at the beginning.

Compared to 1994, households enjoy more privacy in their dwellings. 41% of households occupy a dwelling where the number of rooms exceeds the number of household members (while in 1994 only 24%). 26% live in housing where there are more household members than rooms (in 1994 only 42%) (Table 4.4).

Renovation projects have mostly been implemented by private funds (initiated by individual owners, condominiums or housing cooperatives²). Local governments have not directly financed the projects. Apart from the investments of private individuals, a few small-scale regeneration projects have been carried out in the main cities of Estonia. In Tallinn and Tartu these involve one or two housing quarters in the wooden tenement-housing zone surrounding the central city. These projects have involved the demolition of dilapidated buildings and the construction of small-scale apartment houses and terraced houses. Projects have been developed by private companies (detailed plans were designed by local governments, infrastructure already existed there before). As the demand for newly built dwellings is low, due to the limited credit capability of the majority of the population (though there is a need for the improvement of living conditions) private developers prefer to invest in projects with quick turnover and a high return rate,

such as the new housing quarters on the outskirts of the city of Tallinn. Therefore, the regeneration projects have not been implemented to a previously planned extent. In addition to these projects, a few ‘model buildings’ have been thoroughly renovated as pilot projects in the housing estates of Tallinn and Tartu, in cooperation between town governments and foreign institutions (such as Swedish Foreign Aid Agency NUTEK, Phare). The investments by the Tallinn and Tartu municipalities were minimal in these projects—local governments were involved in the organization of seminars and selection of houses for renovation. In the case of Tartu, residents (i.e. condominiums) did not have to pay for the renovation costs, whereas in Tallinn, condominiums covered partial costs, receiving loans for this purpose.

Table 4.4

Indicator of Privacy in Estonia According to the Living Conditions Surveys,
1994 and 1999 [%]

	Living Conditions Survey 1994	Living Conditions Survey 1999
Number of household members exceeds number of rooms	42	26
Number of rooms is equal to number of household members	34	33
Number of rooms exceeds number of household members	24	41
Total	100	100

SOURCE: Statistical Office of Estonia.

1.2 National Housing Policy Objectives and Legislative Changes

1.2.1 Housing Policy Objectives

The current housing policy objectives and strategies derive from the programs of the main political parties in Estonia. The bases for the current political developments at the national level are established in the coalition compact (between *Reformierakond*—the Reformist Party and *Keskerakond*—the Central Party) but housing policy questions are only very briefly covered. The compact points out the following objectives:

- To find solutions to the problem of tenants in restituted housing;
- To find possibilities to transfer financial resources to local governments for the new municipal housing construction;

- To improve the existing system of social benefits by increasing the share directed to households in real need and by decentralizing the system in giving more decision-making freedom to local governments.

The national government has not yet succeeded in approving the national housing strategy as a single document with clearly defined housing policy objectives on the basis of which local governments could develop their housing programs. In the preliminary version of the Estonian Housing Strategy (prepared in 1999) the aims of the Estonian housing policy are defined as follows [*Eesti elamumajanduse ...*, 2000]:

- To establish physical and social safety in the housing sector and housing accessibility (includes the formation of a legal framework);
- To establish ‘professionalism’ in housing, i.e. to secure conditions which allow the furtherance of the knowledge and professional skills of all parties in the housing sector;
- To support the initiative of individuals and households in access to housing and in the improvement of their housing situation, to establish favorable conditions for non-governmental organizations in the housing sector and to stabilize ownership relations.

It is stated in the strategy that “the State with its structures should not secure housing for all population groups and support them directly in the improvement of their housing conditions. Rather, it is necessary to support the establishment of conditions, the institutional environment and financial instruments for ensuring the support, so that housing owners, tenants, managers and non-governmental organizations could cope with the housing problems by themselves” [*Eesti elamumajanduse ...*, 2000: 7].

The preliminary version of housing development strategy is based on a relatively liberal attitude toward housing development. Although the strategy pays considerable attention to the enlargement of the municipal and social housing stock, it is mostly aimed at solving the problems of tenants in restituted housing (see below). In our opinion, the national housing strategy should, however, support housing development, i.e. to increase the supply-side housing subsidies and support, directly and indirectly, housing construction and renovation. This would help to prevent further price increases, improve housing affordability and choice in the housing market. If there is more supply and choice, the housing market will likely be less segmented. The housing strategy should be related to regional policy, labor and social policy. To ensure an efficient implementation of housing policy, the strategy should contain long-term housing policy aims, where the financial means and opportunities are also specified. Housing policy and its means should be targeted to all families who have little opportunities to obtain an adequate standard of housing in the housing market.

1.2.2 Housing Legislation

The Constitution of Estonia does not directly regulate the housing side of the economy and housing conditions. This area is regulated by other special acts: the Law on Local Government Procedure, the Housing Act, the Principles of Ownership Reform Act, the Privatization Act, the Planning and Building Act and the Social Welfare Act. According to the Constitution, private property is inviolable. Property can be expropriated without the consent of an owner only when it is in the public interest and fair and immediate compensation is made to the owner. Everyone has the right to freely possess, use, and dispose of his or her property.

The principles of housing restitution and privatization were stipulated in the Principles of Ownership Reform Act (approved in 1991) and the Privatization Act (approved in 1993). According to these acts, the purpose of the ownership reform was to restructure ownership relations in order to ensure the inviolability of property, to undo the injustices caused by the violation of the right of ownership, and to create the preconditions for the transfer to a market economy. In the course of the ownership reform, property in the state ownership was transferred without charge into the municipal ownership (the municipalization of property) and after that it goes into private ownership (the privatization of property).

The purpose of *housing restitution* was to return (or to compensate for) the illegally expropriated property back to their former pre-WW II owners or their legal successors. Leases, in force at the time of the return of a residential building, were deemed to be valid for three years after the transfer of ownership unless the tenant and the owner agreed otherwise. After that deadline, the central government was forced to extend the leases until 2007. Tenants living in restituted residential buildings are entitled to receive a new rental dwelling or are entitled to apply for a loan or grant from the State or local government for resettlement or for the purchase of a dwelling. In the case of eviction, local governments must provide tenants in restituted housing with a dwelling that is located in the same municipality and is comparable to the tenant's previous (restituted) dwelling in quality and size. The Housing Act states that if it is impossible for a local government to provide such a dwelling, the State must provide means for the purchase or construction of such dwellings for local governments. In reality, the central government has not supported local governments in this, even though many municipalities face such problems.

Housing privatization, starting in 1994 (the duration of privatization to sitting tenants lasted until June 2001), began on extremely favorable terms for tenants. All municipal tenants who did not occupy restituted housing had the right to buy their rental dwellings. By law, local authorities could also restrict the privatization (by selecting dwellings not designated for privatization). Yet, in reality the pressure for privatization was so strong and the governments' resources so very limited, that they seldom used

that right. For the most part, the purchase of apartments occurred through vouchers, i.e. privatization checks (public capital vouchers, or *EVPs*). Privatization was restricted for households that did not have enough *EVPs* (though money could be used for privatization as well), but these formed a marginal group of tenants.

All individuals permanently living and working in Estonia were entitled to *EVPs* that were distributed on the basis of the length of time worked in Soviet Estonia; one year was made equal to *EVP* 300. The privatization price for dwellings was calculated by the price difference between a particular dwelling and the ‘standard dwelling’—which is an apartment in a 9-story prefabricated (panel) building and for which the fixed privatization price was applied. In the ‘standard dwelling,’ one m² was equal to one working year or *EVP* 300. The amortization state of a dwelling, the state of maintenance and location were taken into account in calculating the final privatization price of a dwelling. For instance, as an average working period for a pensioner in Soviet Estonia was 40 years, a pensioner could usually privatize a 2-room apartment for his *EVPs*. *EVPs* can be freely purchased and sold—the exchange rate at the moment (in June 2002) is *EVP* 1 = EEK 0.7 (USD 0.04). Dwellings could also be sold for money or traded for the securities issued for the compensation of illegally expropriated property and the employment shares issued to collective farm workers. The direct financial costs (i.e. in terms of money) of privatization for tenants were low and consisted mainly of legal fees for the transaction (which did not exceed 1% of the total value of the transaction). In the case of property that was not restituted nor privatized to the sitting tenants, the sale occurred in the form of a public auction.

Due to the significant changes in tenure structure, today’s rental sector has become dualized, consisting of mostly residualized public dwellings with a relatively low rent level and of a newly emerged private rental sector that is formed from the restituted and privatized flats that are rented out at market prices. In some municipalities a rent regulation still applies to the old tenants of restituted housing. No reliable data is available for the number of privately owned rental apartments. The data of the Statistical Office of Estonia indicates that about 10% of individuals rented their housing from private parties in 2000. In reality, the share of tenants in private housing is most likely higher than this figure.

The main objectives of the ownership reform have been achieved by today. The ownership relations have been restructured (as well as the responsibilities of renovation and maintenance), the injustices caused by the Soviet regime concerning the violation of the right of ownership have been mitigated to some extent and a private housing market, designed to operate on a free market basis, has been created. However, the ownership reform applied in Estonia created the following inequalities [Kährik, 2000]:

- Some households who became property owners received large financial gains from the process, whereas the gains for other households were minimal as property market prices vary greatly between regions and within municipal territories;

- Inequality characterizes the situation of, on one hand, those public tenants who had an opportunity to privatize their housing or who got their property back and, on the other, those who were deprived of that right as the property was to be returned to the former owner;
- Younger generations and those households who did not occupy public housing have gained little or nothing directly from the privatization process. Among them, we find residents of private houses and members of cooperatives who had already incurred much higher housing-related expenses during the Soviet period.

The most frequently discussed negative consequence of the ownership reform concerns tenants in restituted housing. Occasionally, a purchase is made possible by an agreement with the owner on free market terms. Tenants in restituted housing demand the same rights as the public tenants (who could privatize using *EVPs*). They expect local governments to offer them new housing which they might privatize later, or to receive so called *EVP* loans, which would enable them to buy a dwelling on the market using *EVPs*³. So far, local governments have not been active in solving these problems, although they are legally bound to do so. Municipal councils have extended the rent control period in restituted housing so these tenants do not get evicted en masse. Local government representatives have estimated that 40% of the owners of restituted housing are willing to end existing leases (so they can renovate a house and rent it out for several times higher rent) or to convert the dwellings to non-residential spaces. Therefore, many tenants in restituted houses do not have an option to continue as tenants with a new landlord.

Besides the problems arising from the conflicts between tenants and owners in restituted housing, there are other weaknesses and shortcomings that result from massive homeownership which the new order has not been able to resolve. The level of housing construction and housing renovation is very low, the public rental sector has become marginalised (residualised) in terms of its social and physical structure and housing affordability has declined. According to the 'filtration of the available housing' theory [Knox, 1995] which forms the basis for the *laissez faire* housing policy, the more affluent individuals occupy new dwellings in the market (newly constructed and existing) whereas lower income groups can raise their living standard by moving to the dwellings vacated by the upper income groups. In Estonia, as in many other countries, the model does not seem to work. Firstly, social groups with lower incomes are not able to obtain the housing vacated by the affluent, because the purpose of such housing can be changed (from residential space into office or business space) or the space can be used by family members (retired parents, children). Secondly, the number of households able to obtain new housing is very small. During the last five years, an average of 950 new dwellings were built annually, which indicates that 0.2% of households can potentially move into

newly built housing each year. Thirdly, the living conditions of affluent households already experienced a substantial improvement by the first half of the 1990s and the majority of these households are no longer active in today's housing market [see *Social Trends 2*, 2001].

In 1994–1996, a package of the laws regulating the activities of local governments was adopted. If, up to that point, local governments had the 'right' to fulfil their functions, taking over from the county government, then now it has become an 'obligation'. *The Law on Local Government Procedure* determines the tasks, responsibilities and the arrangement of local governments and relationships between local governments and state government institutions. According to the law, local government units are responsible for social assistance and services, the care of the elderly, housing and community services and utilities, water supplies and sewage, common weal, physical planning, transport, the maintenance of roads and streets, in the event these tasks are not in someone else's responsibility. Local government units are also responsible for the maintenance of shelters and care homes and other local institutions, if they are municipal property. In cases prescribed by the law, certain expenditures made by these institutions may be financed from the state budget or from other sources [RT I, 1994]. The division of responsibilities between central and local governments is not always clearly expressed by legislation. There are many areas (social welfare and health care) of shared and ambiguous responsibility. In general, the local governments feel that their responsibilities are overwhelming in light of the limited available resources.

The Housing Act, approved in 1992, states that the central government is responsible for defining the groundwork for housing allocation, occupancy and the management of state-owned dwellings, the principles of socially-justified living space and the differences in applying it, the principles of landlord–tenant relations and rent calculation and the principles of the establishment and management of condominiums. Local governments are entrusted with devising procedures for the registration of persons who do not have a dwelling or a permit to occupy a dwelling, and of those who are unable to improve their housing situation on their own. They are also charged with the allocation, occupancy and management of the dwellings in their ownership, including overseeing maintenance and repair procedures.

The Housing Act abolished centrally governed rent regulation. Rental price should be set at a level allowing it to cover the actual costs of housing, i.e. the costs for housing maintenance (includes costs of small repairs), the renovation costs (for more expensive improvements of housing quality, this also includes loan costs, if funds are borrowed for housing renovation⁴), housing services and owner-profit which is allowed to account for up to 10% of the total rent price. In addition to rent, tenants must pay for the water supply, sewage, electricity, heating costs and natural gas (if these facilities are available), cover the costs on land tax to the extent of the land the tenant uses and the costs on building insurance to an extent that corresponds to the size of the living

space the tenant occupies. Local governments, however, obtained the right to regulate rent levels in dwellings within their municipal territory. Although this applies to all dwellings irrespective of ownership, it actually gives governments the possibility to regulate rents only in the municipal dwellings and in restituted dwellings⁵, because in today's housing market, the demand exceeds the supply and, according to the law, rent is set by an agreement between a landlord and a tenant.

For large housing estates, the management of the units is increasingly given over to condominiums that usually contract private management companies and companies to provide housing services. Condominiums are non-profit organizations having the status of a legal person that are charged with the management of the common spaces of the buildings and of the land that belongs to the building; they represent the interests of apartment owners. Housing management is carried out in concert by apartment owners (i.e. every apartment owner can vote equally at general meetings, with decisions taken by a majority vote). The members of condominiums are all apartment owners within one building. The establishment of condominiums has gained momentum during the past few years, as apartment owners have started to realize their rights and responsibilities as owners. The union of Estonian condominiums (formally known as the Estonian Union of Cooperative Housing Associations)⁶ was founded in 1996. At the beginning of 2002, 710 condominiums and former housing cooperatives were members of the union (34,000 apartments and approx. 100,000 residents).

A distinction should be made between social housing (which is in municipal ownership) and municipal housing in general (includes dwellings which have not yet been privatized as well as 'social dwellings'). According to the *Welfare Act*, the 'social dwelling' is a dwelling in the municipal ownership designated to a person who needs social assistance. Social housing is supposed to include special social services. However, in reality social housing does not mostly correspond to the requirements imposed by the law. Usually, the same rent level and rental conditions apply to both social dwellings and other dwellings in municipal ownership. In addition to municipal housing, a housing service is also provided through other institutions like shelters (during 1999 1,700 persons stayed in these places for some time), social rehabilitation centers (during 1999 4,700 persons stayed there for some period) and social welfare institutions (care homes for adults with 5,800 registered persons at the beginning of 2000 and care homes for children with 1,700 registered children and young people at the beginning of 2000). These institutions are not included in the analyses of the current study. The law states that local governments are obliged to provide a rental social dwelling or an opportunity to use a shelter to a person or a household who is not able or capable of obtaining it by himself. Local governments must assist disabled or other persons with special needs by adjusting the dwelling to their needs or finding them a more suitable dwelling.

The *subsistence benefit* in Estonia is a monetary support granted to promote the ability of a household to cope with, among others things, rising housing costs. In the period

of 1994–1996, a specific housing allowance was applied. The State compensated, via a housing allowance, for those housing costs that fell within the standard allotted living space and exceeded one-third of a family's income. This allowance was accompanied by the subsistence benefit, paid to persons whose monthly income was below the subsistence level. Both allowances were granted and paid on a monthly basis by local governments from the funds of the state budget allocated for this purpose.

In 1997, the two benefits were combined into a unified subsistence benefit, also paid through local governments. In the new system, local governments were again only in an administrative position, i.e. they paid the benefits as the law dictated, whereas the financial means came directly from the state budget. The aim of the change in the system was to reduce the proportion of recipients of assistance in order to cut public expenditure on social benefits. The benefit went to households whose net income, after housing expenses, remained below the subsistence level established by the central government. The basis for the granting of subsistence benefits was the monthly income of the household after the payment of housing expenses for the use of the standard allotted living space with a maximum ceiling. The following housing costs were taken into account when deciding on the benefit: actual housing rent or management costs, the heating costs of dwelling and the heating costs of hot water, water supply and sewage costs (based on usage) electricity costs, costs of gas, land rent costs and the costs of building insurance. The Welfare Act enables local governments to set housing expenditure ceilings that are included in the payment of subsistence benefits.

The difference between the subsistence level—EEK 500 (USD 40.2, using rate from January 01, 1997) for the first household member plus EEK 400 (USD 32.2) for each additional member (at the moment of contract)—and the household's monthly income decreased by housing expenditures was covered by the benefit. For example, if a one-member household's monthly income was EEK 600 (USD 48.3) and the monthly housing expenditures EEK 300 (USD 24.1), then EEK 200 (USD 16.1) was compensated. In general, 18 m² of total area per household member and a supplementary 15 m² per family were considered a standard allotted living space. Both housing owners as well as tenants were eligible for benefits [see also *Living Conditions*, 2000].

The only municipality that did not change the benefit system in 1997 was Tallinn who continued paying the two different supports—housing allowances and subsistence benefits—until 2001. Households whose housing expenses exceeded 40% of their income, were eligible for a housing allowance. Since 2001, the unitary system of subsistence benefits was also applied to Tallinn.

Since 2002, according to the agreement between the ministries and local governments, the subsistence benefits have been distributed and paid from the local governments' budgets (these are transmitted there from the central government's budget) on the basis of conditions and a level determined by the law. The means are transmitted to the budgets of the local governments as part of the support fund at the disposal of local

governments. The distribution of means is based on the proportions of benefits paid in 2000 and 2001.

The administration of planning, design and construction in the territory of local governments is the duty of local governments. *The Planning and Building Act* regulates relations between the State, local governments and other parties in the planning process, building design, housing construction and the intended uses of buildings. Local governments must produce long-term land use plans for the whole territory of the municipality (comprehensive plans) and detailed plans for smaller parts of a municipality that are the basis for construction activities in the short term. Local governments are obliged to build the infrastructure in new housing construction areas with their financial means.

The Income Tax Act states that tax is not subtracted for income derived from housing expropriation (housing that the taxpayer occupied until the expropriation, housing that was restituted to the taxpayer and in other specified occasions). Interest of the housing loans is permitted to be subtracted from taxable income (on specified occasions such as housing purchase or construction for the taxpayer's own use, for his children or parents, etc.).

1.3 Housing Market and Housing Finance

Before the 1990s, the private housing market was very small in Estonia. Apart from transactions with privately owned housing (in the private sector a person could own only one property) the user rights for state-owned dwellings (i.e. rent contracts) were traded to a minor extent. As the transactions with state-owned housing were illegal, they were formally carried out in the form of other transactions (fictitious marriage agreements, apartment exchange, etc.). The housing market started to develop rapidly after the city councils of Tallinn and Tartu legalized the selling of user rights—'key rights,' in the vernacular—for rented municipal apartments in 1993. At the same time, municipal funds were established for the purpose of issuing housing loans. There was, however, no legal base for the selling of user rights. User rights were sold on the basis of decisions made by local government authorities (in Tallinn and Tartu). Later, the Privatization Act was adjusted to reflect the actual situation. The privatization price for a dwelling was reduced to the amount a tenant or other member of a household had paid to the local government for the right of occupancy.

When the privatization and restitution processes developed, transactions with private property became gradually more active. Real estate specialists distinguish between active and passive property markets. The housing market is the most active in the Tallinn region, Tartu and Pärnu and less active in small towns and rural regions. There are, however, a number of small towns which, for various reasons, enjoy a good reputation

and where the property markets are also characterized by higher-than-average activity and price level compared to their surroundings. These towns include some regional centers and holiday resorts. In 2000, 74% of all transactions by value were carried out in Tallinn and Harju county.

Owing to the government's liberal housing policy, the extent of housing construction and transactions with existing housing units are largely determined by the lending policies of banks. Until the middle of the 1990s, the interest rates of commercial housing loans were extremely high (about 20%). At that time (in 1995), the central government founded the Estonian Housing Fund, which granted loans and operated on the finance allocated from the state budget to state loan projects.

During the last several years, *commercial housing loans* have accounted for about 50–60% of loans granted to private individuals and about 10–12% of the total loan portfolio. In reality, loans received by companies (in sole personal ownership) may also be used for housing-related projects. The conditions for issuing commercial loans have become more favorable. Since 1995, the interest rates have fallen gradually (e.g. interest rates for housing loans issued by commercial banks to private individuals dropped to 8% in 2002 (the Bank of Estonia). In spite of the decline, the candidates for commercial loans are only from the highest-income bracket. Most households do not have access to these loans (due to bank requirements such as a certain level of regular income, collateral, etc.).

The average per capita savings deposit in banks was only EEK 10,200 (USD 606.4) (the average of deposits and current accounts), i.e. average wages for approximately two months. A 55.4% share of the total value of savings deposits belonged to the residents of Tallinn in 2001. According to the Bank of Estonia, the average value of loans issued by commercial banks in 1999 was EEK 117,300 (USD 8,746.9, using exchange rate of January 1).

In 1995, the *Estonian Housing Fund* was established by the central government. The loans of the Fund were issued through commercial banks. In the first few years after establishment, banks distributed the state sources (banks also added their service fees). With such a method, the State attempted to reduce high interest rates, but as the loan resource was relatively small, this strategy was not very successful. Only smaller commercial banks joined up with the project. Some years later, the State started to guarantee loans issued by commercial banks. The State guarantees made it possible to reduce a share of the borrower's own finance for special groups. The State guaranteed that commercial banks would receive the money back from the borrower—when the borrower was unable to pay the loan back (and the loan guarantees of the borrower were exhausted) the State paid the money back to the bank up to the guaranteed amount. The funds came from the state budget and from the privatization scheme (25% of the income from privatization was transferred to this Fund) (Table 4.5). In 2001, the Fund was abolished and some of its functions transferred to a self-managing guarantee

fund, the *KredEx*, established in 2000 within the administrative field of the Ministry of Economy. Besides guaranteeing the housing loans (for the purchase and renovation of housing), this institution also guarantees loans which support trade and small- and medium-sized enterprises (www.kredex.ee).

Table 4.5

Estonian Housing Fund's Financial Means Available for Housing Loans in Estonia, 1995–2000 [USD, millions]

	1995	1996	1997	1998	1999	01.01– 01.03.2000
From the state budget	1.3	2.5	1.4	0.7	—	—
From privatization	—	6.9	9.0	7.2	9.9	0.4

SOURCE: Estonian Housing Foundation.

The system of state loans has become gradually more accessible since its foundation. Initially designated mostly for new construction, the system became more flexible and enabled families from special demographic groups to purchase apartments and renovate dwellings. State loan resources and guarantees have been aimed towards young families, young teachers, tenants and owners in restituted housing, local governments and condominiums. The two main loan projects financed by the Estonian Housing Fund (before its abolition in 2001) were:

- Loans to young families with a child (children) under 16 years;
- Loans to tenants in restituted houses, the so-called 'privatization voucher (*EVP*) loans.' These were designated to the re-allocation or purchase of the dwelling. With this loan, a tenant purchased a dwelling at the market price but repaid the loan in *EVPs* (with the rate $EVP\ 1 = EEK\ 1$). Thus, the State paid the difference between the *EVP* and *EEK* value: At today's rate 60% of the dwelling price would be paid by the purchaser and 40% by the State (the exchange rate was, however, more favorable some years ago). The interest rate was 12% and the loan had to be repaid within 15 years. The loan was very popular but the resources were limited. Moreover, many that were interested did not qualify.

Today, the *KredEx* provides guarantees on loans to young families, persons under 35 years of age who are employed 'specialists' with a higher or a vocational education and loans to condominiums (Box 4.1).

Box 4.1
**Good Practice for Influencing Better Affordability
of Housing Loans to Special Groups**

Since 2000, the Foundation for Credit and Export Guaranteeing KredEx has offered guarantees to the loans issued by commercial banks. The foundation is within the administrative field of the Ministry of Economy. It is a self-managing institution that earns a financial profit. In 2001 no financial means were allocated from the state budget.

The KredEx provides guarantees to the loans issued to:

- *Young families with a child under 16 years of age (guarantees up to 75% of the loan amount)*
- *Young specialists, i.e. young people with a specialized or higher education (guarantees up to 75% of the loan amount);*
- *Condominiums (guarantees up to 75% of the loan amount). Guarantees enable borrowers to take loans without mortgaging an apartment owners' property. Priority is given to loans which are directed to modernization or renovation of a heating system or communications, improvement of a building's thermal insulation, renovation of staircases or roofs and to other activities which improve a building's economy, security or life quality. The loan repayment period is normally up to 7 years. The annual guarantee charge is 1.5–2% of the loan amount.*

With KredEx guarantees, commercial banks issued housing loans—for the purchase and renovation of housing—for EEK 736 million (USD 43.7 million, exchange rate of 2001) in 2001. Through these loans, 2,545 young families and 587 young specialists improved their living conditions. The amount of guaranteed funds was EEK 145 million (USD 8.2 million, exchange rate of 2002) by the end of 2001. This will be increased in 2002 considerably.

SOURCE: www.kredex.ee

The loan guarantees provided by the Estonian Housing Fund and the KredEx have been efficient policy instruments. Before the state-guaranteed loans were introduced, those who wished to buy a flat often did not have sufficient self-financing (this extended up to one-third of the cost of a dwelling) and the interest rates were relatively high. Thus, loans have now become more affordable, especially for younger people. Instead of financing the housing purchase from a household's own funds, it is now possible to carry out renovations on purchased housing.

1.4 Housing Affordability

Both the average monthly income and housing prices vary from county to county in Estonia. Table A4.1 (in the Appendix) shows the variation in average salaries, home-ownership prices (calculated for an average apartment in a multi-apartment building) and price-to-income ratios in different regions of country. The ratio varies from 44.6

months in the most developed Harju county, to 5 months, in Jõgeva county with the lowest level of home-ownership prices.

The percentage of housing expenses from household expenditures has sharply increased during the transformation period. While in the second half of the 1980s, households living in state-owned apartments spent 2–3% of their total expenditures on housing on average, the share of housing expenditure had risen to 19% by 1999. Spending on housing was exceeded only by expenditure on food (34%) in the total budget of households in Estonia (Table 4.6). In 2000, an average of EEK 340 (USD 21.8) was spent on housing expenses per household member (this does not include housing purchase or costs of renovation, loan repayments and interest rates) (Statistical Office of Estonia). The expenses in apartments (in multi-apartment buildings) were EEK 387 (USD 28.8) compared to EEK 194 (USD 14.5) in one-family houses. In housing estates, the regular maintenance costs are higher because the heating system is often not modernized and water meters are not installed. The housing expenditures are higher for tenants than for homeowners: households that rented private housing spent EEK 430 (USD 32.1) per individual in 1999, an amount which exceeds the average expenses paid by homeowners by EEK 100 (USD 7.4). The amount of housing expenses is strongly influenced by the presence of amenities [*Living Conditions*, 2000].

Table 4.6

Expenditure of Households in Expenditure Deciles in Estonia, 2000
[Monthly Average per Household Member, in %]

	I	II	III	IV	V	VI	VII	VIII	IX	X
Food	51.0	46.7	43.3	39.5	38.1	36.0	31.8	28.9	25.0	15.3
Clothing and footwear	3.8	4.1	4.5	5.0	5.8	6.3	6.7	7.8	7.4	9.0
Housing	16.3	16.1	17.1	18.2	16.7	16.3	15.3	14.7	14.8	13.9
Transportation	3.5	4.5	4.8	4.9	5.7	6.8	8.3	8.8	10.3	14.9
Other	25.4	28.7	30.3	32.3	33.7	34.6	37.8	39.8	42.5	46.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Statistical Office of Estonia.

In 1999, 57% of households spent 20% or less of their total expenditure on housing, 33% of households spent 20–40% and 10% of households spent 40% or more on their housing. The most disadvantaged category is one-member households of persons aged 65 years or over, who spent 27% of their income on housing. This is, however, the category with the largest share of people over-consuming their housing. In around

56% of the cases there are at least two rooms per person [Living Conditions, 2000; Social Trends 2, 2001]. Households with a different socio-economic status differ in the structure of expenditure (Table 4.6).

The majority of the population is unable to finance housing renovation. A total of 40% of households 'approaching the poverty line' (this group accounts for 23% of the total population) and 59% of 'poor' households (10% of population) were not able to renovate or improve their housing during 1997–1999 [Living Conditions in Estonia, 1999]. In 1999, the average monthly amount spent on regular dwelling repairs was EEK 70 (USD 5.2) per household member (this does not include expenditure on major repairs). The share of expenditure on maintenance and repairs of housing increased slightly in 1997–1999 [Living Conditions, 2000].

2. EFFICIENCY AND EFFECTIVENESS OF LOCAL GOVERNMENTAL HOUSING POLICIES

The second part of this report focuses on the implementation and consequences of the national housing reforms with respect to the local level and issues related to the municipal housing stock. Thereafter, the discussion turns to the housing policy objectives and strategies of local governments. The empirical data presented in this part emanates mostly from the Local Governments Housing Survey (LGHS) which was carried out among local government housing specialists in municipalities having over 5,000 inhabitants. The survey was conducted over a two-month period at the end of 2001. The response rate to the mailing survey was 46%. Local governments belonging to different size categories responded to the survey as follows⁷:

Table 4.7
The Survey Rate of Return

Number of Inhabitants	Number of Municipalities		Percentage	
	In Total	Responded	In Total	Responded
5,001–10,000	21	10	57	59
10,001–50,000	11	4	30	24
50,000 and up	5	3	14	18
Total	37	17	100	100

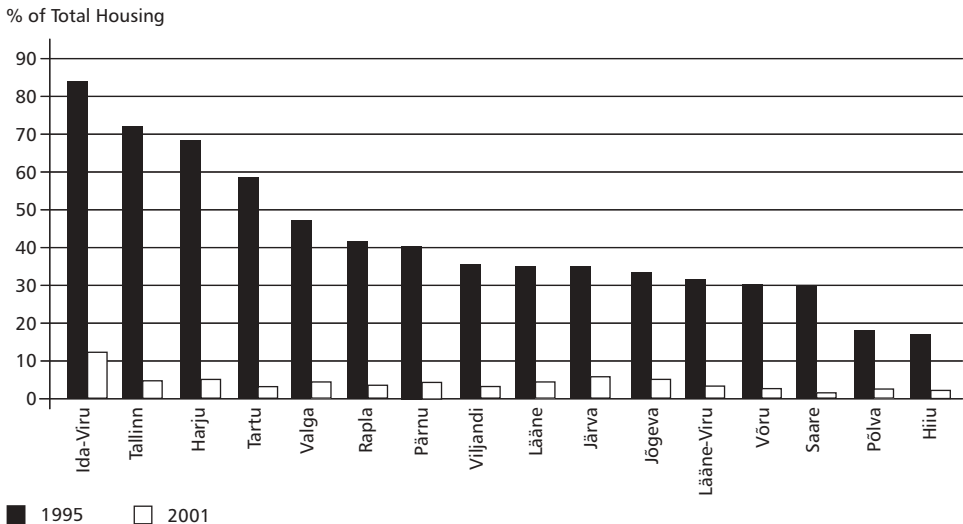
Due to the very low number of municipalities in Estonia, no special weighting procedure has been applied and the following results are thus presented as simple frequencies counted on a non-weighted data sample.

2.1 Local Government Housing

The privatization of public housing stock has followed the same centrally defined rules in all municipalities. That is, local governments have officially had no opportunity to adopt an independent privatization strategy. Due to the very high pressure for housing privatization from the tenants' side, it was extremely difficult for local governments to leave housing in public ownership and more significantly, they were not motivated to do so (it was in their interest to cut expenditure on housing as much as possible). In reality, the reasons for not privatizing a dwelling were more likely related to the lack of financial resources (privatization vouchers, etc.) for some households or the lack of awareness of their rights and less likely to be related to the low standard of housing. In towns in northeastern Estonia, a bigger number of apartments remained in public ownership because of the high rate of emigration (this is a region where the non-Estonian—mostly the Russian-speaking population—is highly concentrated). Due to these reasons, there were minor differences in the extent of privatization between municipalities (Figure 4.2). In most cases (particularly in Tallinn), it was economically extremely beneficial for tenants to privatize due to the (future) market prices. The major motivations to privatize were, however, a fear of losing one's home and the possibility of using privatization checks (*EVPs*) which were issued in proportion to years of employment.

Figure 4.2

The Share of Municipal Housing Stock in 1995 and 2001



SOURCE: Statistical Office of Estonia.

According to the data from the Statistical Office of Estonia, the share of municipal housing accounted for 4.6% of the total housing stock (public sector housing in total 5.2%) in Estonia in 2001. City governments in northeastern Estonia own a bigger share of housing stock than do cities in the rest of the country. For instance, in Kohtla-Järve (47,100 inhabitants) the local government's housing accounts for 14%, and in Kiviõli (7,300 inhabitants) no less than 24%, of the total housing stock. But even before privatization, public housing stock constituted a larger proportion of housing in this region.⁸

According to the results from LGHS, the major share of local government-owned dwellings is located in 1–4-story apartment houses (63%). A total of 19% are located in 5– or more story apartment houses and 18% in detached or semi-detached houses. The fact that the share of detached houses is just as large is due to smaller municipalities, where the number of municipal dwellings is low, but where they are more often located in detached houses. The average size of a local government dwelling is 35.3 m² and the average dwelling has 1.7 rooms (i.e. average in municipalities with over 5,000 inhabitants) (LGHS). According to the data from the Statistical Office of Estonia, the average municipal dwelling has 39.2 m² living space. The municipal dwellings are less spacious than privately owned dwellings (average floor area 54.8 m²) [Statistical Office of Estonia]. In terms of housing quality, a distinction can be made between dwellings with all the basic facilities (including running hot and cold water, shower/bath, sewage system, water closet and central heating—the flats in housing estates fall into this category) and dwellings with only some of the amenities or without amenities at all. The first category usually comprises relatively modern housing stock (built after the 1960s) that tends to be of a better standard than the latter quality (in very broad terms). This distinction, however, is an arbitrary one and in many cases the amenities do not have a clear connection to housing quality. For instance, housing estates constructed in the 1960s are often in a very poor state but have all the mentioned amenities. On the other hand, some apartments in old buildings lack central heating but are still very highly valued. Local government housing consists almost equally of dwellings with all the basic amenities (approximately 48%) and of dwellings with only partial amenities or without any amenities (52%) [LGHS]. Compared to private housing, the municipal housing stock is of a lower standard. For instance, bath facilities like a shower or tub are installed in only 57% of the municipal housing stock, compared to 84% in the private sector and 64% have a central heating system compared to 82% in the private sector. A total 25% of municipal housing was constructed before 1945 compared to 12% of private housing [Statistical Office of Estonia]. This indicates that municipal dwellings are relatively older, lower quality, and less modern.

According to LGHS data, the local government apartments where thorough renovation/modernization has recently been carried out, or which are newly built, account for an average 2.6% of local government's housing (but the median is 0, i.e. over half of municipalities do not have such housing at all).

Presented indicators show the first signs that public housing is becoming residualized. This is mainly because the better housing units have been privatized and municipalities cannot generally afford to construct new housing or modernize the existing stock. Due to the fact that lower social status groups usually occupy municipal housing, it has become problematic to maintain even the present housing standard. Public housing stock is becoming physically and socially marginalized. A suggested option would be to privatize the existing residual (the lowest) quality public housing because it is too expensive to upgrade and inefficient to manage. Instead of concentrating on public housing units in certain neighborhoods, a better option would be to disperse them over the territory of the municipality (or have just very limited clusters of social housing blocks) to avoid social segregation and prevent social exclusion.

2.1.1 Management of Municipal Housing

Until the end of housing privatization, when condominiums had not yet been established, housing management was organized by the parties charged with ownership reform—in most cases, local governments or the State. The former public management institutions were reorganized into housing management companies, usually owned by local governments (legal or non-legal bodies). Recently, housing management has increasingly been handed over to private firms. As a transitional stage, companies may be ‘half-privatized’—local governments owning shares and, thus, having some control over their operation. In line with privatizing housing management companies and transferring management duties to them, another current tendency is to transfer housing management obligations to condominiums (in buildings where these were established). Condominiums can employ people in different positions like cleaners, accountants, electricians, etc., or contract housing management firms for certain services. In the case of smaller apartment houses where the establishment of a condominium is not a necessary or efficient solution, management issues center on a contract agreed upon by the dwelling owners, with an individual selected by dwelling owners to serve as housing services contractor.

In the case of municipal housing, housing stock is usually managed by public housing management companies or by private (semi-private) management companies. If there are municipal dwellings in buildings where condominiums are established, a local government appointee represents the municipal-owned dwelling in a condominium and has the same rights and obligations as the other apartment owners. According to LGHS, in 88% of the municipalities, local government-owned housing is managed by municipal management companies, while in 38% of the municipalities, private management companies do the job. Within one municipality, several management models can be applied. In the largest towns, the management of the housing stock has

more often been given over to private management companies, whereas in small- and medium-sized municipalities the management occurs usually through local government management companies. In some towns, like Tartu, the management company is still based completely on city government capital, but the aim is to transfer the shares to private investors and convert the company to a private management company.

Fair competition between private management companies has not yet developed and the mechanisms of controlling newly formed companies are not yet functional. The most efficient management is provided by non-profit housing cooperatives and condominiums; residents (who are also managers) have a sense of community and capacity for close supervision of social aspects. From the point of view of the tenants, it does not make much difference whether the manager is a public or a private, profit-centered company. From the local governments' point of view, the strategy of privatizing management companies and the increase in competition between management companies has resulted in better management of the housing stock. However, local governments need to have control over the level of maintenance costs. Local government representatives have argued that large-scale management companies work and maintain housing stock more efficiently than small companies. They maintain housing better, whereas small companies deal mostly with 'emergency' repairs.

2.1.2 Municipal Housing Expenditures

The average monthly expenditures of local governments on municipal housing stock management/maintenance/renovation was EEK 4.9 (USD 0.31) per m² in 2000, but the figure varies considerably between regions. According to data from the Statistical Office of Estonia, in Tallinn and its region (Harju county) the expenditure is the highest at EEK 8.0 (USD 0.51) per m². In other counties, the level remains below 5 EEK (USD 0.32) m². According to the Statistical Office of Estonia, public expenditures on municipal housing in 1999 were structured as follows: maintenance formed 46% of total expenditures, repairs 23%, administration 16%, recycling 6%, land tax 3% and other costs 7%. The expenditure on housing repair and mainly renovation (that is completely missing in the structure) should increase considerably to ensure the improvement of housing stock and the present standard of housing.

2.1.3 Municipal Housing Income (Rents)

In practice, 50% of municipalities used their right to introduce their own system of rent regulation, whereas the others have abolished such a system. The average rent in municipal housing does not depend on whether or not the municipality still applies

rent regulation or not, for even in municipalities where there is no regulation, the level of rent has not risen considerably. Tenants in public housing are usually low-income and not able to pay higher rents. Rent regulation is especially relevant for keeping “old” leases in restituted dwellings to prevent massive rent arrears and the eviction of tenants by private landlords. In 2000, about 50% of the owners of restituted housing in Tartu stated that they had the ‘old’ leases in force at a regulated rent (survey data) and the other 50% had new leases with a rent negotiated freely between tenant and owner.

According to LGHS, the monthly average rent in municipal dwellings was EEK 4.2 (USD 0.25) per m² in 2001, while in 1993 the rent was on average EEK 1.1 (USD 0.08) per m². Regionally, the highest rents were in Harju county in 2000, i.e. in the Tallinn region at EEK 5.7 (USD 0.37) per m² and the lowest rents in Põlva and Võru counties in South-Estonia at EEK 1.9 (USD 0.12) and 1.8 (USD 0.11) per m², respectively (Statistical Office of Estonia).

The rental prices are too low in most municipalities to cover the necessary maintenance and renovation costs of housing. On average, in 73% of the municipalities, the current rental income does not cover the costs necessary for housing maintenance [LGHS]. It is, therefore, often subsidized by local governments themselves (with the exception of renovated dwellings where much higher rents are usually introduced). However, rents cannot be raised because of tenants’ inability to cope with rising housing expenses. As the data on the expenditure of municipal housing indicates, several municipalities spend more on municipal housing than is covered by rent. In Võru county, for instance, the average rent in 2000 was EEK 1.8 (USD 0.11) per m², whereas expenditure is EEK 3.0 (USD 0.19) per m². It is estimated by representatives of the local governments that the rent level should be raised to around EEK 11 (USD 0.71) per m² in order to cover the necessary regular maintenance costs [LGHS].

Rent prices are differentiated within a municipality according to:

- Physical condition of dwellings, i.e. whether it is renovated or not (77% of municipalities);
- Costs of housing services like heating, garbage collection, etc. (62%);
- Location and land rent (31%) [LGHS].

As the current rent level in most of the municipalities is lower than so called ‘cost rent’ (i.e. it does not cover the needed expenditure on housing) the following strategies are used:

- Postponing housing renovation (enables the setting of lower rents than cost-rent). In municipalities, where rents are regulated, the renovation of municipal housing and of some restituted houses is usually postponed;
- Financing renovation costs from local government budgets. This strategy is used by the relatively wealthy municipalities, such as Tallinn and, to a lesser extent, also by Tartu and other cities;
- Application of rental costs in renovated municipal dwellings.

The *private rental sector* in Estonia that could be directly compared to the ‘for profit’ rental sector in Western Europe, is small in size. It consists of individual privatized dwellings that are rented out by private individuals, or dwellings in rental apartment houses restituted to former owners (the construction of new privately-owned rental apartments is economically unattractive). The ‘for profit’ rental sector is more developed in economically rapidly developing cities like Tallinn, Tartu and Pärnu. The rent level in this sector is determined mainly by the location and amenities of the flat; it often differs significantly from rental prices for the same dwellings in municipal ownership.⁹

Although the Housing Act declares that housing rent should include costs for housing maintenance and renovation, housing services, administration and may include up to 10% owner-profit, in reality many municipalities, as well as owners in restituted housing, subsidize the rent. Most municipalities are unable to carry out the repairs necessary to retain even the current standard of living (it is problematic even to cover only maintenance costs and costs on ‘emergency repair’). Therefore, the physical quality of municipal dwellings is deteriorating rapidly. The management of local government housing in most of the municipalities is still inefficient. The largest municipalities have raised the rent in their dwellings closer to the market level, but, even there, the level should still be raised at least by an additional one-third. Modernization or thorough renovation cannot be carried out in municipal housing without additional public subsidies.

Moreover, raising rents in municipal and social housing increases the dependency of tenants on social welfare. As long as the social benefit system does not function effectively, there will be a rise in rent arrears, for tenants in municipal housing belong mostly to lower socio-economic status groups. The question of whether to subsidize rent or to pay more and higher social subsistence benefits, is not so relevant in Estonia (in terms of economic efficiency) because the municipal housing stock is very small in size. However, if regulated rents are still to be applied (on a lower than cost-rent level), private owners must be subsidized by public authorities.

2.1.4 Rent Arrears

In line with rising rent levels and housing costs, rent arrears in public dwellings have risen since 1990. A few tenants have been evicted. The average sum of rent arrears as a percentage of the gross rent roll was 12% in 2000 (LGHS). There are different reasons why people fall into rent arrears. In some cases, tenants do not pay rent because they have no other option, but a large share of tenants are ‘principal non-payers’ as they actually do have the capacity to pay (from social benefits or other sources). Therefore, rent arrears are not only caused by rising rent levels and the economic difficulties of tenants, but also by traditions from the previous regime. They also existed throughout

the Soviet period, when rent levels were highly subsidized. Back then, arrears were forgiven regularly in the case of some groups and, in fact, many households did not pay rent for several decades. An average period of rent arrears in municipal housing stock is about 1.5 months.

Box 4.2

Successful Tools Applied by Local Governments to Decrease the Rent Arrears

Tartu town government has successfully reduced rent arrears by systematically contacting and negotiating with tenants who are in arrears. Short- or long-term payment schedules have been set up to provide more realistic opportunities to pay back the debts for tenants with economic problems. Also, more people were employed as negotiators in disputes with tenants. As a result, rent arrears have been reduced.

Another tool used by the Tartu town government was setting up a grace period (e.g. a month) during which tenants in arrears did not have to pay overdue charges.

SOURCE: Interview data.

Local governments have used various tools to decrease rent arrears (LGHS, interview data):

- Taking cases to court (41% of municipalities use this option);
- Limitation of housing services, repairs are not carried out in a dwelling or building where there are high rent arrears (6%);
- Improvement of the quality of municipal dwellings and client services (6%). This option can improve the situation when tenants do not pay rent because they are not satisfied with the housing quality and services they get from municipality and intentionally do not pay rent to force an owner to carry out necessary housing repairs;
- Negotiation with tenants in arrears to set up short- or long-term payment schedules (6%);
- Setting up a grace period (e.g. a month) during which tenants in arrears do not have to pay the overdue charges (6%);
- Selling off dwellings with rent arrears (6%);
- Revoking leases or threatening eviction (12%).

The importance of the problem of rent arrears depends on the size of the municipality and the local government's budget. The strategy of calling in the debts through judicial action would not help much unless there were cases where tenants have actually higher

(illegal) incomes than reported and they have not paid rent intentionally. A relatively good practice is to give tenants a more realistic chance to pay back their debts by setting up a long-term payment schedule and waiving the overdue charges to certain groups. Most rent arrears are short-term, up to three months. The housing economy thus gives ‘credit’ to those whose household budget is very tight. Arrears increase during the winter period, when heating costs are high. These are usually paid back during the summer period.

2.1.5 Vacancies in Municipal Housing Stock

The total share of municipal housing stock in Estonia is very low and insufficient to satisfy the real need. Therefore, most municipalities do not have problems with vacant dwellings. However, according to LGHS, the average vacancy rate defined as the percentage of voids in the total municipal housing stock at the end of 2001 was 9.4%¹⁰. In a way this figure is misleading. Though voids should not include dwellings unsuitable for living, many municipalities probably counted them this way when completing the questionnaire (they did not read the instructions carefully). The existing databases of municipal housing could even contain demolished or partly demolished dwellings. According to Census 2000, the structure of the occupancy of total housing stock was as follows: 86% occupied; 5% reserved for temporary or seasonal use; 6% vacant and 3% unknown (in this case, however, a different definition of vacancy has been applied). The structure in municipal housing was as follows: 82% occupied; 3% reserved for temporary or seasonal use; 13% vacant and 2% unknown. The average rent loss through voids, defined as a percentage of gross rent roll in 2000, was 3.5%. The options municipalities have used to reduce the vacancy problem are [LGHS]:

- Privatization of housing (e.g. in the form of auctions) (12% of municipalities use this option);
- Improvement of housing quality and housing services (6%);
- Ensuring accessibility to dwellings (6%).

Vacant dwellings are especially a problem in regions where the housing market is passive (such as the towns in northeastern Estonia). In this case, it is also difficult to privatize municipal flats. Many families who privatized municipal dwellings in these areas are now ‘trapped’ in their property—if they want to move they cannot sell, as there is no market for the apartments. In more active markets, it would be beneficial to privatize dwellings of relatively low quality and high expenditure. If vacancies exist and there is no demand for municipal housing, yet there is pressure for owner-occupancy, privatization of hard-to-manage housing stock is a good option.

2.1.6 Allocation of Municipal Housing Stock

The tenants of municipal housing are, to a large extent, the 'old' public tenants who for various reasons did not privatize their apartments. Although the legislation gives quite a special definition to 'social' housing, in reality the difference between municipal and social housing is very vague. All municipal housing stock is targeted to the most disadvantaged social groups, i.e. the whole stock is more or less a social housing (those households that did not privatize their housing tend to belong to same lower income groups). According to the percentage of municipalities where these criterion for housing allocation are utilized, the preferred groups in the municipal/social housing allocation are as follows [LGHS]:

- Households who have lost their dwelling as a result of an accident (fire, etc.) or some other catastrophe or through demolition (94%);
- Tenants in restituted housing (75%);
- Multi-child families (75%);
- Households who have been evicted from privately owned dwellings because of rent arrears and who are not capable of finding other accommodations by themselves (69%);
- Low-income families (69%);
- Civil servants (63%);
- Other groups (19%).

In 23% of the municipalities, several kinds of allocation systems for municipal housing are in use. 56% of the municipalities have a waiting list for municipal housing. For instance, in the municipality of Tartu, there were 150 persons on a waiting list at the beginning of 2002 (interview data). In Tallinn, about 4,300 people were on the waiting list for a municipal dwelling (mostly tenants in restituted housing) and 600 for a social dwelling (daily newspaper 'Postimees'). The length of the waiting period depends on a household's situation. If a household has lost its home in an accident, they will usually be provided with a dwelling immediately, if necessary. For other groups, the waiting period varies to a large extent in different municipalities (up to several years) if they qualify at all for a municipal dwelling (this is decided by the local council) or if it is possible at all to provide municipal housing.

Due to the high rate of privatization, the current local government housing allocation criteria and the low reputation enjoyed by municipal housing, tenure has become biased towards lower socio-economic status groups (Table 4.8) [Statistical Office of Estonia]. Higher income groups usually do not occupy municipal housing. This can be an exception when higher income tenants in restituted housing are allocated to municipal housing. Then they usually occupy renovated municipal flats where the rent level is higher than for the average municipal flat. The structure of owner-occupants and tenants

in the public rental sector differs on the basis of household structure. Whereas larger households (couples with or without children, two- and three-generation households) tend more to occupy housing that they own, one-person households (especially working-age individuals) and single-parent households are disproportionately prevalent in rental housing. From the groups listed, one-person households are, to a small extent, more prevalent in public housing than the other groups [Statistical Office of Estonia].

Table 4.8

Tenure Types by Income Quintiles in Estonia [in % from Total of Households]

	Income Quintile				
	I (Lowest)	II	III	IV	V (Highest)
Owner-occupied	77,6	83,5	85,5	83,3	84,3
Public rental	6,5	5,9	4,5	3,7	3,0
Private rental	10,3	7,5	7,3	9,5	8,8
Other*	4,8	2,7	...	3,4	3,3
Total [%]	100	100	100	100	100

* ...—means that the share is negligible (statistically insignificant).

SOURCE: *Living Conditions Study in Estonia in 1999* (2000: 112).

The current municipal housing allocation system is often not efficient. Not all those who need municipal housing have access to it and, through allocation to some groups, relatively wealthy households are subsidized. Many low-income families live in cottages designated for seasonal occupation that lack even a proper heating system. In Tartu, the homeless population is approximately 300–500; for Tallinn the number is not known. These people have access neither to private nor to public rental housing. Many higher income households who lived in restituted housing have been assigned municipal housing, though they did not need to occupy public housing (where rents are considerably lower than in private rental market) for economic reasons. With the current legislation it is difficult to terminate leases of municipal housing once the housing has been allocated to a household. For instance, the incomes of current tenants could rise to the point that they no longer qualify for social housing, yet, at the same time, households remain on the waiting list, in need of a municipal rental flat. In general, however, current allocation principles favor social segmentation in the public housing, i.e. the concentration of lower social status groups. Public housing stock is often concentrated in the run-down housing districts of wooden tenement housing (especially cheaper non-renovated flats).

2.2 Compensation for Housing Costs Through Subsistence Benefit

The purpose of legislative change in the principles of compensating housing costs was to make the system more efficient and cut governmental expenses on housing. The proportion of the compensation of housing costs from the total amount of social benefits paid from the state budget has diminished more than three times during the last six years. Of the total sum of social benefit public expenditures (including welfare, subsistence and housing allowances), 79.4% was spent on housing allowances in 1994 (EEK 232.8 million, USD 16.8 million) whereas in 2001 only 20.1% was spent for the same purpose (EEK 71.4 million, USD 4.2 million).

In 2001, a total of 70,417 households received subsistence benefits, which accounts for 12% of the total number of households (statistics for households that receive benefits are available only from 2001 and, thus, it is not possible to compare the data with previous years). The average benefit paid per application increased from EEK 491 (USD 39.5) in 1997 to EEK 797 (USD 47.4) in 2001.

Households with children make up the largest proportion of the recipients of subsistence benefits (in 2000, they accounted for 46% of recipients). As is apparent from Table A4.2 in the Appendix, the most frequent recipients of subsistence benefits are households with a member who is unemployed for an extended period or unemployed and looking for a job. The payment of subsistence benefit is not directly related to the number of children in a household. Families with one child need state assistance even more than others, as many of those families have only one parent or a family member unemployed. Applications from families with unemployed family members accounted for approximately half of all the approved applications from families with children.

Today's system of subsistence benefits falls short of the ideal and is dysfunctional. It does not support households to a sufficient degree in paying for their housing costs. For instance, in 2000, 2.5 times less was spent on the compensation of housing costs from the total sum of benefits than in 1996 (when the support was paid in housing allowances). The amount of benefits that cover housing expenses should be raised in order to serve its purposes and ensure its effectiveness. The overall level of subsistence benefits should, thus, be raised. The distribution of subsistence benefits should also be modified as many households that need the compensation are not eligible for it. At the same time, benefits are distributed to households that do not in fact need them. The benefit should be directed to all tenures and it should allow people to pay rent in the private rental market as well. Today, many tenants in private rental sector do not have an official tenancy agreement and have no way of receiving subsistence benefits (many owners are not interested in official contracts because they want to avoid taxes). According to Kuddo (2001), about 63% of subsistence benefits are paid to 'non-poor' households, i.e. the benefit system does not fulfill its objective (of supporting low income

households in compensating costs on the housing, food, etc. primary necessities). This is because many households do not report their real incomes and local governments have no right to refuse payment if necessary documentation is provided by an applicant. Local governments should have greater freedom to decide over the recipients of subsistence benefits.

2.3 Local Housing Policy Strategies and Objectives

Local governments are obliged to establish long-term development strategies and short-term development plans that specify the aims and programs of the development of municipalities. Besides a general development strategy or development plan, each local government can also establish policy plans for special areas. Most of the municipalities do not yet have their own housing development plans or strategies in the form of independent documents. Only the municipalities of Tallinn, Tartu, and Pärnu have approved such plans. A few housing-related objectives are, however, stated in the general development plans or strategies of many municipalities. Of the larger local governments (municipalities with more than 5,000 inhabitants), 41% stated that their municipality has approved a housing policy strategy, but only half of them admit that the housing policy objectives are clearly defined in it (LGHS). Housing policy is an area in local government that is not considered a priority. Housing problems have become a 'burden' for local governments and the main goal is to transfer housing-related responsibilities to the private sector. Housing policy objectives, which half of the larger municipalities have declared in their housing policy strategy, can be divided into three groups (Internet pages of local governments):

- 1) To establish an efficiently functioning social/municipal housing stock;
- 2) To support/encourage construction of new private housing through the planning process and the development of infrastructure;
- 3) To assist the establishment and management of condominiums in multi-apartment houses.

The results of the LGHS show that the most quoted housing policy objective is the establishment and support for management and renovation of condominiums (65%). The second most frequent goal was the support for new private housing construction (through planning, infrastructure building, etc.) (41%). However, if we take into consideration only the first most important goal stated in LGHS (objectives should have been ranked according to their importance) the most frequent goal evaluated as the most important one was, surpassingly, housing privatization (even though privatization is almost finished).

Box 4.3

The Goals of Local Government Housing Policies Stated in Local Governments' Development Plans (Available via Internet) at the End of 2001
(Listed in Decreasing Order of Importance)

- *Increasing the social and municipal dwelling stock, the renovation of the present municipal housing fund and the modification of allocation principles*
- *Planning and preparation of plots for construction of new private housing, initiation of said construction in cooperation with private firms*
- *Establishment of condominiums, support of their management and renovation projects*
- *Renovation of housing stock, the system of financial opportunities (including preparation of standard renovation solutions for buildings by the State and local governments)*
- *Improvement of loan opportunities in the housing market for housing purchase and construction*
- *Privatization of low-quality dwellings in municipal ownership*

As to the financial resources for the implementation of these goals, municipalities plan to use resources from their own budget and the state budget, as well as from various private and public funds.

The established goals of housing development are usually couched in a very abstract and general way, while clear programs and financial resources for their implementation are not specified. In the LGHS, local government representatives had to choose the objectives which corresponded best to their government's activities (from the list provided) according to the respondents' own evaluation and not depending on whether or not the municipality had approved the housing policy goals. The following goals were mentioned among the three main housing policy objectives (the objectives are listed in decreasing rank of importance):

- Solution/mitigation of housing problems of people with special needs (disabled people, etc.) (60% of the municipalities);
- Provision of dwellings for the homeless (50%);
- Solution/mitigation of housing problems of elderly people (41%);
- Improvement of housing accessibility to low and average income people (35%);
- Improvement of housing conditions (including energy efficiency) (35%);
- Promotion of owner-occupancy and/or construction of private housing (24%);
- Promotion of tenant participation in municipal housing management (12%);
- Prevention of social segregation (6%);
- Promotion of tenant mobility (in the public as well as in the private sector) (6%).

This shows that the housing policies of the local governments are mostly concerned with solving the problems of special marginal groups in society (such as the disabled and homeless) and economically disadvantaged groups (the elderly and unemployed). Some governments were also concerned with construction and improvements in existing housing stock. Just a few local governments mentioned the last objectives on the list.

2.3.1 Development of Municipal Housing Stock

After 1994, construction of new municipal housing halted. Only a few blocks of flats (which were in municipal ownership and not privatized) have been renovated and converted to 'social housing' in Tallinn. However, a new housing policy strategy approved by the Tallin municipality means the restoration of new municipal housing construction (Box 4.4).

Box 4.4

Municipal Housing Program in the Municipality of Tallinn

The municipality of Tallinn is planning to extend the municipal housing stock by 5,000 apartments (including 2,000 newly constructed dwellings) in Tallinn between 2002–2007. The primary goal of the program is to solve the problems of tenants in restituted housing by 2008. The total cost of the newly constructed dwellings will be EEK 1.2 billion (USD 67.8 million). In the financial blueprint, 75% is to be covered by the local government's budget and 25% from the state budget. In addition to the 2,000 newly constructed dwellings (400 dwellings will be built every year), the municipality will renovate the existing municipal flats. A total of 1,700 households will be allocated to vacant existing municipal flats (inherited or donated to the municipality) or move to the flats rented in the private sector by the local government. In addition, 500 households will receive a stipend from the municipality to solve, it is hoped, their housing problem by themselves.

According to the preliminary plans, the average size of the new flats will be 50 m² with a rent of EEK 20 (USD 1.19) per m² plus costs of utilities around EEK 30 (USD 1.78) per m² (i.e. for 1-room apartments, tenants will have to pay approximately EEK 1,200 (USD 71.3) per month).

Tenants from restituted housing will have the right to privatize these apartments after five years. The privatization opportunity will not be given at once to prevent profiteering with dwellings (which can be sold on the market). It is hoped that providing these new municipal dwellings will reduce the housing deficit in the capital and slow down further housing price and rent increases. According to prognoses, the private sector will build about 3,000 dwellings by 2008 (600 dwellings per year). A share of them will be developed within the public-private partnership programs.

Daily newspaper 'Postimees'

www.postimees.ee

The modification of the structure of local government housing involves the conversion of as many housing units as possible into 'social housing' and the privatization of low-quality municipal apartments in buildings in which most of the apartments have already been privatized. Local government representatives argue that this strategy helps to raise the efficiency of municipal housing management (it is rather difficult to manage social dwellings that are located in different buildings all over the municipal territory). This development should be monitored carefully, as the concentration of social housing will raise many problems as well.

The principles of allocating social and municipal housing are being modified and elaborated, with particular attention being paid to the problems of tenants in restituted housing. These tenants form a priority group in the housing policy strategies of many municipalities (they have preference in the allocation of municipal housing imposed on local governments by the central legislation). Some municipalities have cooperated with the third sector (non-profit sector) to accommodate people with special needs. Local governments mentioned this as a successful strategy (Box 4.5).

Box 4.5

Good Practice to Accommodate People with Special Needs

In the Tartu municipality, the project 'Our home,' a housing service for the mentally disabled, is carried into practice by the non-profit organization 'Iseseisev elu' ('Independent life'). It is a so-called group accommodation where three mentally disabled people share a 4-room flat belonging to the State, the municipality or the non-profit organization. The non-profit organization supports them with services (they are taught how to live independently, cope with living expenses, etc.). Likewise, similar projects are being carried out on the initiative of the Ministry of Social Affairs in other municipalities.

Another example is homes for young people. This is a half-institutionalized social service where children from orphanages and boarding schools adapt to living independently (they are taught how to cope with housing and other living expenses, how to look for a job, etc.). In Tartu these homes are managed by a local government; in Pärnu and Tallinn by non-profit organizations.

SOURCE: Interview data.

Social and municipal housing programs are directed towards special social groups and the most disadvantaged individuals (tenants in restituted housing, the lowest income groups, the disabled, etc.). In the Tartu municipality, it has been claimed that a sufficient social housing stock for the city should comprise about 600 dwellings, which would mean that there is a need for a maximum of only 100 additional social dwellings (interview data). Local government representatives argue that the management costs would

be lower if social dwellings were concentrated in single-purpose buildings. However, though this strategy may seem like the economically efficient option in the short term, it may not be efficient in the long run. If low-income groups are concentrated in one building, there is a higher probability that rent arrears will arise and it will be impossible to carry out maintenance work. The process can also result in unexpected social consequences. If socio-economically disadvantaged groups are physically concentrated, a neighborhood will become more stigmatized, the groups will be more frequently in contact with each other, having fewer possibilities for contact with people outside their own social group. This would have a negative impact on their chances in the labor market (as individual contacts occur increasingly with people from their own status groups) and they would become more separated from the 'mainstream' of society and, therefore, socially excluded. It would be much harder to remedy the consequences than to prevent this phenomenon from spreading.

The strategy of selling municipal flats to low-income people cannot be deemed an economically good option. Low-income households that purchase apartments are not economically capable of renovating their housing (privatized apartments are usually of relatively low quality). A better strategy would be to privatize them to better-off groups who would be more likely to make investments. The privatization of dwellings to tenants from restituted housing is not always an efficient process either. These tenants are often taken advantage of offers made from private real estate agents; after privatization the dwelling is resold at a profit.

Box 4.6 summarizes the positive and negative impacts of social/municipal housing development. Based on the experiences of Western countries with industrialized economies and the negative consequences that have become evident, current liberal developments and the marginalization of social housing stock cannot be entirely justified. The management of municipal dwellings could partly be transferred to non-profit organizations. Also, the possibilities to transfer the ownership rights to, and pursue the new rental housing construction by, non-profit organizations could be considered an appropriate and efficient alternative to municipal housing. The development of a private rental housing sector with reasonable rents could be better encouraged by local governments (through grants, subsidies, tax policies and other instruments). The establishment of a solid rental housing stock that would provide an accessible alternative to owner-occupancy should become a priority in the field of housing policy for local governments.

Box 4.6

Positive and Negative Impacts of Social/Municipal Housing Development

Positive Impacts

- *Helps to keep the local governments' expenditure low (at least in the short run)*
- *Encourages owner-occupancy and individual responsibilities for the housing stock and also boosts private investments in housing sector*
- *The modification (restructuring) of the social housing stock through new construction or reconstruction/modernization will have positive effects on housing management: the costs will be lower as the new and also modernized apartments will be more energy-efficient, smaller, etc. (thus, the regular housing costs and costs on renovation will be lower)*

Negative Impacts

- *The concentration of low-income groups in one building will raise the risk of rent arrears, it will become more difficult to carry out renovation. Also, the concentration of low-income people may have a negative impact on the neighborhood (the reputation and quality of the neighborhood), on socio-spatial segregation and the neighborhood may affect negatively the life chances for these social groups who live there*
- *As the marginalized public housing sector encourages owner-occupancy, the private sector consists of owners from various socio-economic backgrounds. They vary in an ability and willingness to invest in renovation and modernization of their housing. A share of housing owners to whom the property was restituted (many of them got several properties back in different towns), have no clear vision what to do with it*
- *In the case of large investors in the private sector (companies, large-scale property owners), capital will be accumulated. There is no guarantee that the profits will be reinvested in the housing sector or that capital gains will be used for housing development purposes*
- *Through allocating tenants in restituted housing to new or existing municipal dwellings, local governments 'subsidize' this group. As the group of tenants in restituted housing consists of people with various incomes (thus also wealthy households), governmental policy cannot always be considered economically effective (the same applies to providing favorable loans for housing purchase).*

2.3.2 Support for New Private Housing Construction

To encourage the construction of new housing, local governments have implemented, and/or proposed, various programs.

The project '*Home for Young Families*' was a widely publicized housing program organized by the State and some local governments several years ago. The initial plan of the project was to choose a few rural areas in peripheral regions and privatize them on favorable conditions to young families. It was expected that young families would

move to these areas and start re-energizing local economic life. In fact, this project was never put into practice. In some cases, the land was privatized to young families (e.g. the cost of one plot was EEK 28,000 (USD 1,664.7) of which EEK 25,000 (USD 1,486.3) was supported by the State.

Some local governments have planned, or already implemented, private-public partnership projects that aim to increase new housing construction and improve access to new housing. Local governments establish detailed plans for selected areas and build technical infrastructure, free of charge, to reduce property prices and to encourage construction of private detached houses (Box 4.7).

Box 4.7

Good Practice of Public-Private Partnership Encouraging the New Housing Construction and Improving Access to New Housing

The municipality of Tallinn has generated public-private partnership projects to reduce the scarcity of living space in the city. First, the city government announced a tender for the right to build on a given construction plot. The private company that offers the best balance between construction price and quality and a good local district plan, is selected to realize the project. From its budget, the municipality covers the costs of the land, zoning and infrastructure to keep the property price lower than the market price. The private company is obliged to sell the dwellings at a price not exceeding the level stated in the terms agreed upon by the parties. While the market price for newly constructed detached houses is approximately EEK 10,000 (USD 594.5) per m², the price will remain approximately EEK 7,000 (USD 416.2) with municipal involvement. Other selling conditions are decided by the private developer, such as the amount of the first installment payment, etc. The private company carries the risks. In the future, preference in purchasing the dwellings will likely be given to tenants in restituted housing and families with several children.

SOURCE: Interview data.

The public-private partnership in new housing construction has been a good practice as it helps to raise the level of new housing construction to a fair extent and improves the access to new housing, creating more choices for households (especially for young families). The projects are effective if they involve only small housing quarters located close to other residential districts. The problem is that the new settlements will be homogenous in terms of the residential structure (consisting of wealthy young and middle-aged couples or families) resulting in socio-spatial differentiation (households are in the same life cycle and have particular needs for services that will change over time, e.g. the need for schools, kindergartens, etc.) Though this improves access to new housing for young families, other advantages should be directed towards them as well, e.g. for

the purchase of existing apartments. Only a small group of well-off young families can afford to construct their own detached house (even if the construction price is reduced due to the public-private partnership) and most young households have difficulties in access to housing. To compensate for the polarization between new residential areas in the suburbs and the cores of cities, initiatives should also be directed toward renovating the existing housing stock.

2.3.3 Initiatives to Condominiums and Housing Renovation

To encourage the establishment of condominiums and to support their management and renovation programs, some local governments have applied, or are planning to apply, the following measures (LGHS, interview data):

- Providing financial support for the establishment of condominiums (up to EEK 2,000 (USD 113) per association). For instance, in Tallinn, a project was launched in 2001 by the local government aiming to support the creation of condominiums financially and to motivate them to assume administration and management obligations. A stipend to this end is payable on a one-time basis (Box 4.8);

Box 4.8

Good Practice for Supporting the Establishment and Better Management of Condominiums

The municipal government of Tallinn has supported the establishment of condominiums financially. To ensure the better management of housing stock, the local government has supported condominiums with the following financial transfers (subsidies):

- 1. Establishing condominiums—EEK 2,000 (USD 113)*
- 2. Taking over the administration and management responsibilities—EEK 3,000 (USD 169.5)*
- 3. Participation in a training course—in the amount of EEK 2,000 (USD 113) per condominium*

The training courses are given by the Estonian Union of Cooperative Housing Associations and the Association of Estonian Facilities Administrators and Maintainers.

This support mechanism has had good results and has been widely used by condominiums. The city government controls the disbursement of the financial assistance.

SOURCE: Interview data.

- Providing financial support for the participation of condominiums in special training programs;
- Providing direct financial support or loans (or mediating loans) for modernization and sustainability projects in housing estates—e.g. for the installation of automatic heating stations (Box 4.9);

Box 4.9

Good Practice for the Modernization of Heating Systems
in High-rise Housing Estates

In 1992, the central government and the European Reconstruction and Development Bank (EBRD) launched a project for capital investments in housing energy consumption. The loan was given for the replacement of defunct heating systems. The loan was distributed to municipalities. The municipality of Tallinn borrowed DEM 5 million for the reconstruction of heating stations. The loan is to be repaid between 1996–2003.

A similar, USD 5 million loan was taken from the International Reconstruction and Development Bank (IBRD) by the central government. The municipal enterprise Tallinna Soojus Ltd, which is responsible for producing heating energy in Tallinn, was selected by the municipality of Tallinn to implement the modernization project. This loan is to be paid back between 2000–2009. The municipal government contracted district governments in Haabersti and Mustamäe to purchase and install heating stations and various companies were contracted to perform modernization. The finances for loan repayment come from an additional charge added to heating energy costs. Additional costs are calculated from the amount of investments that are made in different buildings (calculated by district governments).

If the buildings or dwellings were in municipal ownership, the municipality had to pay the modernization costs from the tenants' rent; if the dwellings were privatized, apartment-owners paid the costs as surcharges to regular maintenance costs. According to the contract between Tallinn city government and Tallinna Soojus Ltd, the municipality had to cover the modernization costs with EEK 10.5 million (USD 593,495.3) from the municipal budget during 1994–1996.

SOURCE: National and local government legislative acts, contract between Tallinn city government and Tallinna Soojus Ltd.

- Initiating campaigns which are aimed at improving the quality of the private housing stock: in Tallinn, this kind of project was carried out with the purpose of initiating large-scale renovation projects in the high-rise housing estates. In Tartu, the renovation campaign 'The City of Good Colors' was initiated by the Tartu town government by which the property owners could purchase renovation materials (paint, in particular) and services and take out loans under favorable

conditions. The project was carried out in cooperation with the private sector (Box 4.10). A similar project was also carried out in Pärnu and some other small towns, but with less success.

Box 4.10

Good Practice of Motivating Households to Renovate the Housing Stock

The Estonian Union of Cooperative Housing Associations, in cooperation with the city government of Tallinn, has initiated the renovation project in large housing estates with the purpose of motivating private individuals to carry out large-scale renovation projects in the housing estates of Tallinn (renovate facades, improve energy sustainability, etc). The city government supports the program from its budget resources. In cooperation with the private and public sector and the non-governmental organization, the following activities will be carried out:

- 1) Participating condominiums will be selected (based on their own application)*
- 2) Physical state of apartment buildings will be assessed by specialists and the results will be discussed with representatives of the condominiums to set up the work schedule*
- 3) The best financial and construction arrangements will be found to achieve optimum conditions for the condominiums*

It is planned that the condominiums will take out loans in the amount of about EEK 50-60 million (USD 2.8-3.4 million). The interest rates will be around 6.6% for 5 years and 7.4% for 10 years (the interest rate is reduced to such a level using various instruments). The intention is also to exclude the interest rate from loans taken for housing renovation from taxable income (which is 26%). The maximum loan amount per m² of living space is EEK 1,000 (USD 56.5). Extra favorable conditions will be made available to households that are in economic difficulties for paying back the loan (as the population in the housing estates consists of many households in economic difficulties). So far, the project is in an initial stage and a pilot project will be tested in 2002. The results will show whether the project will be carried out in the future.

SOURCE: Interview data.

The strategies of supporting the establishment of condominiums (by covering the establishment costs or by helping with the documentation, explaining the establishment and management process in housing estates and other apartment-houses where condominiums have not yet been formed) and the strategies aimed at supporting the renovation and modernization activities of condominiums could be considered effective ones. Also, the activities aimed at supporting other private owners in renovation (those who live in detached or other small houses where there is no need for an condominium and in buildings where associations have not been established yet) are important for an efficient housing development.

2.3.4 Other Activities of Local Governments

Besides the above-mentioned main objectives and programs of local governments, several of them have also initiated or been involved in other housing-related projects. For instance, the Tartu municipality has applied the following three methods for supporting tenants in restituted houses:

- 1) Resettlement support in the amount of EEK 2,000 (USD 113) which is paid to every tenant, regardless of where or to which tenure they are moving;
- 2) Favorable housing loans available to these tenants (interest rate is 8%, the subsidization of one fifth of the loan);
- 3) If the owner of restituted housing agrees to support a new housing purchase for a tenant with the amount of EEK 40,000 (USD 2,300) the municipality adds the same amount and the tenant pays the rest. This method is not functioning as effectively as expected and there has been much profiteering in order to get the support from the local government. Housing exchange has also been supported (or proposed) for elderly people seeking smaller dwellings with low regular expenses.

Supporting the elderly in reallocation is a good option as this group often overconsumes their housing. For different reasons, however, they may be unable to find new housing by themselves. Another option proposed by the pensioners of Tartu could also be considered a good one as long as speculation on property is avoided. Pensioners suggested that they could give the ownership rights of their privatized dwelling to a local government on condition that the local government: 1) Provide them with a smaller rental flat and guarantee occupancy right for the rest of their lives and; 2) Pay the difference between the price of the dwelling and the rental price in the form of monthly additional payments appended to their pension. The local government has not yet taken a position on this proposal.

Municipalities and administrative district governments have increasingly started to consider housing development issues in establishing long-term goals for area development. For instance, a general plan was established for the Supilinn district in the city of Tartu that aims to improve the environment in the area. Supilinn is a low-quality pre-WWII wooden housing area that needs financial investments. The general plan establishes foundations for the development of the area, by planning public as well as private investments there and promoting the influx of wealthier demographic groups (Box 4.11).

Attempts are also being made to improve the quality of the Kopli area in the Northern Tallinn administrative district. It consists partly of pre-WWII housing that has depreciated greatly and partly of low-quality socialist high-rise housing estates (see Box 4.12). It could be argued, however, that the approach chosen for the Kopli area is not the best way to deal with the problem. This strategy does not solve many social

problems, as the ‘evicted’ groups do not have anywhere else to live. Nor does it encourage further private investment in the area. What is suggested instead, is improving employment opportunities and providing social support to enable problem groups to remain in their flats. It is important to raise community morale, but a strong police presence would have a negative impact and raise resistance towards authorities among the residents. The public sector should encourage new housing construction and raise the environmental quality in the area.

Box 4.11

Good Practice of Area-based Development in Tartu Municipality

The general plan for the Supilinn area prioritizes the development of new, small-unit housing in the area’s vacant lots (large lots will be subdivided, if the owner agrees to sell) and improvements in physical and social infrastructure (roads will be improved by the local authority, etc.). The development does not foresee municipal investments in housing, only private capital. To conform with the existing architectural environment, only 1–3 story buildings will be allowed.

The local government will invest in improving existing roads, adding new roads, new bridges, infrastructure, the renovation of public recreation areas and a new kindergarten.

SOURCE: www.tartu.ee

Box 4.12

The Development Program Initiated by the North Tallinn District Government in the Tallinn Municipality to Improve the Quality of Life in the Kopli Area

To improve the environment in the Kopli area, the local authority (district government) has started to improve security in eight municipal blocks of flats that have a high crime rate (24-hour police guard). Only people with special permission are allowed to enter the buildings. Meanwhile, emergency repairs will be carried out. Leases will be negotiated with long-term residents and those who have sufficient financial means. Those who cannot afford to pay rent and communal services, or have a disorderly history, will be reallocated to special places. Vacant rooms will be renovated and distributed to those on the municipal housing waiting list. In this way, the district government expects to reduce crime in these neighborhoods, reduce the number of drug addicts and alcoholics and achieve greater security. It is expected that tenants will establish associations and continue housing management by themselves. The Tallinn municipal government has allocated money for police patrols in the neighborhood and for the emergency renovation. To support the police activities in the area, the municipality of Tallinn has allocated living space for police in the area. The renovation program has already begun to be implemented. The problem groups will possibly be assigned shelter housing adjusted for these purposes.

SOURCE: Daily newspaper Postimees, www.postimees.ee

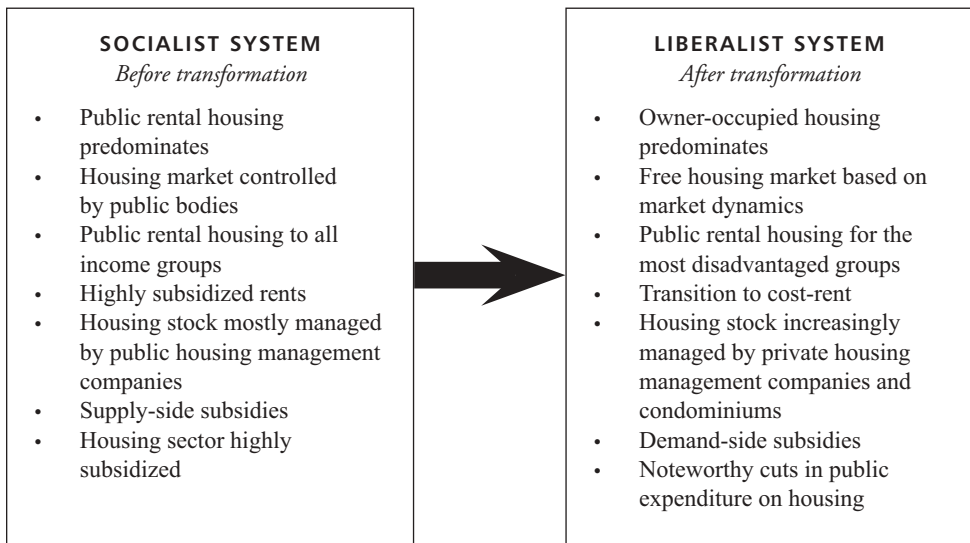
In spite of the established goals, most municipalities are not investing in the housing sector from their local budgets. In most cases, housing problems are perceived to be the concern of individual households, not of local governments. The problems arising from ownership reform should be solved through close cooperation between the State, local governments, private sector and non-governmental organizations. Today, the central government is imposing too many responsibilities on local governments, without sufficient involvement in solving any of these problems by itself. The only efficient local housing fund operates in the Tartu municipality, supporting tenants and owners in restituted housing through favorable loans (for housing exchange or renovation). The establishment of efficient housing funds by larger local governments could be a good strategy for implementing housing policy goals.

3. CONCLUSIONS AND POLICY RECOMMENDATIONS

Housing policy in Estonia has gone through radical reforms since 1991. New housing policies, influenced by an overall liberal-minded political environment in the country, have focused on liberalizing the housing market, placing it in the sphere of free market relations and limiting the public responsibilities and investments in the housing sector. The main housing reforms that have taken place in Estonia are summarized in Figure 4.3.

Figure 4.3

Main Housing Reforms that Have Taken Place in Estonia Since 1989



Today, the main objectives of housing reform have been achieved. Ownership reform has almost been completed. As a result of the extensive privatization and restitution process, the share of public sector housing has decreased from 61%, in 1992, to 6%, in 2001. Using the extremely favorable privatization opportunities, over 90% of previous public tenants have become the owners of their own homes. The statistics show that about 84% of households live in owner-occupied housing; 10% in the private rental sector and 6% are public tenants. Compared to other European countries, the proportion of owner-occupied housing is quite high (in the EU, the average tenure structure is as follows: Owner-occupancy—56%, private rental—21%, social rental—18%, housing cooperatives and others—5% [Balchin, 1996]. The rental sector—public as well as private—has become marginal. The rent level is relatively low in the rental housing stock, which is of very low quality and higher rents characterize those housing units that are of better quality and in better locations.

The public sector has transferred ownership responsibilities to the private sector and ended direct subsidization of the housing sector. The main policy instruments are aimed at increasing demand in the housing market. Low-income families are paid the subsistence benefit to remunerate (entirely or partly) housing costs and the efforts of special groups (young families, tenants in restituted housing, condominiums, etc.) to acquire housing in the market or renovate it are supported by national and local government policies (through loan guarantees, tax policies, etc.). Minor supply-side policies include public-private partnership programs; in the capital city, a new municipal housing construction program is being created.

The aim of the reforms in the sphere of rental housing has been the transition to the cost-rent system, i.e. the rise in rent prices to a level where it can cover the necessary expenditures on housing. However, many local governments still subsidize rent or postpone necessary expenditures on housing (a more likely scenario). About half of the municipalities still regulate the rent level. This applies to restituted housing, where 'old' leases are still in force and in the municipal housing (or a part of municipal housing). Regulated rents set limits on the activities of owners in restituted housing and force them to subsidize the tenants. This has caused much tension between owners and tenants in restituted housing (and between owners and local authorities), as owners cannot cancel existing leases and 'evict' tenants unless compelled to by the law.

Management has been transferred from public housing management companies to private (or semi-private) companies or joint management by residents (usually condominiums). Public bodies have encouraged the establishment of condominiums in larger multi-apartment houses. Local governments offer financial and non-financial support for condominiums; for establishing them, supporting the transition of management responsibilities, offering training courses and supporting renovation. The process of establishing these condominiums has taken longer than expected. The management in new condominiums is likely not as efficient as expected by public bodies (the manage-

ment was more efficient in former housing cooperatives where the dwellings belonged to cooperatives and not to individuals). In privatized housing, people are mostly focused on their private property and they do not necessarily prefer to act in the common interest. A sense of ‘community’ has not often developed in condominiums in high-rise housing estates. As a result, common spaces such as staircases, exterior, roof, etc., are depreciating and the future costs for renovation will likely be higher. Other problems faced by condominiums are caused by the various socio-economic backgrounds of residents and their inability to take loans for housing renovation purposes (as these condominiums do not have enough collateral or do not meet other requirements set by banks).

Local government programs are currently increasingly being aimed at supporting new housing construction, while additional efforts are made to motivate private owners to renovate the housing stock. Figure 4.4 summarizes the main positive and negative impacts caused by the housing reforms.

Figure 4.4
Positive and Negative Consequences of the Housing Reforms

POSITIVE	NEGATIVE
<ul style="list-style-type: none"> • Public expenditure and responsibilities concerning housing considerably reduced • Private investments in housing increased • Quality of housing management and communal services improved to some extent • Established condominiums are effective in many cases • Residents who have become owners feel more freedom to carry out their housing strategies • Establishment of social justice through restitution • Housing choices have expanded for wealthier households 	<ul style="list-style-type: none"> • Marginalization of rental sector • Residualization of public rental sector • Polarization in the private rental sector • Spatial segregation • Homelessness • Regional uneven housing development • Conflicts between tenants and owners in restituted housing • Lack of cooperation between governmental bodies on different levels of housing development • Low level of new housing construction • Difficulties in access to housing and in housing affordability for many social groups • Housing management problems • Housing market failures • Private sector interested in profit and non-intervention of government

Though the radical reforms have succeeded to cut the governmental expenditure on housing to a notable degree, the continuation of liberal trends may not be efficient in economic or social terms. On one hand, due to the liberalization of the housing market, the freedom of housing exchange and housing choice has increased for a share of households. On the other hand, many social groups increasingly meet with difficulties in access to housing. The development of solely demand-side politics by governments (such as improving loan conditions for housing purchase) results in higher housing prices. The existing system of subsistence benefits is not functioning effectively enough to cover the necessary costs on housing and is leading to the likelihood that low-income households will occupy substandard living space.

On a national level, the housing strategy—the goals and programs of housing development—has been prepared, but not approved by the government. The established goals are too abstract and the ways of achieving the goals are not sufficiently specified. The absence of a national strategic housing development document makes it more difficult to set up housing policy goals and programs at a local level. Only three larger municipalities have approved their housing development plans, while some other municipalities have established a few housing development goals in the general development plans. The established goals do not cover all important housing development areas. The main emphasis is on supporting owner-occupancy and private housing construction, housing management and renovation by private owners and raising the efficiency of municipal housing stock. The aim is not to considerably extend the public rental housing stock. More successful strategies are the encouragement of owner-occupancy, private housing renovation and new housing construction (target-groups are young families and tenants in restituted housing) and the establishment of condominiums. Policy incentives concerning public housing provisions or other rental housing at an affordable rent level have remained weak. Thus, the present quality of municipal housing is also often low, its management is not efficient and the allocation principles are not efficient enough to satisfy the real need for such housing.

The cooperation between central government and local government should be better organized and the same goes for the objectives of development. Although the national government has to solve the problems related to housing reform (primarily alleviating the problems of tenants in restituted housing) no additional funds have been allocated to local governments for these purposes. Local governments are made responsible for finding solutions to their housing problems, including the social housing sector. The responsibilities of local governments are planning and construction policy, preparing plots for housing construction (roads and infrastructure); providing housing for special social groups and rent regulation. Obviously, due to the constraints imposed by small budgets, municipalities have little or no possibility to make investments, either in the construction of new rental units or modernization of the existing stock, or to finance other large-scale housing projects.

The supply of housing is relatively good in Estonia. Due to the demographic trends, the need for housing has diminished over the past years. Formally, there is a balance between the number of dwellings and households. But in fact, the size of dwellings does not correspond to the size of households and the geographical location of housing and the labor market do not overlap. The problems in the housing market are tied to the relatively old and poor quality housing stock. The level of new housing construction has been extremely low and concentrated in the capital region only. The housing market is regionally clearly divided into active (the Tallinn region and other main towns) and passive markets (most of the rural areas and small towns).

3.1 Policy Recommendations

The imperfections of the housing market can be, to some extent, eliminated by public intervention. The high pressure on the housing markets of large municipalities can be mitigated by encouraging improvements in existing housing stock and the new housing construction. Through regional policy, it is possible to some extent to decrease the disparity between the geographical distribution of the labor market and housing market and to decrease the high pressure on rental dwellings by economic migrants moving from rural areas to the cities. During the second half of the 1990s and during the 2000s, the significant addition to the cities' housing market has been (and will be) the apartment-market and cottage-market of the rural municipalities in the neighborhood of the cities. Thus, the housing situation and the tackling of the housing problems depends to a large extent on cooperation between cities and their surrounding municipalities. Primary housing policy measures are:

- Development of infrastructure, improvement of transport organization;
- Land and planning policy (the distribution of lots on favorable terms, the preparation of properties by the public sector through the establishment of detailed plans and the construction of technical and social infrastructure);
- Development of a financial system (the improvement of loan opportunities for housing purchase and housing renovation). Favorable loan opportunities to certain population groups (through the regulation of interest rates, tax allowances, loan guarantees, etc.);
- From the long-term perspective, direct support for new housing construction through grants in suburban areas.

As neither the market nor the public sector seems to be able to bring about efficient occupancy of existing dwellings, this imbalance will probably remain unresolved until an average household is able to obtain a newly constructed single-family dwelling. The means to support a more efficient occupancy of the existing housing stock are:

- Grants directed to support the renovation of buildings and dwellings in the inner-city areas that often are in a very poor physical state. The grants should be provided on the basis of socio-economic need;
- Targeted grants for the renovation of private dwellings, etc. The supplementary result for this activity is the construction of new dwellings, as it improves the environment and makes neighborhoods more attractive to a potential influx of wealthier groups;
- Improvement of loan terms to condominiums and private individuals for housing renovation/modernization—incl. partial subsidization of the interest rates, loan guarantees, etc.;
- One effective method to accumulate resources for housing investments (especially for renovation) could be to initiate a savings deposit system. However, it is important to consider the unstable character of price dynamics in the real estate market, as interest rates may not keep up with prices in the housing sector. Thus, it is important to provide state guarantees as well as hikes in the interest rates.

Despite the decreasing population, there will probably be no surplus of living space, as pensioners tend to occupy spacious dwellings and young couples or singles look for a dwelling of their own. A more extensive need for living space will emerge around 2015–2020, when the ‘baby-boom’ generation, born in the late 1980s and in the early 1990s, will enter the housing market. This generation will potentially need both private as well as rental dwellings. The private sector is today interested in providing owner-occupied housing to upper-income households (to the 9th and 10th income decile households). It will be problematic for average-income, young households to enter the loan market—and thus to become housing owners—if the following measures, all of which increase supply and demand, are not applied:

- State housing construction grants for local governments that help realize housing programs for young households. The local governments’ own finances should likely be directed towards the same purposes (in wealthier municipalities);
- Interest subsidies and guarantees for housing loans issued to young households (up to 35 years old, with young children);
- Targeted birth grants for families with children who keep housing-related responsibilities (housing loans, etc.).

The predicted changes in the household structure, household financial opportunities and preferences increase the demand for rental dwellings with moderate prices. Pensioners as well as young households prefer increasingly to be tenants (if the tenant-sector is functioning normally). Thus, the plans for the development of the public housing sector should also consider wider social needs besides the needs of tenants in restituted

housing and the disadvantaged groups. Today's policies do not meet the social demand and do not enable rent to be raised to the cost-rent level; the smaller the public rental sector, the harder it is to raise the rent level. The potential for rent increase also depends on the price increase of public services (heating, water supply, electricity, etc.). In view of the current situation, the following initiatives would help increase the efficiency of the rental market:

- Increase the size of the municipal housing fund and extend the range of potential candidates to average-income households, in order to decrease management costs;
- Transfer management of the social housing fund to non-profit independent organizations/companies. Support these organizations in enlarging the social housing stock by the purchase of dwellings in private ownership, new housing construction and the transferal non-residential spaces to residential spaces;
- In the renovation and construction of social housing stock, strict construction quality requirements must be followed. These would guarantee low regular housing expenses in these dwellings;
- Certain favorable conditions on loan interest and land prices and tax breaks and allowances, for the developers of rental housing in the private profit rental sector;
- Privatization of the existing residual (low-quality) municipal housing fund, as managing and renovating it is an economically inefficient proposition. Privatization should be directed to average and higher income households who would be able to make investments in the municipal stock;
- Develop an efficient allowance (benefit) system by the central government to increase housing demand (includes subsidies for tenants as well as owners);
- Transition to cost-rent in municipal/social housing. A households' ability to pay rent must be simultaneously regulated by the social benefit system. Rent level in social housing must, however, remain lower than it is in the private sector.

The system of social benefits does not function effectively in Estonia, in spite of having been in operation for ten years. To achieve a situation where social benefits are better directed to families in real need, the following should be achieved:

- 1) Establishment of acceptable minimum standards (the size of living space, quality) for housing;
- 2) Compensating costs for families in need within these norms (difference between needed costs and own resources).

The share of social benefits aimed at compensating housing costs has gradually decreased in the 1990s. Many households who had fallen into economic difficulties during the 1990s, passed several stages in the process of solving their housing problems

and have reached the state of being “mired down” in poverty (from an average dwelling in town to a low-quality dwelling in town, then from a low-quality dwelling in the countryside to a shelter). If these trends continue, the final results will be expensive and socially perilous. Possible solutions are:

- Increasing the efficiency of the social subsistence system and, thus, saving a considerable amount of resources;
- Considerably increasing the level of social subsistence benefits from resources that become available after raising the system’s efficiency;
- Constructing municipal-owned dwellings with modest living spaces with low monthly expenses that cover the minimal primary housing needs of lowest income households.

The housing problems of the average citizen will probably not find a solution in the new buildings to be constructed within the next 10–15 years. The low average income compared to high construction expenses and the present loan conditions (the interest rates are high, banks have very high loan security requirements) do not favor extensive new construction. Loan conditions have, however, become more favorable compared to earlier years. At the same time, it is essential that there will be an increase in the share of persons improving their living conditions by obtaining a larger dwelling or renovating or enlarging their existing dwelling. Possible solutions for the improvement of the existing housing stock are:

- Central and local governments providing standard solutions for the renovation projects of housing estates that are carried out by condominiums;
- Establishment of a financial system for the renovation of dwellings (the improvement of loan conditions, tax allowances, subsidies, direct grants; about 5–10% of the project costs);
- Promotion of financial models in which special firms provide loans with governmental guarantees to low-income housing owners for improving their housing conditions and pay the related taxes. The companies would receive a share of inheritance right or a proportion from the sale of property in accordance to their investment share;
- Application of rehabilitation policy to increase the quality of life in depressed areas. In certain neighborhoods, the low-quality municipal dwellings could be replaced by new construction, buildings renovated, their size modified according to the market demand (by merging or splitting the dwellings) public rental apartments partially privatized, management of rental housing transferred to the non-profit organizations/housing associations and private investments encouraged. Local governments can support these projects by improving the infrastructure, raising the quality of public spaces and providing green space. Within this process, it is essential that a share of cheap rental dwellings be re-

tained in these areas to keep the residential mix as it is and prevent the outflow of all original residents.

The establishment of short- and long-term housing strategies, the redistribution of public resources and allocation of additional funds to the housing sector, and the acknowledgment of the importance of intervening in the free market processes by both demand-side as well as supply-side initiatives, would increase the chances to overcome the social and economic tensions in the housing sector that have become apparent and are gradually deepening.

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APPENDIX

Table 4A.1

Apartment (in Multi-apartment Houses, Movables) Sale Prices by Income
(Average Net Salary per Month) Ratios in Estonian Counties (End of 2000)

	Average Net Salary per Month [USD]	Average Price per Transaction [Thousand USD]	Price-to-income Ratio
Harju	320.0	14.3	44.6
Hiiu	225.3	3.4	15.1
Ida-Viru	215.8	1.6	7.3
Jõgeva	208.0	1.0	4.9
Järva	208.9	1.3	6.3
Lääne	190.4	2.7	14.1
Lääne-Viru	212.4	1.8	8.4
Põlva	189.0	1.6	8.5
Pärnu	238.6	7.7	32.4
Rapla	237.2	2.7	11.4
Saare	218.7	5.7	26.2
Tartu	219.7	6.9	31.6
Välga	207.9	1.2	5.8
Viljandi	208.4	2.7	13.0
Võru	191.3	3.6	18.6
Total	219.4	3.9	17.7

SOURCE: www.stat.ee

Table 4A.2
 Recipients of Subsistence Benefits by Household Type in Estonia in 2001*

	Number of Applications Approved	% of Households by Number of Applications Approved	Number of Households who Received Benefits	% of Household by Total Number of Households Receiving Benefits	Average Number of Approved Applications
Pensioner households	34,023	7.7	9,543	13.6	3.6
Student households	73,918	16.7	12,018	17.1	6.2
Unemployed households, including	262,116	59.1	41,003	58.2	6.4
• with a member receiving unemployment benefits	139,484	31.5	23,164	32.9	6.0
• with a household member who is long-term unemployed or is unemployed and is looking for a job	122,632	27.6	17,839	25.3	6.9
Households with children	169,955	38.3	28,496	40.5	6.0
Households with a disabled member	25,930	5.8	5,557	7.9	4.7
Other	10,487	2.4	2,108	3.0	5.0
Total	443,265	...*	70,417	...*	6.3

* As one household can fall into several different categories by its social status, one family can be represented in this table more than once. Therefore, the total amount of applications approved and the number of households belonging to different categories shown here is, to some extent, larger than in reality.

SOURCE: Ministry of Social Affairs.

ENDNOTES

- ¹ The preliminary reports of the 2000 Population and Housing Census show that, as of March 31, 2000, there were 618,700 dwellings (detached houses, parts of detached houses, apartments, self-contained rooms in hostels) in Estonia (i.e. the number is somewhat lower than estimated by regular data). According to the census, the number of households was 585,600; i.e. the number of dwellings exceeded the number of households by 5%.
- ² Housing cooperatives differ from newly established condominiums. In this case, apartments in a house belong to the cooperative and dwellers own shares in the cooperative. This form of ownership was important in the Soviet period. Now cooperatives are being transformed to condominiums.
- ³ In 1997, housing loans for tenants in restituted dwellings were introduced. The loan was extremely favorable as the repayment took place by *EVPs*. Unfortunately, the majority of tenants were not able to obtain this loan, as they were not able to fulfill the conditions set by banks.
- ⁴ The non-regular costs for housing, such as costs of major renovation works, can be charged from tenants independently from regular rent, depending on the previous agreement between owner and tenant. In this case, the tenant has right for the extension of a lease.
- ⁵ Rent control in the restituted dwellings last until the current tenant contracts expire, i.e. in most cases after 5 more years.
- ⁶ Housing associations are the previous housing cooperatives. They still operate on the same basis, but are increasingly developing into condominiums (apartments will be privatized).
- ⁷ The data presented in the text is not weighted according to the size of municipal units, since it was demonstrated beforehand that there is no correlation between the size of municipalities and the empirical data. The simple averages per inhabitant are only therefore provided.
- ⁸ In Ida-Viru county (see Figure 4.1) 84% of all housing units belonged to the public sector in 1995, whereas the percentage for the whole country was 56.3.
- ⁹ To date, the monthly rent for a 2-room flat in Annelinn—a city district of pre-fabricated blocks of flats—is around EEK 1,500–2,000 (USD 85–113). In the case of an average-size municipal rental dwelling (31.4 m²) at the current average rent level of 8 EEK (USD 0.45) per m², the monthly rent is 251 EEK (USD 14.2). In Tallinn, the contrasts between market rent level and regulated rent level in municipal dwellings are even greater.

- ¹⁰ The average is this high because of a few small municipalities where the vacancy rate in municipal dwellings is high. A somewhat more reliable indicator is the median, which is 5.6, i.e. there is an equal number of municipalities where the vacancy rate is above and below 5.6% of the total municipal housing stock.