

ROMANIA

Reimbursable Advisory Services Agreement on the Cluj-Napoca  
City Urban Development Program (P172384)

## **COMPONENT 3. IUDS 2021-2030 – Housing Strategy**

**Output 1. Report with analysis of demand and supply of  
housing, and recommendations on how to address the gap  
between demand and supply**

**Main Report: Key Takeaways and Path Forward**

July 2021



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# Cluj-Napoca Housing Strategy



## MAIN REPORT: Key Takeaways and Path Forward

July 2021  
World Bank

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## Acronyms

AMI	Area Median Income
ANL	National Housing Authority
BOT	Build-Operate-Transfer
CDBG	Community Development Block Grant
CLT	Community Land Trust
CNMA	Cluj-Napoca Metropolitan Area
DA	Development Agreement
DRS	Department of Regional Statistics
DTI	Debt-to-Income
ESCO	Energy Service Company
EU	European Union
FMR	Fair Median Rent
GD	Governmental Decree
GDP	Gross Domestic Product
GHG	Greenhouse gases
GIZ	<i>German Corporation for International Cooperation</i>
GNI	Gross National Income
GTZ	<i>German Corporation for International Cooperation</i>
HCV	Housing Choice Voucher
HH	Household
HOA	Homeowners Association
HUD	US Department for Housing and Urban Development
IMF	International Monetary Fund
INS	National Institute of Statistics
LIHTC	Low Income Housing Tax Credit
LPHA	Limited Profit Housing Associations
LTV	Loan-to-Value
MHT	Mahila Housing Trust
NHT	National Housing Trust
O&M	Operations and Maintenance
OECD	Organization for Economic Co-operation and Development
PPP	Public-private Partnership
PUG	General Urban Development Plan
PUZ	Zonal Urban Development Plans
PWA	Public Works Administration
RAD	Rental Assistance Demonstration
RAS	Reimbursable Advisory Service
RIM	Residual Income Method
SHICC	Sustainable Housing for Inclusive and Cohesive Cities
SP	Strategic Priority
SPARC	Society for the Promotion of Area Resource Centers
UK	United Kingdom
US	United States
WB	World Bank

# 1. Introduction

## 1.1 Setting the global stage

### 1.1.1 The global housing challenge

Globally, governments around the world are struggling to provide adequate housing for their citizens. These challenges are at once challenges of demand and supply, as well as affordability. Today, for example, the global demand for new housing is 100,000 units per day driven by population growth, new household formation and urbanization. At the same time, the qualitative deficit for housing remains stubbornly high with as many as 1 billion people living in slum or substandard housing – a figure that could double as early as 2030. Constraints such as poorly managed public land, lack of clear land ownership, planning that does not guide development and housing construction that precedes the public provision of trunk infrastructure, together with sometimes burdensome local development regulations, all contribute to the severe bottlenecks that constrain the supply of housing. For example, it takes on average 159 days to secure a construction permit outside of OECD countries, and as high as 70% of households globally lack secure tenure. This is contributing to a global housing affordability crisis with an estimated one third of urban households unable to secure affordable housing.<sup>1</sup>

### 1.1.2 Adequate housing conditions and quality of life

The global COVID-19 pandemic has exposed the social inequalities in ways that have not always been as clear. People living in over-crowded conditions, with inadequate housing to safely social distance, with inadequate infrastructure to work or learn from home have been disproportionately impacted by the crisis. Threats of eviction or foreclosure have added to daily stresses, particularly of lower-income households already often overburdened with high housing expenses and housing insecurity. More than ever, policy makers and society have taken note that housing is more than just shelter.

Healthy housing supports a state of complete physical, mental and social well-being. It does so by providing shelter from the elements and facilitating comfortable temperatures, adequate sanitation and illumination, sufficient space, safe fuel or connection to electricity, and protection from pollutants, injury hazards, mold and pests. In addition, Sustainable housing can improve the resilience of cities. Making cities safe and sustainable means ensuring access to safe and affordable housing and upgrading informal settlements. Sustainable building design, climatic and cultural adequacy of housing can improve the impact of housing in the urban environment, on climate change, and on city resilience.

### 1.1.3 Multiplier effects of housing

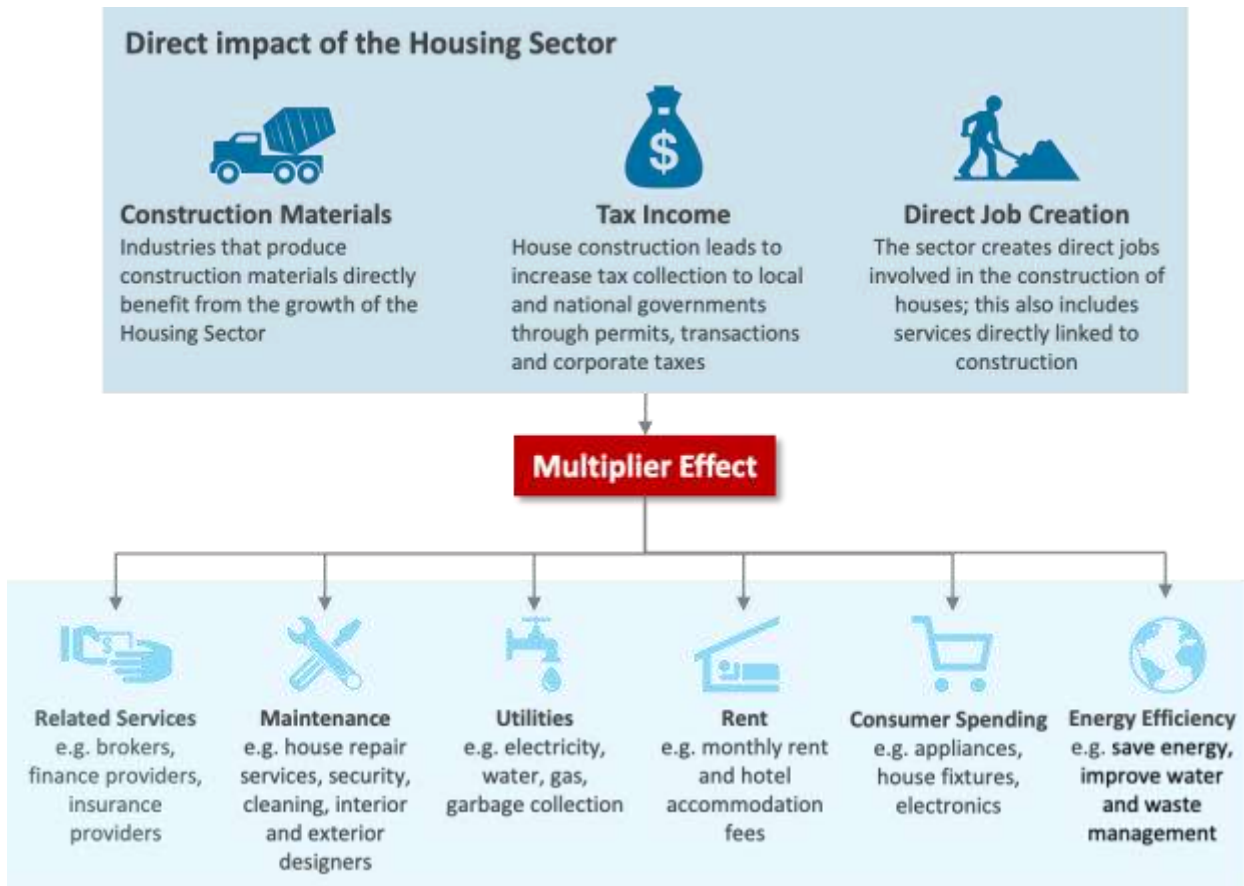
At its most basic, housing provides shelter which is a basic need required for humans to have a decent life. It also provides safety, stability, community belonging, self-esteem and social status that often influences quality of life. Investing in the housing sector is also a generator of jobs throughout the housing value chain, and for households, safe and secure housing is a foundational requirement for wealth generation. These core housing benefits – shelter, job creation and wealth generation – have additional benefits that ripple through the economy.

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<sup>1</sup> McKinsey Global Institute (2014). Tackling the World's Affordable Housing Challenge.



Figure 3.1 - Impact of Housing Sector on Economic Growth



Source: World Bank, 2021.

#### 1.1.4 Demographic changes and housing demand

Global trends in the housing sector suggest that this is an important moment for public authorities to be thinking strategically about the housing sector and to leverage these trends. The demand for housing will be driven by urbanization which will reach 60% globally by 2030 and is expected to reach 70% by 2050. Even in countries where population growth is low or declining, some cities such as Cluj-Napoca will continue to attract new migrants increasing demand for new housing in urban areas. In addition, demographic changes will create demand for new housing typologies as trends lead towards smaller, more mobile households living separate from their extended families. Growth in the aging population and student populations will drive demand for elderly, rental, and student housing.

#### 1.1.5 Housing and the need for climate resilience

Near 20% of the world's GHG emissions are from buildings. Eighty percent of economically viable energy savings in building is left untapped. Green construction offers a chance to secure emission cuts at a low cost and lock in energy and water savings for decades. Due to the need for close proximity to work areas and city amenities and urban transit improvements, there is a trend to move into city centers. This trend is reinforced by the focus on controlling urban sprawl in favor of more green, compact and energy efficient cities. Given the lack of space in such urban centers, buildings are becoming more efficient (smaller) and high-rise buildings are becoming more common. Cities will need to focus on repurposing existing building

for housing in city centers and creating opportunity for urban infill housing. This trend is increasing in both developing and developed countries.

### **1.1.6 Cluj-Napoca's housing sector**

The growth of the Cluj-Napoca Metropolitan region has created a number of housing challenges that make timing right for a housing strategy.

Romania, like many other European countries is experiencing negative population growth rates due to both outmigration and low birth rates. For many urban areas in Romania, this has led to a decline in urban populations, or shrinking cities. However, this is not the case for Cluj-Napoca. Cluj is one of the Romania's more dynamic cities experiencing population growth from both new household formation and immigration. Home to a prestigious university, Cluj's demographic profile portends a higher population of working age people at (ages 18-64) than the country as a whole and the population as a whole has growth at a rate of 6.6% since 2011. This suggests that the demand for housing will remain relatively strong in the years to come.

The high cost of housing is among the chief among the concerns of local policymakers and housing advocates. The average cost to buy a unit is EUR 1,760 per sq.mt., and rents averaging EUR 410/ month for a 2-room (1-bedroom) unit. House (sale) prices increased faster in Cluj-Napoca than in Bucharest over the last few years, such that in 2020, Cluj-Napoca's average house prices and rents exceeded those in Bucharest, and many cities in Western Europe. While the growth of new housing construction appears to have outpaced population growth, high prices suggest that the growth in housing construction is not meeting the demand of certain market segments. It is likely that much of the new housing may be second houses or vacation homes, as opposed to long-term residential housing or housing that caters to market segments that prefer rental housing, such as Cluj-Napoca's large student population. There is a mismatch between housing demand and supply that will need to be addressed by local authorities.

In addition to the high cost of housing, local authorities must address a number of other challenges. This includes, for example, a high demand for social housing within a context of extremely limited supply that has been exacerbated by decades of housing privatization following the collapse of communism in the 1990s. In addition to not fulfilling the demand of certain market segments, much of the new housing under construction is in peripheral areas that lack the supporting trunk infrastructure, and hence at odds with sustainability goals. Much of the existing, primarily multi-family housing stock is relatively old – with 70% having been built prior to 1990 – and suffers from deferred maintenance and a lack of effective property management.

## 1.2 Structure of the report

This report comprises two main sections: (i) Housing Value Chain Analysis, and (ii) the Housing Strategy.

### 1.2.1 Housing Value Chain Analysis

Section 2 presents the Housing Value Chain Analysis, which includes the key findings of Cluj-Napoca's housing sector. It identifies the major challenges on both the demand and supply sides of the housing market, and the impact these challenges have on ensuring greater access and affordability to housing. *A full in-depth analysis of all the issues highlighted in this section are presented in the **Situation Analysis**, presented as a companion report with this document.*

### 1.2.2 The Housing Strategy

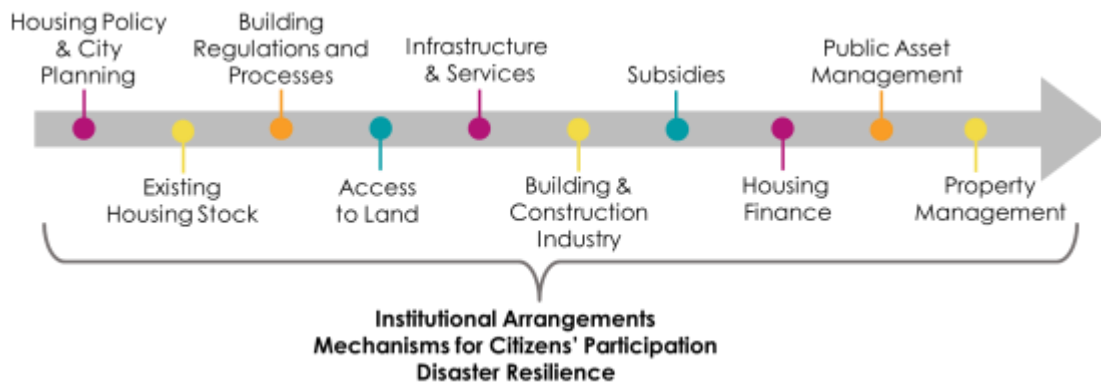
Section 3 presents the Housing Strategy for Cluj-Napoca, also with the fundamental principles on which it is based. The Strategic Priorities, Objectives, and Actions that constitute the Strategy have been interspersed with international case examples and good practices, as deemed relevant.

## 2. Key Takeaways: Housing Value Chain Analysis

The Housing Value Chain Analysis examines the environment for housing delivery through a cross-sector lens that spans the entire value chain (see Figure 2.1). An understanding of how these distinct but interrelated aspects function can help disentangle and streamline their performance to make the markets work better.

***The findings presented here are extracted from a companion report that includes an in-depth Situation Analysis of the housing sector in Cluj-Napoca. Please refer to that report for more details.***

Figure 4.1 Housing Value Chain



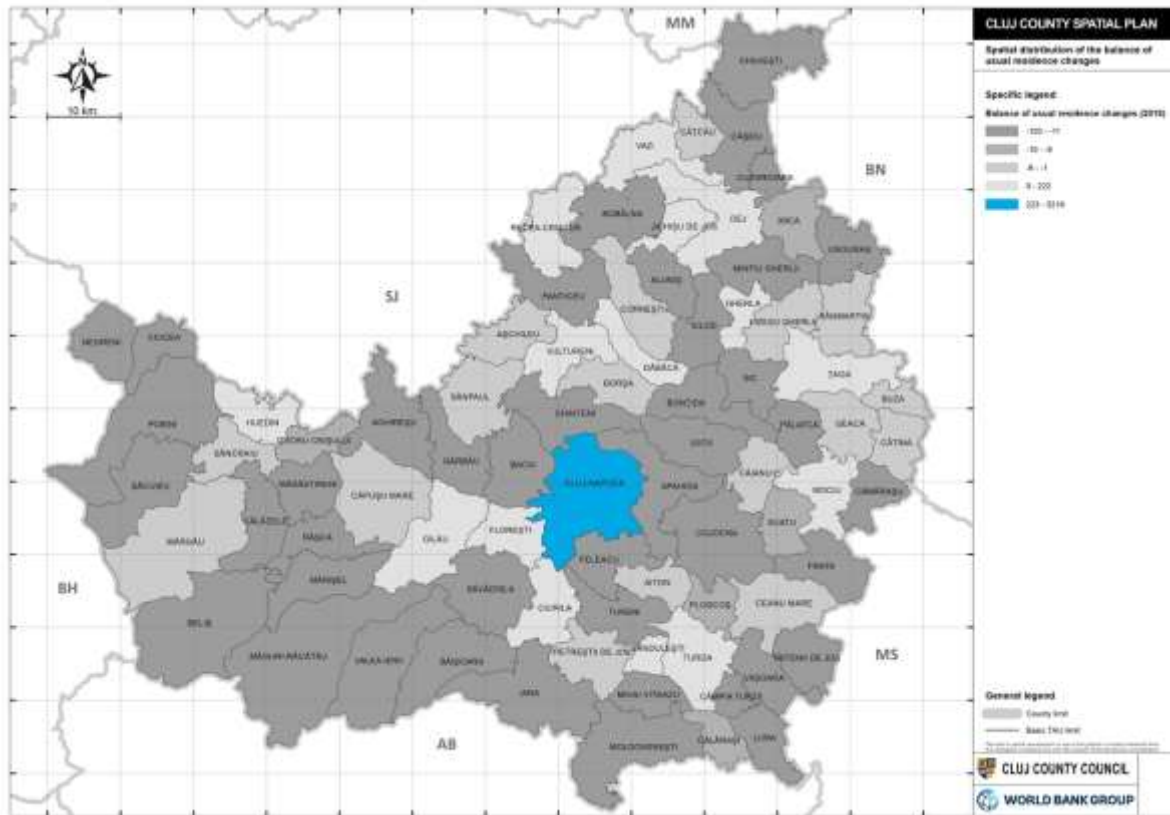
### 2.1 Population and spatial dynamics

#### 2.1.1 Population growth

**Cluj is among a few counties in Romania to have witnessed a population *increase* between 2008 and 2019** – from 707,647 to 732,267. It continues to be an attractive place for people domiciled outside the county: 30% of the county's population has a permanent domicile elsewhere in Romania. Much of this growth is attributed to Cluj-Napoca, which is the only locality in the county with a population of 327,272 (2021), and a net positive balance of migration; most of the rural localities in Cluj county are losing population.

The population of the Cluj-Napoca Metropolitan Area (CNMA) is 445,600. Some 44% of the total population domiciled in Cluj County lives in Cluj-Napoca, and 10% of the county's population is concentrated in the neighboring communes: Florești, Apahida, Baci, Chinteni, Ciurila, Feleacu. Of the population domiciled in Cluj-Napoca, some 2,700 live in Florești, and about 500 each in Baci and Apahida.

Figure 2.2 Balance of change in habitual residence, Cluj County (2018)



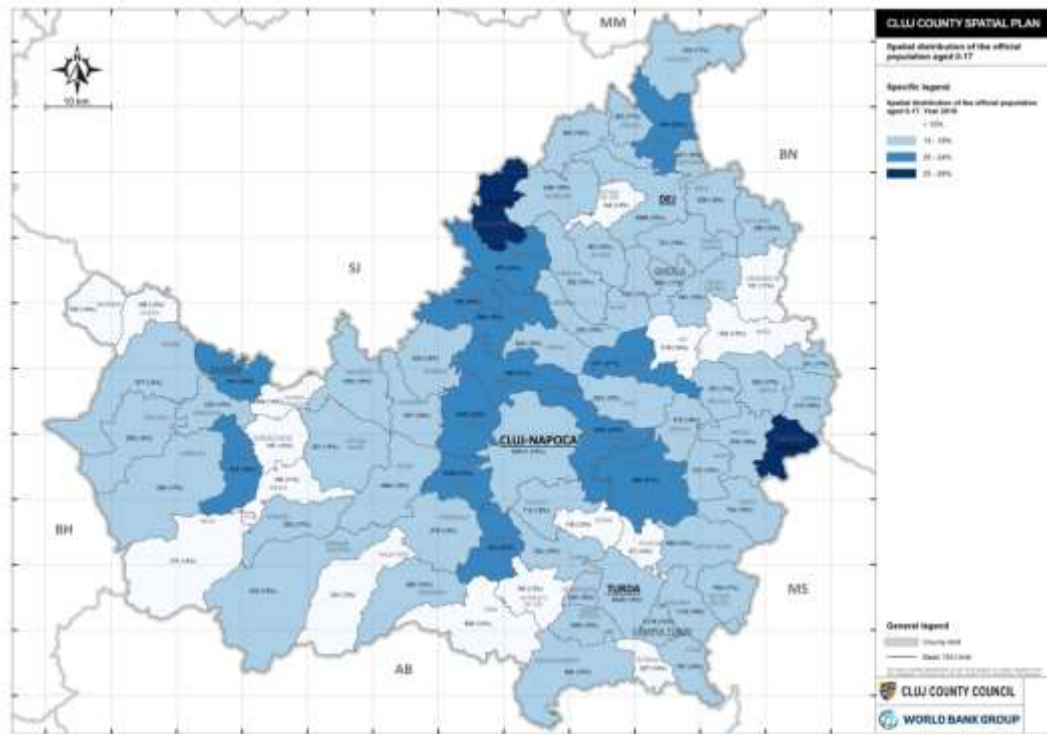
Source: Substantiation Study on population, Cluj County Spatial Plan, 2020.

### 2.1.2 Age and dependency

**Although Cluj County has a negative natural increase in population, the ratio between the number of elderly people and the number of dependent children still favors the latter.** In most ATUs of Cluj County, working age persons (18-64 years) represent 60-70% of the total population. Eleven of the 81 ATUs have an elderly population of at least 30%. At the aggregate level, the largest elderly population lives in the eastern part of the county, and the smallest elderly population is recorded in the communes of Floresti (6.6%), Apahida (12.2%) and Baciu (12.8%). Both in absolute values and in percentage, most communes in the peri-urban area of Cluj-Napoca have the highest number of children (under 18 years). This suggests continued household formations and thus more demand for housing.

The ratio of the elderly population and the working age population is 25:100 in urban areas, and 32:100 in rural areas. The ratio of 'dependents' (i.e. vulnerable/ elderly/ children) versus working age population is 57:100 in urban areas, and 42:100 in rural areas. Age dependency ratios are important for understanding future housing demand.

Figure 2.3 Spatial distribution of the population <18 years (2019)



Source: Substantiation Study on population, Cluj County Spatial Plan, 2020.

### 2.1.3 Spatial development

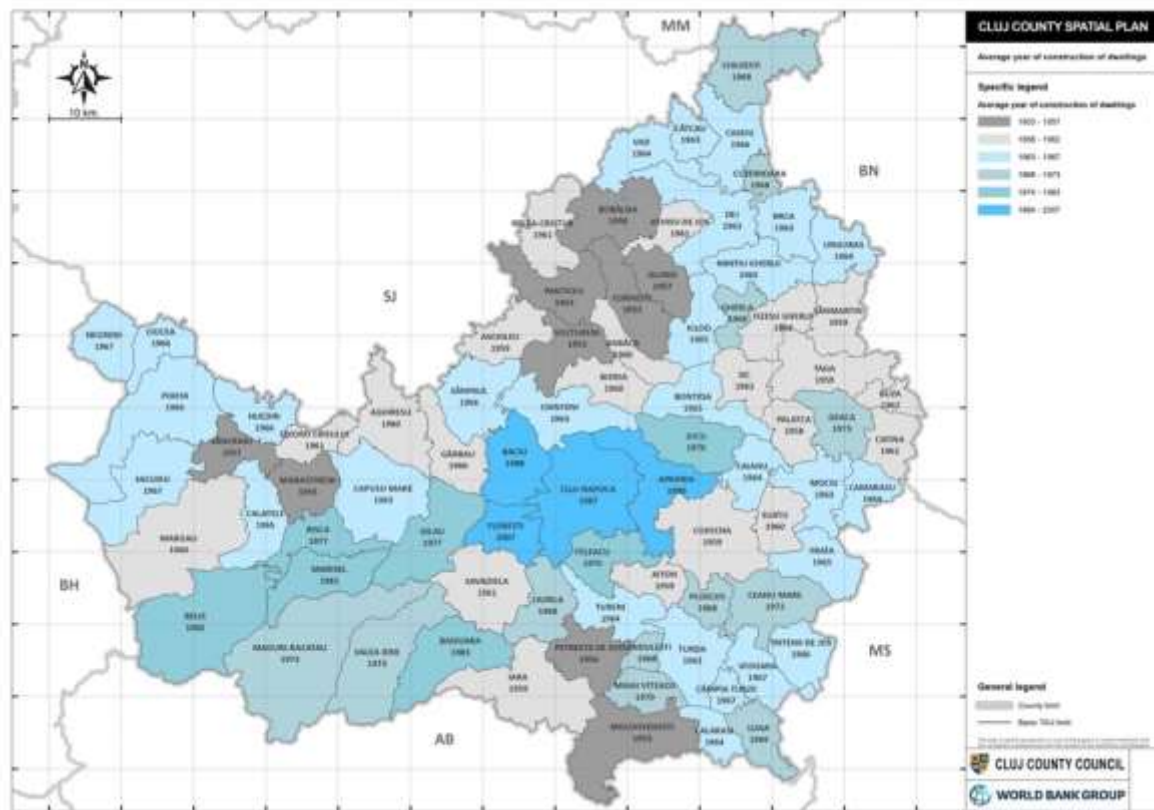
**Ad hoc development, peripheral sprawl and inadequate infrastructure characterize the spatial development in Cluj County.** The east-west development corridor is defined by the topography and terrain – with hills to the north and south of Cluj-Napoca. There has been a boom in real estate development – including housing – on (cheaper) lands in the peripheral areas of Cluj-Napoca municipality, particularly in Floresti, Baci, and Apahida. This urban expansion, however, has mostly occurred outside of regulatory mechanisms (General Urban Plans (PUGs), and is characterized by individual pockets of development without adequate consideration of the surroundings or to the infrastructure needs (transportation etc.).

## 2.2 Housing stock and characteristics

### 2.2.1 Age and typology

**Cluj county's housing stock is relatively old with over two-thirds (70%) of residential buildings built before 2000.** The urbanized areas of Cluj County are dominated by newer multifamily housing stock built after 2000, while rural areas mostly comprise older housing – mostly single-family houses – built prior to 2000. The newest housing stock, at county level, is in Floresti commune. The vast majority of people in the CNMA live in multifamily buildings: 75% in Cluj-Napoca, 52% in Floresti.

Figure 2.4 Average age of housing construction at the level of localities in Cluj County (1900-2018)



*Technical data: The focus on the median year 1996, with the average year of construction of the building with the lowest value in 1953 in Vultureni and the average year of construction with the highest value in 2007 in Florești. The maximum intensity of the color is given by the 1990 value. Data source: Census of Housing and Buildings in Romania 2011, period of construction of buildings and year of construction after 1970. National Institute of Statistics, Tempo Loc104B.*

## 2.2.2 Urban infrastructure and services

In CNMA, the expansion of new residential developments in rural areas adjoining Cluj-Napoca have mostly occurred outside of regulatory mechanisms (General Urban Plans (PUGs)). As a result, these areas have come to be characterized by individual pockets of development without adequate consideration of the surroundings or to the infrastructure needs (transportation etc.) that are associated with such developments at a macro level. Although, in general, the new housing units meet the standards (per the Housing Law), little attention is given to outdoor spaces (parking, playgrounds, public spaces etc.), and some of the most basic components of urban development – for example, mandated setbacks, building heights, rights-of-way, land reserves – are overlooked. All of these factors negatively impact the comfort/quality of life in these areas.

## 2.2.3 Private versus public ownership

The share of privately owned housing has grown steadily in Cluj County since the fall of communism. There is a very high proportion of privately owned housing in Cluj County, with an increase from 90.6% in 1993 to 97.9% in 2017. The dynamics of restitution and privatization have gradually reduced the publicly owned housing stock. This has implications for possible social housing models and has made social housing more challenging.

#### 2.2.4 Building management and maintenance

**The stock of housing is not just aged, but also generally suffers from poor management and deferred maintenance.** Homeowners Associations (HOAs), legally mandated to maintain and manage these buildings, have limited technical or financial capacity with respect to planning, budgeting, and management of maintenance or capital repairs. This has resulted in poor building quality not just from the perspective of physical appearance but, in some cases, also in terms of structural resilience. This is attributed to the legacy of pre-1990 centralized planning, the dependency on the state to ‘provide’ housing, and an incomplete housing privatization process that did not factor in the tools necessary to adequately manage or maintain these buildings. Private management companies – mostly developer-managed – are beginning to emerge, but are currently only prevalent in newer and higher-end housing developments. Further, condominium level hazard insurance is not available, and unit-level insurance penetration is limited. Data on HOAs, or management companies, or insurance penetration was not available for this study.

#### 2.2.5 Building/ condominium insurance

**Multifamily housing common areas suffer not only from lack of maintenance and management, but are generally not insured against catastrophe.** The concept of a master insurance policy for a condominium in multifamily/ multistory buildings (that covers hazard insurance etc.) is still not commonly known in Romania. Buyers insure their particular housing unit, and also need to have a life insurance policy. This is at least partly attributed to the dysfunctional HOAs, and partly the lack of awareness of such a product.

#### 2.2.6 Housing vacancy

**Vacancy rates vary significantly by locality, though regular and systematic data on vacancy rates is not available.** According to official data for Cluj County, high rates of housing vacancy were recorded in areas that are losing population or have an aging population – e.g. Recea-Cristur (38%), Borșa (44%), Cornești (36%). High vacancy rates are also prevalent in the hilly regions popular for tourism where people are increasingly building holiday homes that remain unoccupied for much of the year – e.g. Beliș (59%), Băișoara in Mărgău village (56%), and Mărișel (50%). Although official data on vacancy rates in the CNMA is not available, anecdotal information suggests that a sizable proportion of housing units are either holiday homes or otherwise ‘locked out’ of the market. This could be due to speculative activity, or owners’ preference for short-terms rentals (like AirBnB), and/ or an aversion to renting out altogether. Vacancy rates in Cluj-Napoca are expected to be lower than other areas due to high demand (such as from students), as suggested by the high housing prices. This vacancy may, at least in part, be contributing to the high house prices and lack of affordability in the high-demand ATUs.

#### 2.2.7 Housing deprivation and informality

**Marginalized communities are a particular segment of the population that would benefit from targeted housing and social support.** There are five urban marginalized areas in Cluj-Napoca, located on Traian Street, Stephenson Street, Byron Street, Pata Rat and one in an unnamed location. According to the 2011 census, these five settlements have some 1,040 housing units housing 3,660 people (1.12% of Cluj-Napoca’s population in 2011), including 1,296 children. The housing typology across these settlements varies – from informal construction to social housing apartments – but a common feature is the severely lacking physical infrastructure (water and sanitation, in particular) and social services. Over a third (37%) of people in marginalized areas self-identify as Roma, which is the highest among all cities in Romania with population more than 200K inhabitants.



Figure 2.5 Marginalized urban areas in Cluj-Napoca



Source: Integrated Urban Development Strategy for Cluj-Napoca

The urgency to address informal settlements is self-evident from the very poor living conditions in these areas. The lack of ID cards/birth certificates due to lack of proof of address presents difficulties to these households when registering children in school, getting employment or signing up for utilities. As a result, housing disparities are increasing, and these communities are getting left farther behind. This has implications not just on their physical safety, but also on the social, health and economic prospects, as made bare – and exacerbated – by COVID over the past year. Unable to access or afford decent housing in the market, it unlikely that their situation will improve without government assistance.

## 2.3 Housing market

### 2.3.1 New housing supply

**New housing construction outpaced population growth in the last decade.** Since 2011, the CNMA witnessed a 6.6% increase in its population and a 23.17% increase in its housing stock. The largest increase in housing stock between 2011 and 2019 has occurred in three communes: Apahida (48%), Baciú (54%), and Floresti (105%). The case of Floresti is particularly notable, considering that its housing stock more than doubled over the last decade, while the population increased by 82%. Floresti serves as a “dormitory city” for Cluj-Napoca, and is inhabited by a large number of commuters who work or study in Cluj-Napoca and live in Floresti. Despite this unhindered growth, and with a population of 41,521 (in 2020), Floresti continues to be designated a *rural commune*.

Table 2.1 Housing and population dynamics in CNMA

	Housing stock 2010	Housing stock 2019	Number of dwellings built 2011-2019	Total dwellings 2011	Permanent dwellings 2011	Population 2011	Population 2020	Increase in the number of homes 2019 versus 2010	Change in population - 2020 versus 2011
CLUJ-NAPOCA	122769	142158	19389	135656	123818	324576	327360	15,79%	0,86%
AITON	773	797	24	802	529	1085	1004	3,10%	-7,47%
APAHIDA	4925	7265	2340	5145	3577	10685	14475	47,51%	35,47%
BACIU	4.130	6344	2214	4427	3552	10317	12292	53,60%	19,14%
BONȚIDA	1859	1888	29	1903	1616	4856	4823	1,56%	-0,68%
BORȘA	989	1000	11	1015	566	1600	1314	1,11%	-17,88%
CĂIANU	1106	1110	4	1157	893	2355	2362	0,36%	0,30%
CHINTENI	1522	1984	462	1639	1120	3065	3430	30,35%	11,91%
CIURILA	1077	1109	32	1217	666	1594	1508	2,97%	-5,40%
COJOCNA	1941	1964	23	2078	1490	4194	4202	1,18%	0,19%
FELEACU	1946	2356	410	2050	1418	3923	4135	21,06%	5,40%
FLOREȘTI	12415	25496	13081	14058	8930	22813	41521	105,36%	82,01%
GÂRBĂU	1115	1144	29	1045	868	2440	2243	2,60%	-8,07%
GLĂU	3277	3700	423	3491	2624	8300	9039	12,90%	8,90%
JUCU	1822	2135	313	2010	1494	4270	4704	17,17%	10,16%
PETREȘTI DE JOS	1011	1011	0	1088	704	1512	1474	0,00%	-2,51%
SÂNPAUL	1055	1078	23	1068	837	2382	2242	2,18%	-5,88%
SĂVĂDISLA	2087	2191	104	2149	1649	4392	4067	4,98%	-7,40%
TURENI	1273	1308	35	1292	886	2278	2144	2,75%	-5,88%
VULTURENI	1015	1022	7	1050	600	1516	1397	0,69%	-7,85%
<b>ZMCN</b>	<b>168107</b>	<b>207060</b>	<b>38953</b>	<b>184340</b>	<b>157837</b>	<b>418153</b>	<b>445736</b>	<b>23,17% </b>	<b>6,60% </b>

Source: Census 2011 & INS Tempo online data processing and DRS Cluj data

Cluj-Napoca increased its housing stock by 12% between 2011 and 2018, while its domicile population increased by a much smaller percentage (1.28%). That said, without an accurate count of the number of households, it is difficult to ascertain whether there is a housing surplus or deficit. After all, a *housing unit* corresponds to a *household unit*. Still, there are a few points to consider while interpreting these numbers:

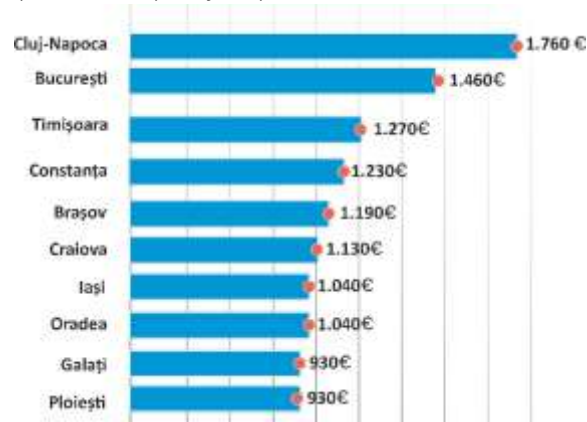
- The actual population Cluj county may be higher than stated because of the large number of students who may not be included in the official count.
- Compared to previous decades, the number of single-person households in Romania has increased (e.g. students and youth, unmarried people, single elderly people). For a given population, a larger number of smaller-sized households will require a larger number of smaller-sized housing units. Hence, comparing the percentage increase in housing units to percentage increase in population could be misleading, particularly when the household structure is dynamically changing and the number of smaller/single-person households is on the rise.
- As mentioned above, there are housing units that remain vacant for much of the year or are otherwise 'locked out' of the market. In effect, these are not really a part of the locally available housing stock.

### 2.3.2 House prices

**Cluj-Napoca is the most expensive city in Romania in terms of housing costs.** The average cost to buy a unit is EUR 1,760/ sq.mt. House (sale) prices increased faster in Cluj-Napoca than in Bucharest over the

last few years, such that in 2020, Cluj-Napoca's average house prices and rents exceeded those in Bucharest.

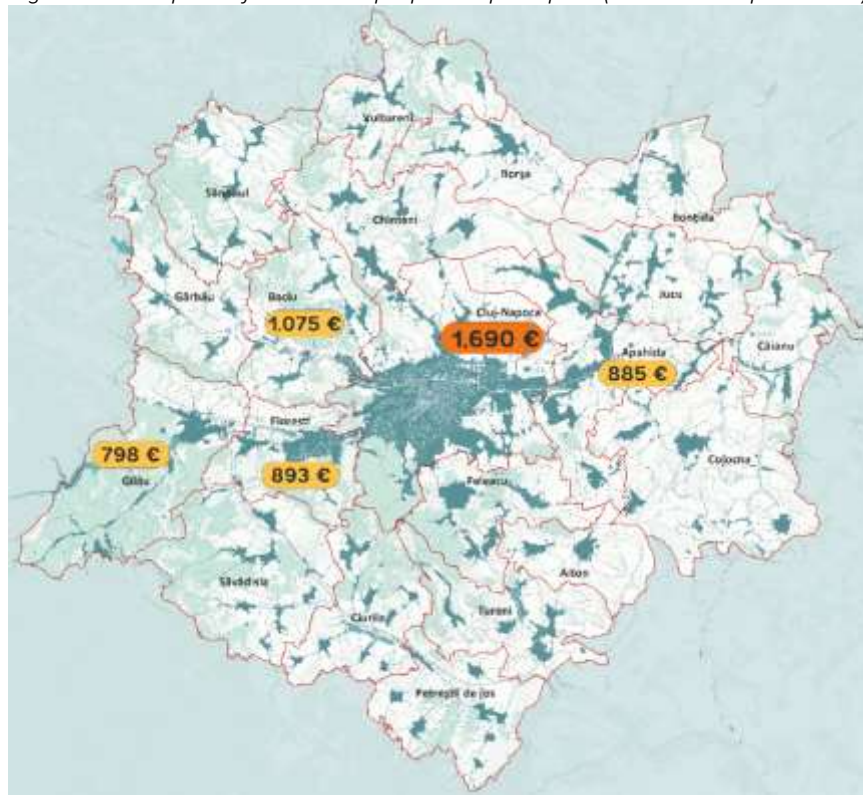
Figure 2.6 Average prices per usable sq.mt. for apartments in the main cities in Romania in Q1 2020



Source: data processing [https://www.analizeimobiliare.ro/wp-content/uploads/2019/11/Raport\\_Q3\\_2019eng.pdf](https://www.analizeimobiliare.ro/wp-content/uploads/2019/11/Raport_Q3_2019eng.pdf)

Between 2013 and 2019, there was a 66% increase in the average house price per square meter in Cluj-Napoca, Baciú and Floresti. In CNMA, the second half of 2019 saw a fairly large variation in the average price per square meter for apartments: Baciú commune recorded an average price of over EUR 1,000/sq.mt. (above average values in municipalities such as Galați or Ploiești); the communes of Apahida and Floresti registered similar values- slightly below EUR 900/sq.mt.; Gilău, which is further out, registered values less than half that of Cluj-Napoca.

Figure 2.7 Sale price of residential properties per sq.mt. (houses and apartments)



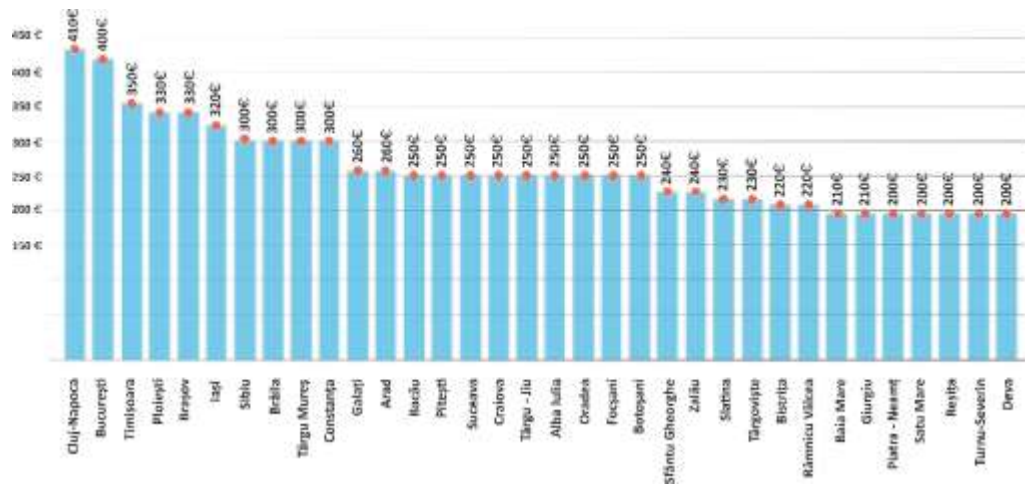
Source: data processing <https://blog.napocaimobiliare.ro/2019/10/04/cartierul-sopor-cluj-napoca-oportunitati-pentru-investitii/> and [analizeimobiliare.ro](https://blog.napocaimobiliare.ro/2019/10/04/cartierul-sopor-cluj-napoca-oportunitati-pentru-investitii/)

The average unit (per sq.mt.) price of some of the older housing stock (pre-2000) is higher than the newer (post-2000) units. This may appear to be counter-intuitive, considering the poor state of maintenance of many of the older buildings. However, in this case, it may be attributed to the post-2000 units tend to be less spacious, are perceived to be not of very good quality, and developed in areas not close to amenities such as schools or parks. The pre-1990 neighborhoods, on the other hand, are relatively well-designed with green spaces and better located, with easy access to all facilities.

### 2.3.3 Rental market

**High rents suggest a tight market for (formal) rental units.** Rents in Cluj-Napoca are also very high relative to other cities, averaging EUR 410/ month for a 2-room unit.

Figure 2.8 Values of average monthly rents for a 2-room apartment built between 1980-2000 in Q1 2020



Source: data processing [https://www.analizeimobiliare.ro/wp-content/uploads/2019/11/Raport\\_Q3\\_2019eng.pdf](https://www.analizeimobiliare.ro/wp-content/uploads/2019/11/Raport_Q3_2019eng.pdf)

In 2020, the average rent in CNMA was EUR 250 for a 2-room unit, with the most expensive area being Zorilor (EUR 508), and the cheapest being Fanete (EUR 187). Rental housing is an important part of a healthy and dynamic housing ecosystem. However, there is limited data on Cluj-Napoca’s or CNMA’s rental market, and it is commonly believed (based on stakeholder interviews) that much of the rental activity is informal. This has several negative implications: (i) it denies both the tenant and the landlord legal protections; (ii) it limits the market supply of formal rental housing, thereby making it more expensive, and locking out the bulk of households from the option to rent with a formal contract; (iii) it limits mobility and compounds the affordability dilemma by pushing many young households to purchase smaller units with limited buying power instead of renting, thereby further compounding the high rate of ownership in Romania. In addition, this has an important bearing on Cluj-Napoca’s Housing Voucher program: vouchers are unlikely to be effective in places that lack an adequate supply of *formal* rental housing.

### 2.3.4 Housing affordability

**The affordability analysis suggests that most people earning less than the average** (both, EUR 886/ month ‘official’ average gross income, or the unofficial and more optimistic EUR 1,773/ month according to averagesalary.com) **will not be able to afford anything in the Cluj-Napoca housing market**, and even those around the higher unofficial average income cannot afford anything more than a 35 sq.mt. ‘average’ price unit in Cluj-Napoca. Such a unit may be suitable for young professionals, or couples without children, but is unlikely to be appropriate for larger households or households with children, thus pushing them to less desired options either in lower quality housing or into the city periphery or suburbs. *[Please refer to Chapter 8 of the Situation Analysis for a more detailed discussion.]*

Table 2.2(a) Estimated monthly payment for different types of “average” price units based on 15-, 20- and 30-year loan terms

Type of unit	Avg price	down payment (DP)	transacti on cost (TC)	DP+TC	Loan amt needed	Est monthly loan repayment (@5.58% APR)		
						15 yr	20 yr	30 yr
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Studio	51,213	7,682	5,121	12,803	43,531	(358)	(301)	(249)
1BR	76,773	11,516	7,677	19,193	65,257	(536)	(452)	(374)
2BR	103,296	15,494	10,330	25,824	87,802	(721)	(608)	(503)
3BR	160,116	24,017	16,012	40,029	136,099	(1,118)	(942)	(780)

Table 2.2(b) Net income, gross income, and savings required based on 15-, 20- and 30-year loan terms

Type of unit	Avg price	NET Income needed to qualify for 5.58% interest loan (with DTI of 40%)			GROSS Income needed to qualify (with DTI of 40%), assuming tax rate of 30%			Savings needed for DP+TC
		15 yr	20 yr	30 yr	15 yr	20 yr	30 yr	
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Studio	51,213	894	754	623	1,277	1,076	891	12,803
1BR	76,773	1,340	1,130	935	1,914	1,614	1,335	19,193
2BR	103,296	1,803	1,520	1,257	2,576	2,171	1,796	25,824
3BR	160,116	2,795	2,356	1,949	3,992	3,366	2,784	40,029

More specifically, in order to buy a 35 sq.mt unit in Cluj-Napoca with a 15-year bank loan (@5.58% APR, 15% down payment, and 10% transaction cost), one would need an income of at least EUR 1,475, plus savings of EUR 14,788 for upfront costs. The income requirement could be reduced to EUR 1,029 with a 30-year loan; however, that is about the same as what is needed to buy a 55 sq.mt unit in Gilau under a 15-year loan (EUR 1,094), and also has a much lower upfront costs (EUR 10,973). This may explain why many people in recent years opted to move to the surrounding communes.

The affordability picture in Cluj-Napoca becomes considerably worse when taking into account the household characteristics and the cost of living, using an *adapted* Residual Income Method (RIM) to calculate affordability. The RIM is a more nuanced way to assess affordability; it measures how much money is available for housing expenses *after* other essential expenditures have been taken into account. The analysis suggests the following:

- A single person household earning the official “average Income” of EUR 886/month, after paying for other basic expenses (assuming a very modest lifestyle), has about EUR 300 left to pay for housing. In reality, if he or she spends any more on housing, it means they are witnessing shelter-induced poverty, i.e. be cutting back on other necessary expenses to pay for housing. EUR 300 is barely enough to cover rent on a studio in Cluj-Napoca.
- Even young families (with children) with two “average incomes” cannot afford anything for housing (based on house prices presented in previous section) after covering their other costs. For couples

with school-age children, housing in Cluj-Napoca is not affordable unless the gross HH income exceeds EUR 3,000.

- On the other hand, a household with two earners without any children/ dependents is the best off in this first group of “average income earners”.

## 2.4 Urban planning and asset management

### 2.4.1 Urban/ zonal/ land use planning

**Planning and development regulations and practices are failing to meet the demands of the real estate development market.** There appears to be an imbalance between speed of new developments versus the technical and financial capacity of local authorities in the CNMA to plan, budget and deliver the necessary trunk infrastructure. At the PUZ level, developers are sometimes issued permits for construction even before trunk infrastructure is provided by the city. In essence, it appears that urban planning in the CNMA is being *preceded* by haphazard development rather *steering* it. This situation is further exacerbated by the fact that there is little to no coordination across local public agencies both within Cluj-Napoca and across the CNMA. In some ATUs, action plans for phased infrastructure development exist but are not enforced/implemented, while in others, the action plans are old and need to be updated. This practice of developing suburban and peri-urban areas without factoring in sound guidelines of sound urban planning spans beyond the CNMA, and includes places like Ilfov county/ Bucharest metropolitan area and other large cities in the country.

The inability – and sometimes, unwillingness – of local authorities to contain sprawl is related to the way budget allocations are made. State transfers are made on the basis of a formula that, all other things being the same, factors in the size of the city or the urban footprint. In other words, the larger the urban footprint of the city, the larger the budgetary allocation. This is not only a disincentive to contain the urban boundaries, but rather a strong incentive to increase the urban footprint. This may also explain why Floresti is still designated a rural commune rather than an urban area, which defines its budget allocations, and limited capacity of the local government to plan for growth or deliver adequate infrastructure.

### 2.4.2 Public asset management

**Local authorities own and/or manage public rental housing which, without being defined as ‘social housing’, sometimes serves that purpose.** These include a significant number of dwellings that were nationalized, but have not been ‘restituted’<sup>2</sup>, or housing built during the communist period that were not purchased in the 1990s by the tenants, which now belongs to local authorities. However, there is no functional system that serves to compile a comprehensive list of such relevant public assets for strategic use in programs targeting the poor. This includes social housing that is currently in poor condition, as well as other buildings that could potentially undergo renovations or adaptive re-use to maximize their potential. Without an inventory of public (immovable/ real estate) assets, and no strategy to best manage these assets, it is impossible to maximize their utilization through adaptive reuse, renovation, demolition, or sale.

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<sup>2</sup> Returned to the former/original owner

## 2.5 Policy/ Institutional Framework

### 2.5.1 National housing strategy/ policy

**There is currently no national level strategy for housing in Romania, and no local strategy to date in any Romanian city.** Cluj-Napoca is the first city to undertake the development of a city level housing strategy. The absence of a national strategy and targets set by the national and local public authorities in the field of housing (throughout the country) has contributed to a insufficient allocation of resources, inaction in terms of setting targets and precise deadlines, as well as the absence of tools and policies to address local housing needs.

### 2.5.2 Weak institutional capacity

**Responsibility for housing has gradually moved to the local level in line with the decentralization process.** However, local authorities still face significant challenges, including fragmentation of housing-related functions across different unconnected departments, lack of funds, and limited technical capacity or knowledge in housing policy, subsidy design and targeting, and in particular, social housing. Additionally, the fragmented administrative approach, which allows for each department / service to implement the provisions and measures of a particular law / legislative area (social assistance, construction, heritage, energy efficiency, etc.) does not encourage integrated approaches and complementarity of public actions in the housing sector.

### 2.5.3 Lack of metropolitan collaboration and fragmented territorial approach

**The housing market extends beyond municipal boundaries and therefore any housing strategy must consider the wider metropolitan market.** Although legal provisions that for the planning of residential developments do exist, they have not been used in the CNMA. Much of the residential development in the communes around Cluj-Napoca has taken place without a coordination of investments between the municipality and the communes in the metropolitan area in terms of mobility, accessibility, social and environmental infrastructure. The absence of an administrative framework for cooperation between local public authorities in the CNMA generates dysfunctions in the field of housing with a strong impact on the quality of housing and the sustainable urban development of the area.

### 2.5.4 Housing data

**To adequately implement a housing strategy, better and more systematic housing data will be needed.** There is no official housing database or any monitoring indicators (on housing stock quality or quantity, household incomes, cost of living, household size, tenure status etc.) that are necessary to monitor the markets, design and target subsidies, prioritize certain population segments with respect to their housing needs, or develop a strategy for publicly owned housing stock. Without sufficient data on the housing stock (typologies, vacancy rates, house size etc.) and at the household level (household income, household size etc.), it is impossible to make meaningful projections or public policy decisions in the housing sector.

## 2.6 Government housing assistance and subsidies

### 2.6.1 Public housing stock

**The public provision of housing has not been a priority for several decades.** The number of publicly-owned housing has been declining since 1990, mostly due to regulations that forced the state to privatize the public housing stock. As of 2021, there are 1,348 publicly-owned housing units in Cluj-Napoca Municipality. Of these, 616 are social housing units, of which 475 are currently in use; 68 are youth housing



units, down from 282 in 2018 (214 units were sold in 2018-2021). Despite the limited public housing stock, local authorities are legally mandated to sell the public housing units built by NHA to sitting tenants, further depleting the public housing stock. The development, rehabilitation and good management of the public housing stock is not a major activity within the mayor's office; budget allocation and actions taken (besides the management of the existing stock) are limited.

## 2.6.2 Social housing

**Demand for social housing far outstrips supply and the existing supply of social housing lacks effective management.** In 2014, the social housing stock in Cluj County was 2,911 units, of which 1,554 are located in Cluj-Napoca. Social rental housing contracts are usually valid for 5 years, so long as beneficiary meets the eligibility criteria. However, in practice, tenants continue to stay for extended periods of time, and often the turnover only happens if the occupant is deceased or evicted. On average, only about 12-15 social housing units become available annually, which is extremely low compared to the 300-400 eligible applications received annually. In the past 10 years, only 218 families gained access to social housing. The actual demand for social housing is likely much higher: many simply do not to apply because of the tedious administrative hurdles, while others get excluded by the eligibility criteria, particularly the one that bars anyone who has *ever* illegally occupied publicly-owned buildings or land.

Social housing, as it currently stands, is a 'loss-maker': residents pay very little in terms of rent, and the costs of maintenance must be met by the local authority. As a result, local authorities do not have the technical, administrative or financial capacity – and in some cases, the incentives – to build, maintain, or increase their social housing stock. Also, the fact that only the poorest members of society opt to live in these buildings, social housing blocks are seen, more generally, as undesirable 'ghettos'. Other programs such as the rental vouchers are heavily dependent on the supply of housing, and the willingness of a private owner to enter into a contract with a voucher beneficiary.

## 2.6.3 Rental vouchers

**The municipality has been experimenting with housing vouchers which allow for housing choice and mobility, but the numbers are small.** Between 2018 and 2019, Cluj-Napoca City Hall provided 127 rental vouchers for persons and households at risk of marginalization or social exclusion; in 2020, 55 additional people and households received rental vouchers, while 15 were expected to receive approval in 2021. While vouchers are a helpful instrument to facilitate access to housing for lower income households, they only work when the supply of housing in the market is adequate at the price point of the voucher. It is not immediately clear whether there are sufficient number of units available at that particular price point. Further, in an environment where verbal arrangements are preferred over legal rental "contracts", and where speculation and vacancy may be preferred over leasing out a property, it may be difficult for eligible households to actually find a suitable house.

## 2.7 Developers and the construction industry

### 2.7.1 Trunk infrastructure

**The public provision of trunk infrastructure should guide development, but in Cluj-Napoca such provision generally lags private development.** Provision of trunk infrastructure is the responsibility of the local government. However, developers sometimes have to build the access roads, and the necessary trunk lines to service their project sites. Further, the extra time and cost of doing this often means that either prices go up or something is compromised – e.g. construction quality, or on-site physical infrastructure and social amenities, as is the case of developments in the peripheries of Cluj-Napoca

without infrastructure connections, and Floresti, where many housing developments lack the necessary social amenities.

### 2.7.2 Construction finance

**Construction loans from banks are not a common feature in CNMA, except for some of the larger developers.** More information on this subject was not available. For most smaller housing developers, it is common practice to finance the projects with instalment payments from prospective buyers, which pushes all the financial risk to the buyer. Some developers self-finance projects, and monetize the high financial risk through higher profit margins (up to 30%) that are factored into the sale price. The lack of developer (construction) finance and longer-term 'take-out' financing is also a limiting factor for the development of multi-family rental housing which is a predominant tenure of affordable housing in most OECD countries, particularly in Europe.

### 2.7.3 Permitting process

**The permitting process is reportedly is very slow and bureaucratic.** Lengthy permitting process contributes to the cost of housing, and indirectly exacerbates the lack of affordability. Several developers reported that the permitting process is long and cumbersome, attributing it to the lack of efficient communication on part of the municipal authorities. In real estate, time is money, and the unpredictability of permits makes it difficult to plan or even finance projects through banks.

### 2.7.4 Access to serviced land

**The lag in public provision of trunk infrastructure and lax enforcement of infrastructure requirements is a key driver of urban sprawl and leap-frogging development.** Developers need to make a choice between cheap, un-serviced land in the peripheries (where they build the trunk infrastructure and pass the cost to the buyers), or expensive serviced land closer to the city center. In both cases, the high cost of trunk infrastructure or land would mean either a cut in profit margins or an increase in the sale price. However, to develop a project of any meaningful scale, the former choice – greenfield land in the outer suburbs – is probably an easier option. This is leading to sprawl, with longer commuting time, and lower quality of life in the outer suburbs.

## 2.8 Land

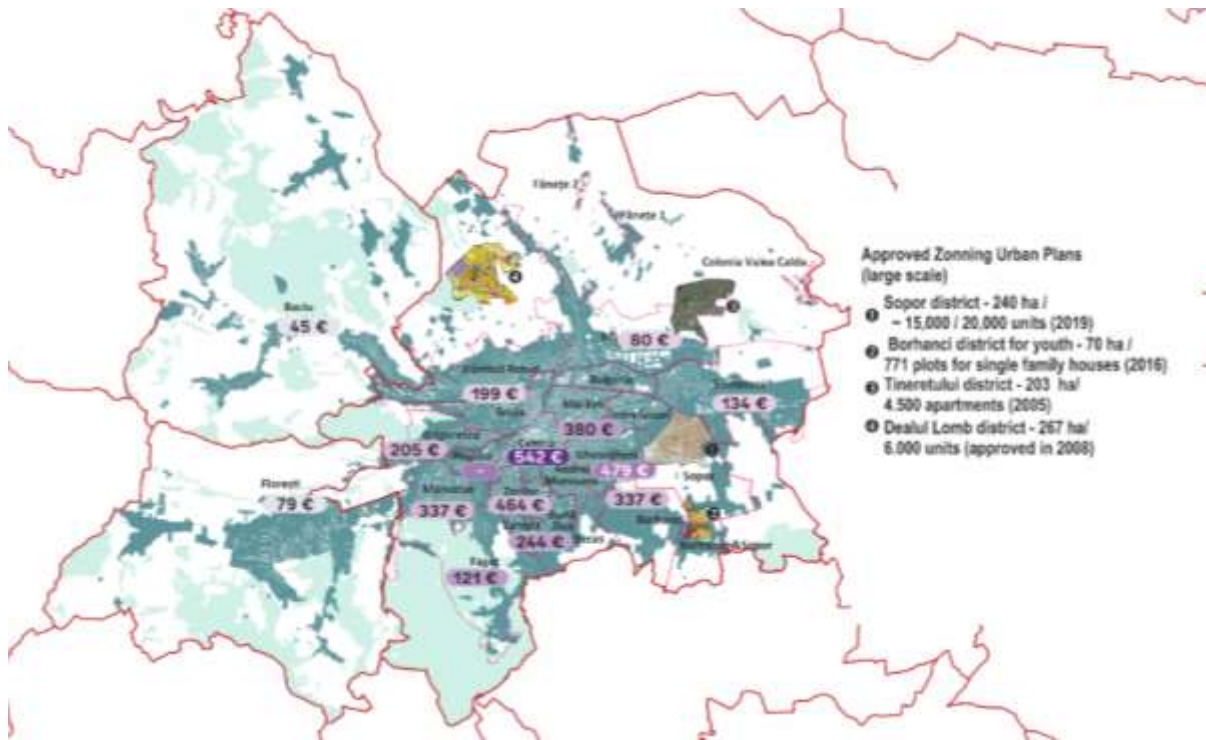
### 2.8.1 Topography

Due to the hilly terrain and the risk of landslides (on steep slopes) in Cluj County, there is limited land suitable for housing development at scale. Further, construction on slopes requires more technical engineering (e.g. retaining walls), which increases the cost.

### 2.8.2 Prices

**The price of land varies by location, availability, infrastructure, and degree of urbanization.** For example, land in Baciu cost about 1/12<sup>th</sup>, and that in Iris or Floresti is nearly 1/7<sup>th</sup> that in Cluj-Napoca city center. In areas of high investment interest, such as Mănăştur or Borhanci, the values remain high despite the lack of adequate infrastructure. It is expected that the investments proposed by the City Hall, such as the one in Sopor neighborhood, will increase these values.

*Figure 2.9 Average selling price of land (EUR/sq.mt.) in Cluj-Napoca, Baciu and Floresti communes, in H2 2019*



Source: Own processing, according to data available on real estate sites

### 2.8.3 Land management

**Overall, the legislative framework and the technical capacity to manage land at the local level is inadequate.** This is attributed to several issues: First, Cluj-Napoca municipality owns some land reserves, but much of the publicly owned land in CN is owned by national level institutions, and there is no inventory of publicly owned land or other public assets. Second, although there is current legislation to sell public lands, there are no legal procedures to buy land for public ownership. And since very little land is available to local authorities to use for public purposes, there is also a *lack of proactive initiatives for urban development*. Third, the land tax is extremely low: tax on a plot of land in the central area of Cluj-Napoca cannot exceed 2.07 RON/sq.mt., and that in the urban periphery can be a maximum of 0.08 RON /sq.mt. The absence of a penalty for holding land vacant for extended periods of time has led to under-utilization and speculation of limited land reserves. And finally, there is no land cadaster for Cluj-Napoca, the surrounding communes, or Cluj County.

## 2.9 Housing (mortgage) finance

### 2.9.1 Mortgage penetration

**The value of outstanding residential loans has increased steadily over the past few years.** In 2008, the value was slightly above EUR 5 billion; by 2019, the amount more than tripled (EUR 17 billion).<sup>3</sup> Data on the share of homeowners with mortgages is unavailable at the county or city level. About a nearly a third of all home buyers in 2018 financed their purchases with bank loans, which accounted for 20% of the value of transactions. Two-thirds of the buyers used own-source financing, accounting for 80% of the

<sup>3</sup> <https://www.statista.com/statistics/1187784/romania-value-of-outstanding-residential-loans/#statisticContainer>

value of transactions.) This suggests a relatively smaller average house price for buyers who are financing their loans from banks. In contrast, 95% of value of housing transactions by institutions/ legal entities were financed by bank. The average price/sq.mt. for apartments financed from own sources was EUR 1,330 / sq.mt., which is 1.4% lower than those financed by a bank (EUR 1,349 /sq.mt.), which may suggest some level of underreporting of sale price in cash transactions.

### 2.9.2 Terms of loans

**Interest rates on RON mortgages charged by the ten largest banks in the local market range between 4.51% and 7.8%, plus additional costs and commissions.** Loan terms can vary from 15-30 years. Interest rates are typically fixed through the duration of the loan. Loans are offered in both RON and foreign currency, but the terms for the latter are relatively more stringent – lower debt-to-income ratio, lower LTV, higher interest rate, and so on.

### 2.9.3 Debt-to-Income ratio

**Debt-to-income (DTI) ratios are set to minimize the debt burden on borrowers.** In January 2019, a new NBR Regulation no. 6/2018 amended and supplemented Regulation no. 17/2012 on certain conditions for the granting of credit, which state that the maximum debt-to-income (DTI) ratio will be 40% of net income for loans in RON and 20% for those in foreign currency.<sup>4</sup>

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<sup>4</sup> <https://home.kpmg/ro/en/home/insights/2019/01/debt-to-income-ratio-loans-2019-restricted.html>

## 3. The Housing Strategy

### 3.1 Fundamental Principles

Housing is an integral part of any sustainable urban development framework, and should be guided by the fundamental principles presented in Box 3.1.

*Box 3.1 Fundamental Principles of the Housing Strategy*

**Economic, Social, and Environmental Sustainability:** Efficient and equitable use of resources by present and future generations.

**Subsidiarity, Integrated Governance and Broad Partnership:** The strategy can provide for decision-making at the lowest appropriate level of government; addressing the characteristic problems in housing resulting from fragmentation of responsibilities across different agencies/entities at different levels of administration; and supporting the involvement of all the main housing stakeholders including local citizens, business communities, and private and NGO/ non-profit sectors.

**Social Equity.** The strategy can seek to increase the housing choice of poorer and vulnerable households in society by spending public funds on households targeted for their economic or social profiles rather than generally across all households regardless of their means.

**Economic Efficiency.** The strategy can emphasize maximum reliance on market mechanisms, with public intervention focusing on enabling, fostering, and regulating the market provision of housing that is *affordable*, and thus minimize public involvement in the direct provision of housing.

**Community Resilience.** The strategy can strive to build resilient communities that successfully anticipate, respond to, and recover from both immediate shocks and natural disasters such as earthquakes and extreme weather events, and long-term stresses such as poverty and demographic changes.

*Source: Adapted from National Strategy for Sustainable Housing, Working Paper for the National Coordinating Committee, Ministry of Environment, Lithuania, World Bank 2002.*

#### 3.1.1 The Housing Sector: A complex and dynamic space

The challenge of achieving housing quality, safety, and affordability is one that is not only daunting, but also pervasive. The challenge is not limited to poor nations in which nearly a billion people live in informal settlements with inadequate infrastructure and hazardous conditions; it is also prevalent in the otherwise thriving economic centers of advanced economies, where even many “non-poor” – including middle-income households – struggle to find decent housing. The formal housing sector has been unable to produce new housing at the scale, pace or price needed to respond to prevailing demand. As a result of this demand-supply mismatch, housing choice is severely restricted for both low- and middle-income households, and a large part of the population is forced to find other less-than-ideal alternative housing solutions.

These global challenges derive from the fact that the housing sector is a complex and dynamic “space,” constituting not just the physical aspect of shelter and service delivery, but also the gamut of changing and evolving economic, social, and cultural regimes. The housing sector thus overlaps with many other sectors and concerns, including land, services, real estate, finance, environment, and disaster risk management.

As the Municipality of Cluj-Napoca embarks on a Housing Strategy, it is important to understand the following with respect to the housing sector:

- *Market segmentation according to income and demographic categories, and tenure types*
- *Roles of government and private sector in housing delivery*

### **3.1.2 The need to segment the market**

Policy makers in most developing/ emerging economies are faced with a bifurcated housing market: a formal housing market that mostly caters to upper income groups, and an informal housing market of structures that are either illegal or inadequate, built incrementally, and/ or located in marginalized or environmentally hazardous areas.

Unfortunately, public policy related to housing – where it exists – is often ad-hoc or very narrow in focus. Typical solutions include highly politicized state-led delivery of housing for lower-income groups. These projects are often either poorly designed or not scalable, or have a distortionary effect on the housing market. In many countries, there has been a gradual move away from the traditional slum upgrading and sites-and-services approach towards housing finance – including mortgage finance. While mortgage market development is very important for financial sector development, sometimes this is done in contexts where the macro-environment may be unsuitable for long term housing loans, or where the vast majority of the population cannot afford any sort of formal finance or credit for a host of other reasons.

At least part of the problem is that, rather than “housing for all,” housing policy is commonly viewed through a narrow lens of promoting “home-ownership for all” – for the young and old, rich and poor, persons with special needs, and so on. There is often no consideration of the fact that homeownership might not be a one-size-fits-all solution for households that desire a mix of tenure types, price points, and housing configurations.

To determine different households’ diverse needs, housing policy can begin by segmenting the market in terms of end-users and demand – *what kind of housing, for whom, where, at what cost?* – and then proceed to identify the solutions that are appropriate for each segment. For instance, the poorest households might need direct public assistance, other low-income households might need a mix of public and private “hard” investments, while middle-income households might require “soft” assistance in the form of affordable mortgages and tax breaks. At the same time, it is important to factor in household life-cycle, since age plays an important role in determining housing need (see Box 3.2). For example, given the choice, youth and young adults are more likely to rent, starter households are more likely to purchase a small first home, mature adults with growing children are likely to expand their house, and seniors or empty nesters are more likely to be at a downsizing stage. These needs can be predictable in some cultural contexts including in most industrialized countries, and this is where demographic trends provide very powerful cues about housing need.

### *Box 3.2 Life Cycle Model for Housing*

Households need to constantly adjust their housing consumption by moving to dwellings which meet their needs and thus produce housing utility. A successful National Housing Strategy can be linked to a model of housing choice based on the needs of starter households, mature households, and elderly households. At each stage, households have distinct housing demands.

Started households are young adults leaving their family homes to live elsewhere. Given that young people usually do not have capital (equity) or high incomes, their natural choice is for relatively cheap, small rental housing, often shared with roommates. People between the ages of 20 and 30 form small households that consume relatively little space. Many live in “institutionalized” rental apartments in rental buildings that provide services tailored to densely settled populations of tenants. When this age group is growing, demand for this type of housing generally grows with it.

Mature households form when young adults decide to have children, usually happens between the ages of 25 and 40. These people will have already saved capital. With some equity at hand and a higher income, they are ready to enter the homeownership market, which is of interest to them for two reasons: (a) getting larger space for a larger household (3 + persons); and (b) making an investment in a housing asset with prospects of competitive economic return. These young families can afford only smaller and less expensive housing, which might be further from the central zones of the city in which they might have lived as renters. A growing population group of this age will signal growing demand for relatively smaller and cheaper low-density ownership housing.

Mature households then “trade up,” usually between the ages of 40 and 60. These people are at the height of their occupational careers and have relatively high earnings, which enables them to become net savers. They may have more children who are growing up and requiring separate rooms. Their desire for space, comfort and prestigious location has grown and they have accumulated considerable equity from their homes. It therefore becomes desirable to sell their first home and purchase a larger, more expensive home. A growing population group of this age will signal growing demand for larger and more expensive housing.

Elderly households are those whose children have left the housing unit. These households, usually over the age of 55, have a lesser need for space and at the same time experience a decrease in income due to retirement. This often makes it advantageous to dis-invest in housing. They often prefer living in smaller apartments in central locations (usually rented) that affords them access to critical services. A growing population of this age will signal the need for this type of housing.

The housing life-cycle triggers predictable, changing housing needs reflected in the housing market. Consequently, looking at longer-term demographic trends provides very powerful cues about future housing needs. These trends can be important in designing policy and programming to respond to a population’s changing needs in the housing sector. That said, these demographic trends should also be viewed in light of social and economic trends that might hinder or boost households’ proclivity to seek and ability to attain each of the benchmarks listed above.

*Source: National Strategy for Sustainable Housing, Working Paper for the National Coordinating Committee, Ministry of Environment, Lithuania, World Bank 2002.*

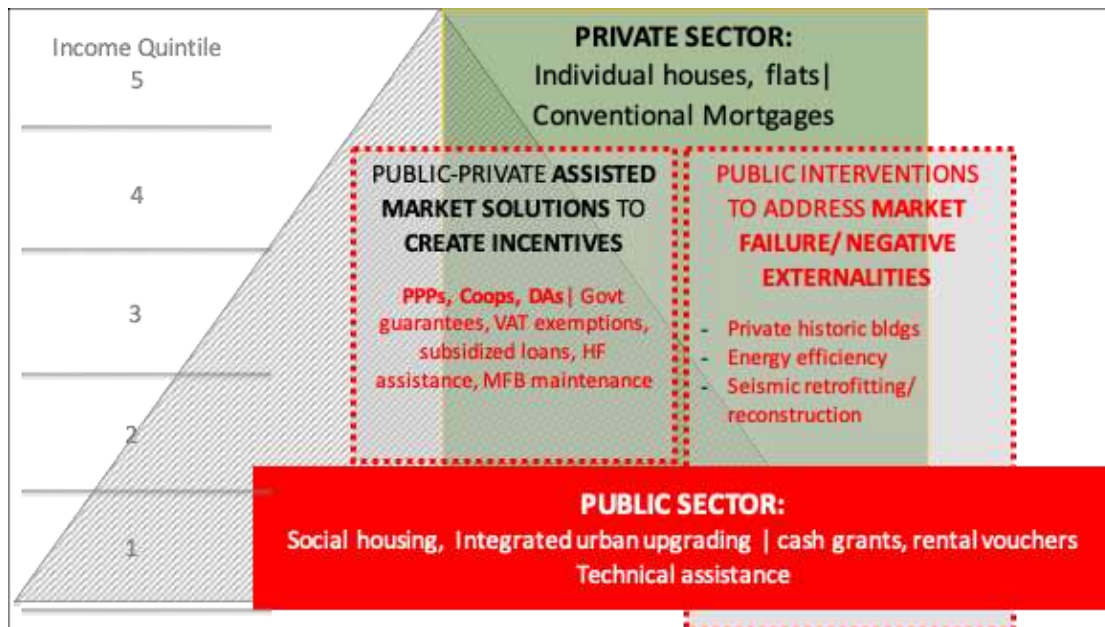
### **3.1.3 The roles of government and the private sector**

A Housing Strategy can advocate for an enabling approach that moves the government from direct provision of housing or interventionist programs like slum removal towards its role as a policy setter that facilitates the private sector to deliver housing. Concretely, the government can aim to provide the enabling environment for the housing sector as a whole and address market failures rather than

participate in construction or demolishing housing itself. Figure 3.1 illustrates the role of the public sector and the private sector in the delivery of housing, whereby:

- The public sector plays a key role in targeting housing assistance to the poorest and most vulnerable groups – for example, through informal settlement upgrading, cash transfers and/ or Technical Assistance to construct or improve housing, and so on.
- The public sector actively intervenes in specific themes or sectors facing market failure or negative externalities – for example, disaster risk, energy efficiency – where the private sector has no motivation or incentives to participate under the prevailing conditions.
- The public sector creates incentives to change behavior and leverage private investments for appropriate housing solutions – including, but not limited to, affordable housing – through “assisted” market solutions – for example, Private Public Partnerships (PPPs), Development Agreements, tax incentives etc.
- The private sector is enabled to serve the housing needs of middle- and upper-income groups through interventions to address the supply side constraints of the housing value chain – as discussed above.

Figure 3.1 Functional housing market: Roles of public and private sector stakeholders





In addition,

- The public sector plays a key role in land use planning, zoning, and permitting, all of which should consider hazard in order to avoid creation of new risks. This entails creation and update of hazard maps (e.g. seismic hazard, landslide risk, and flood zone maps), their integration into building codes and regulations, and creation of institutional mechanisms to limit development in hazard-prone areas.<sup>5</sup>
- The public sector is responsible for development, promulgation, update, compliance and enforcement of building code regulations and standards, which ensures that any private sector development and major alterations to buildings adhere to minimum standards.
- The public sector can help reduce CO2 emissions and Climate Change by stimulating demand for green construction and technologies/ products, providing product support services and increasing awareness of the population.

### 3.2 The Strategy: Goal and Strategic Priorities

The overarching goal of Cluj-Napoca's Housing Strategy is to attain:

***A well-functioning housing sector with a diverse pool of housing that is well-suited to the needs, affordable, and adequately-maintained, and that contributes to a good quality of life for all residents .***

Cluj-Napoca's Housing Strategy is organized along three Strategic Priorities:

#### 3.2.1 Strategic Priority 1: An 'Enabling' environment

Strategic Priority (SP) 1 seeks to create an enabling environment that orients the private sector and creates the opportunities and incentives for the private sector to expand and deepen the supply and affordability of housing. Where the private sector fails, government intervention will be necessary to fill the gap. This SP seeks to lower the cost of housing and increase access to housing by reducing by reducing supply costs of the inputs to housing, such as land, infrastructure, building materials and development and construction regulations, while also working to increase access to financing.

#### 3.2.2 Strategic Priority 2: Assistance to lower income households

Strategic Priority 2 targets public assistance to those most in need as defined by income or vulnerability. It is based on the core tenet that public investments should be targeted first at the poorest households in

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<sup>5</sup> The State Agency of Control on Security in Construction of the Ministry of Emergency Situations (MOES) is tasked with preparing national-level policies relating to safety in all stages of construction projects on the country's territory. The Agency abides by and follows the Constitution, international agreements, and decrees and orders from the President, the Cabinet of Ministers and MOES. The Agency's staff and its departments are assigned by MOES. The Chief of the Agency, also assigned by MOES, supervises the Agency's activities. The Agency's directions and tasks are established by the President. [Source: http://www.unece.org/hlm/publications\\_recent3.html](http://www.unece.org/hlm/publications_recent3.html), 2010.

This includes, for example:

- State policy and regulating mechanisms for protecting territory, sites and buildings against natural disasters, and ensuring safety in construction;
- Developing programs containing measures for improving the seismic stability of buildings;
- Organizing State inspections of construction sites and issuing decisions;
- Preparing general plans, projects, and zoning regulations of cities and regional centers;
- And oversight of other State organs and self-governments, to ensure that they follow norms and requirements regarding safety in urban planning and land use.

the 20<sup>th</sup> income percentile and lower, and then at households in the 20<sup>th</sup> to the 50<sup>th</sup> income percentile. This includes a clear policy choice of also focusing any housing finance subsidies on the lower income segments of the market.

### **3.2.3 Strategic Priority 3: Improved planning and governance**

Strategic Priority 3 focuses on improving planning and governance of the housing sector at the local level. There are many actions that local authorities can take to facilitate access and reduce the cost of housing through policy-making, budgeting, and data collection. For the many aspects that operate outside of the control of local authorities, advocacy can be an important tool to bring about broader reforms at the national level.

Table 3.1 provides a helpful outline of the Strategy – the Strategic Priorities, Objectives, and Actions – for the detailed discussion that follows.

Table 3.1 Cluj-Napoca Housing Strategy

Strategic Priority	Objective	Action
<b>AN ENABLING ENVIRONMENT</b>	<b>Support affordable housing development</b>	<i>Streamline the permitting process</i>
		<i>Facilitate serviced land for development</i>
		<i>Leverage private sector to build affordable housing</i>
		<i>Impose penalties for speculation</i>
	<b>Strengthen private rental market</b>	<i>Waive rental income tax for small landlords</i>
		<i>Support property owners to build rental housing</i>
		<i>Reform pro-tenant rental policies</i>
		<i>Introduce tenancy dispute resolution mechanism</i>
<b>ASSISTANCE TO LOWER INCOME HOUSEHOLDS</b>	<b>Improve existing stock of social housing</b>	<i>Make social housing financially viable</i>
		<i>'Outsource' day-to-day management of public housing</i>
		<i>Simplify and clarify public/social housing categories</i>
		<i>Prioritize social housing for thermal insulation</i>
	<b>Expand social housing inventory</b>	<i>Repurpose underutilized public assets into social housing</i>
		<i>Leverage Govt. program for Social Housing Construction</i>
		<i>Use PPPs to build new social housing stock</i>
		<i>'Unlock' private underutilized/ vacant housing stock</i>
		<i>Consider various models of social/ public housing</i>
	<b>Support maintenance of existing housing stock</b>	<i>Enforce maintenance of multifamily buildings</i>
		<i>Provide technical support to HOAs</i>
		<i>Provide financing support to HOAs/ homeowners</i>
<b>IMPROVED PLANNING AND GOVERNANCE</b>	<b>Strengthen technical capacity of local government</b>	<i>Develop housing database</i>
		<i>Establish a dedicated housing department</i>
		<i>Develop a Public Asset Management Strategy</i>
		<i>Plan trunk infrastructure to guide urban growth</i>
		<i>Improve energy efficiency of housing stock</i>
	<b>Advocate for national level reforms</b>	<i>National housing policy</i>
		<i>National budget for housing</i>
		<i>Land management (for housing)</i>
		<i>Sale of publicly owned housing</i>
		<i>Housing Cooperatives</i>

## STRATEGIC PRIORITY 1: AN ENABLING ENVIRONMENT

### 3.3 *Objective:* Support affordable housing development

#### 3.3.1 *Action:* Streamline the permitting process

Developing a modern, effective and efficient planning and development review system is crucial for streamlining the permitting process. An improved system would be one that is faster, better, concurrent, more predictable, customer-focused, and transparent, maintains high-quality community standards, and protects the public interest. It is recommended that Cluj-Napoca develop a single, comprehensive, automated permit information and tracking system with easy public access to information, procedures and processes.

#### *Box 3.3 Building Permits: Good practices*

According to the World Bank's *Doing Business* report, authorities have implemented several good practices in dealing with construction-related permits over the years. Some of the most commonly observed examples include setting clear and coherent rules and improving transparency and accessibility of such rules and regulations. Reforms also often ensure that building quality control and safety mechanisms are in place, differentiating construction projects by risk and category. Another common good practice is the use of one-stop shops to improve coordination and increase the efficiency of obtaining permits related to construction.

**Introducing and enforcing clear and coherent rules.** Efficient building regulation starts with establishing a coherent body of rules that defines what is required from builders. Laying out a clear list of documents and preapprovals required before a building permit application can be submitted and providing applicants with information on the required fees and how they are calculated are the first steps toward achieving clarity, consistency and transparency. Setting out clear rules also requires adequate enforcement of these rules. This requires an effective inspection system and making construction rules adaptable to economic, technological and other changes. This requires periodic updating of building codes.

New Zealand chose an effective approach in which performance-oriented building codes set technical standards and targets but do not regulate how to achieve them, allowing for innovation and flexibility in building techniques.

**Improving transparency and facilitating access to regulations.** Ensuring open access to relevant regulations can act as a powerful tool to strengthen accountability in both the private and public sectors while the corruption and abusive practices prevalent in opaque business environments. According to a case-study published in *Doing Business 2013*, authorities with a greater access to regulatory information tend to have more efficient regulatory processes and lower regulatory compliance costs. In today's digital age it is even more important, and much easier, to disseminate information quickly and on a wide scale.

The United Kingdom, for example, provides an online portal where all legislation, as well as good practices, can be easily accessed, in addition to guidelines on how to get approval for a building project. To convey changes in regulation and inform professionals of new standards and laws, it is also important that published documents be updated in a systematic and timely fashion.

**Ensuring that building quality control and safety mechanisms are in place.** Quality control is a crucial component of the construction permitting system. The building quality control index measures both quality control and safety mechanisms by evaluating quality control before, during and after construction. It also assesses liability and insurance regimes and professional certifications. Indeed, beyond a sound regulatory framework, an effective inspection and supervision system is also critical in protecting public safety. Without an inspection system in

place, there is no mechanism to ensure that buildings comply with proper safety standards, thereby increasing the chances of structural defects.

**Evaluating projects according to risk categories.** Not all building projects are subject to the same social, cultural, economic or environmental risks. The construction of a hospital or skyscraper is not comparable to that of a two-story commercial warehouse. Therefore, it is important to implement rigorous yet differentiated construction permitting processes to treat buildings according to their risk level and location. Worldwide, the main criteria used to classify a construction project by its potential risk are the building's use, location and size. Today, several authorities measured by *Doing Business* have a risk-differentiated approach and 22 have implemented risk-based inspections. The use of risk assessment has improved the inspection system, eliminating eight procedures and 49 days from the construction permitting process as measured by *Doing Business* since 2008.<sup>3</sup>

**Using one-stop shops to improve coordination and increase efficiency.** Building approvals tend to require technical oversight by multiple agencies. An effective way of simplifying this process is by establishing one-stop shops. Today 28 countries around the world have a one-stop shop for construction permits. However, the success of one-stop shops hinges upon efficient coordination among all agencies involved and often requires overarching legislation that ensures information sharing and establishes oversight mechanisms. In Tanzania, improved intra-agency coordination has increased the efficiency of its one-stop shop, reducing the time to complete construction permitting procedures by 52 days.

One-stop shops improve processing times and efficiency, allowing agencies to process higher numbers of permit applications and increase client satisfaction. More recently, some economies have introduced web-based one-stop shops, allowing for an even faster, simpler and more convenient service for permit applicants. Singapore, for example, introduced the CORENET (Construction and Real Estate Network) e-Submission System in 2013. The system has streamlined the process of requesting various approvals from different authorities. Obtaining approvals for building and fire safety plans, as well as commencement permits, environmental and parking clearances and workplace safety and health notifications can all be done through CORENET.

Source: <https://www.doingbusiness.org/en/data/exploretopics/dealing-with-construction-permits/good-practices#ensuring>

### 3.3.2 Action: Facilitate serviced land for development

The normal tendency is for private developers to search for land that is easiest to acquire and develop (typically larger agricultural tracts on the periphery of the city). This saves them the trouble of acquiring multiple small tracts of land and the uncertainties and delays caused by somewhat uncertain land ownership records. Peripheral development encourages urban sprawl, increases the cost of utilities, and burdens roads not designed for the purpose. By contrast, brownfield sites inside cities use existing infrastructure and provide greater convenience for the residents.

Local authorities in the CNMA need to update their General Urban Plans (PUGs), and package sites for development by undertaking all necessary acquisitions and offer them for sale on a competitive basis. By assembling the land and providing infrastructure, the local authority will remove a large part of the development risk. This will therefore make private sector investments on the land more competitive and lower cost. The housing built on the land may be for sale or rent.

### 3.3.3 Action: Leverage private sector to build affordable housing

Local authorities can leverage the private sector through PPPs for the delivery of private 'affordable' housing, and even public social (rental) housing. Under such arrangements, private developers could be

required to include a percentage of the specified low-income housing in their developments as a condition for development.

- *Build-Operate-Transfer agreements.* Partnerships could be entered into with private developers to develop new social housing under Build Operate Transfer (BOT) agreements. Under this arrangement, the local authority would provide the land and infrastructure, while the private sector would develop the housing, collect the rents and maintain it for a fixed period (typically 30 years) where after the ownership of the property passes to the local authority. Rents would be set at levels sufficient to give a modest return on investment, and subject to review procedures as set out in the BOT agreement.

Unfortunately, the Program on Rental Housing Construction Conducted by Attracting Private Capital (*Programul de construcții locuințe cu chirie, realizate prin atragerea capitalului*) based on GD no. 352/2012 imposes strict conditions on the private sector, essentially placing it in a subservient relationship to the public sector rather than that of a partner; as such, the private partner might take on a larger proportion of risk as compared to other country contexts while facing strictly regulated income sharing stipulations. This might explain the lack of interest from the private sector in such PPP schemes, which could become more desirable if implemented according to the terms described in the last paragraph.

- *Development Agreements.* A Development Agreement (DA) is a contract between a private developer and the Local Authority, which is based on the concept of a quid pro quo. As a condition of granting approval to a developer to construct a certain number and type of housing units, the Local Authority requires that a percentage of those units be priced lower. As noted above DAs can be used to require private sector developers to provide social housing; in other cases, they may simply require that a certain percentage – for example 20% - be priced below, say, EUR 50,000. DAs are practiced widely in many parts of the world and does not deter the private sector from making investments. In Romania, implementing DAs might require legal amendments, in particular but not limited to Law 114 and Law 50 on construction authorization.

#### **3.3.4 Action: Impose penalties for speculation**

Cluj-Napoca municipality could consider introducing a high property tax on vacant land and vacant properties. This could help stem some of the speculative activity that is locking out large portions of the housing stock and developable land. The lack of interest in introducing in the civil and economic real estate circuit of some unutilized land or degraded / vacant buildings pushes investors towards cheap land that is un- or under-serviced (lacks infrastructure), and located in the periphery of the city or in the surrounding communes. In 1929, in order to efficiently capitalize on available land (located in central urban areas, equipped with infrastructure), in Romania the Law for the organization of the communal administration of Bucharest was passed (art. 44 - chapter Systematization of Bucharest), stating that vacant lands located in zone I (established by the construction regulations of the city of Bucharest) may be subject to a maximum tax equal to the amount of taxes that the property would have to pay if the land was built-up in accordance with the construction regulations of the city. These taxes would be increased by 50% for each 5-year period until the owner builds on the land. Although the measure was repealed in 1948 in Romania, it remains an instrument used in urban policies in Italy, France and Germany for stimulating land use.

### 3.4 *Objective: Strengthen private rental market*

A healthy rental market is important for several reasons: (i) it provides a decent housing alternative for households that do not have sufficient income to purchase a home or make a down-payment, or for those with informal incomes that do not qualify for a mortgage loan; (ii) it allows for greater labor mobility; and (iii) enables more compact developments. The lack of rental housing and a particular dearth of formal rental housing in the CNMA – and Romania – acts as a major deterrent to labor mobility, causes difficulties for newly-weds, and inflates the rents of the limited rental stock available. Increasing the supply of rental housing will help increase affordability, especially for young families, and lower income groups, and help make rental a viable alternative to purchasing a house.

#### 3.4.1 *Action: Waive rental income tax for small landlords*

Several types of tax incentives may be considered to boost the rental market, for example:

- Rental expenditure could be made tax deductible. This could be a general policy, but will likely be more effective if it is targeted to specific population groups (for example, youth, students, specific groups of professionals, young starter families, etc.) who are likely to be the best suited for rental accommodation.
- Rental income of private landlords renting their own homes (up to a limit, say, of 5) may be exempt from tax.

This will have the effect of bringing many existing tenancies out of the grey economy and making it easier for tenants to insist on formal lease agreements, thus protecting their interests. This will also have the effect of increasing competition and thereby reducing rent levels. Whether this can be done at the local or the national level is an issue that requires further investigation.

#### 3.4.2 *Action: Support property owners to build rental housing*

This proposes legal reform and financial support (grants) to small landlords to provide a steady supply of rental housing targeted to lower income households. Formalizing Accessory Dwelling Units (ADUs) and small extensions promises to improve affordability while incrementally injecting “gentle density”<sup>6</sup> into otherwise low-rise, low-density family neighborhoods, without destroying their character or their infrastructural carrying capacity.

ADUs can be a win-win: an inexpensive, flexible way for more people to live in in-demand neighborhoods and for small landlords to make some additional income. In order to protect landlords and tenants, existing ADUs would have to be improved – and new ADUs constructed – pursuant to formalized building standards and basic parameters of health and safety. The permitting process should be easy and streamlined for prospective, non-professional landlords. Once in the formal market, new landlords could choose to make their units eligible for the existing rental voucher scheme.

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<sup>6</sup> <https://www.strongtowns.org/journal/2019/1/23/legalizing-more-homes-it-matters-how-you-do-it>

#### Box 3.4 Accessory Dwelling Units: The case of Vancouver

Backyard units, granny flats, garage apartments, mother-in-law suites – all different types of ADUs – are typically modest homes, often the size of a studio apartment, but with a separate entrance.

Starting in 2009, Vancouver allowed ADUs nearly citywide, on what totaled more than 65,000 lots. No additional parking was required, no public hearing or approval from neighbors, and no expensive or cumbersome design requirements. One could build an ADU on just about any residential lot in Vancouver, behind just about any style of house. The result? The city is adding more than 1,000 of these small, affordable homes every year, and the total share of single-family houses with legal ADUs is up to a staggering 35%.

Source: <https://www.strongtowns.org/journal/2018/9/11/if-youre-going-to-allow-adus-dont-make-it-so-hard-to-build-one>

### 3.4.3 Action: Reform pro-tenant rental policies

Existing policy should be reviewed to ensure that an equitable balance is achieved between the parties: that is to say creating conditions in which exploitative rents, or demands for excessive advance payments are eliminated by an open market situation, balanced with powers for the landlord to evict tenants who abuse their rights by late or non-payment, damage to the property, creating nuisance to the neighbors, etc. The objective of such policies is to reduce disincentives for landlords to enter the market, thereby increasing the supply of rental housing. The dispute mechanism discussed below will be an important tool in reducing landlord/tenant conflicts – a major disincentive for some landlords.

### 3.4.4 Action: Introduce tenancy dispute resolution mechanism

The potential for landlord tenant disputes not only discourages owners from renting out their property, but also leads to very high up-front deposits etc. By establishing a simple arbitration procedure, such disputes can be resolved cheaply and quickly. Ideally, there should be a compulsory arbitration procedure – which is cheaper, easier, and faster – before a dispute can be taken to court.

## STRATEGIC PRIORITY 2: ASSISTANCE TO LOWER INCOME HOUSEHOLDS

### 3.5 Objective: Improve existing stock of social housing

#### 3.5.1 Action: Make social housing financially viable

There is a need for local authorities to allocate adequate financial resources to upgrade and maintain their social housing. Tenants whose income is insufficient to pay the rent should receive a subsidy – preferably from the national government or from other financing sources to make up the difference. The key objective is to *subsidize the family, not the house*. It would also be helpful to set up a financing window at the local level – with the help of the national government, or funding from the EU or other sources – for improving current stock or refurbishing old public buildings into social housing (e.g. adaptive reuse).

#### 3.5.2 ‘Outsource’ day-to-day management of public housing

Government is not always in a good position to manage (social) rental housing. This task may be better done by the non-profit sector or entities that are closer to the people and better understand their needs, such as the Community Development Corporations in the US – See Box 3.5.

Box 3.5 Community Development Corporations in the US



Community development corporations (CDCs) in the US are non-profit organizations created to support and revitalize communities, especially those that are impoverished or struggling. CDCs often deal with the development of affordable housing. They can also be involved in a wide range of community services that meet local needs such as education, job training, healthcare, commercial development, and other social programs. While CDCs in the US may work closely with a representative from the local government, they are not a government entity. As non-profits, CDCs are tax-exempt and may receive funding from private and public sources.

CDCs range from large, well-established organizations to small community groups. While traditionally CDCs were location-based, there are organizations that target specific demographics (for example, the Women's Revitalization Project in Philadelphia serves low-income women and their families).

CDCs follow a bottom-up approach; they are set up and run by community members or local groups like churches and civic associations. In fact, a key feature of CDCs is the inclusion of community representatives in their governing/advisory boards. While it's difficult to enforce because CDCs act independently, the rule of thumb is at least one third of the board is comprised of local residents.

As non-profit institutions, CDCs are tax-exempt and may receive unlimited donations and grants from private and public sources. A significant portion of funding comes from local government and through state and federal grants, such as the U.S. Department of Housing and Urban Development's Community Development Block Grant. CDCs can also receive funding from philanthropic foundations. CDCs may also apply for funding through intermediary organizations (like the Local Initiative Support Corporation and NeighborWorks America nationally and local organizations like Pittsburgh's Neighborhood Allies) that receive government resources and then allocate funding to community groups.

Source: [https://www.naceda.org/index.php?option=com\\_dailyplanetblog&view=entry&category=bright-ideas&id=25%3Awhat-is-a-community-development-corporation-&Itemid=171](https://www.naceda.org/index.php?option=com_dailyplanetblog&view=entry&category=bright-ideas&id=25%3Awhat-is-a-community-development-corporation-&Itemid=171)

### 3.5.3 Action: Simplify and clarify public/social housing categories

The legal housing framework is not well developed, as there are several categories of housing owned by local public authorities, but not all of them are “social” housing. Clearly defining the public housing categories would allow for better utilization of the existing stock and would increase the number of households who have access to social housing.

### 3.5.4 Action: Prioritize social housing for thermal insulation

Social housing should be prioritized to receive insulation funding so that energy bills for the poorest citizens (and the associated subsidy burden on government) are reduced first. A different funding model – one without residents’ funding contributions – will be required in such cases, and one option may be to use an ESCO (Energy Service Company) financing model for combined thermal insulation packages for publicly-owned buildings, including the social housing stock. Public grants used to reduce the economic burden on citizens, such as for insulation measures, should be targeted first at the poorest and most disadvantaged citizens – such as those living in social housing. In the UK for example, the ‘Decent Homes’ program has run from 2000 onwards and aims to renovate all social housing stock to a good standard of insulation – see Box 3.6.

#### Box 3.6 Decent Homes Standard

The Decent Homes Standard is a technical standard for public housing introduced by the United Kingdom government. The government set out a target in 2000 that it would "ensure that all social housing meets set standards of decency by 2010, by reducing the number of households

living in social housing that does not meet these standards by a third between 2001 and 2004, with most of the improvement taking place in the most deprived local authority areas."

Local authorities were required to set out a timetable under which they will assess, modify and, where necessary, replace their housing stock according to the conditions laid out in the standard.

The criteria for the standard are as follows:

- It must meet the current statutory minimum standard for housing
- It must be in a reasonable state of repair
- It must have reasonably modern facilities and services
- It must provide a reasonable degree of thermal comfort."

The standard was updated in 2006 to take account of the Housing Act 2004, included the implementation of the Housing Health and Safety Rating System (HHSRS).

*Source: Department of Communities and Local Government, UK - A Decent Home: Definition and guidance for implementation, 2006*

### 3.6 *Objective: Expand social housing inventory*

#### 3.6.1 **Action: Repurpose underutilized public assets into social housing**

The existence of dilapidated historic buildings, most in highly desirable central districts of the urban areas, offers an excellent opportunity for local authorities to upgrade them, and use them for rental housing at both subsidized and market rates.

#### 3.6.2 **Action: Leverage Government program for Social Housing Construction**

The financial mechanism of the Government Social Housing Program favors cities that have large budgets and can undertake investments. However, the budget of the Program is typically underutilized every year, and big cities (such as Cluj-Napoca) do not access it. Enrollment in this program would allow for the construction of social housing, provided that the projects and locations, as well as the procedures for the public procurement required for construction are set up in advance. All expenses can subsequently be reimbursed by the Government in phases. This requires a proactive approach to investment planning in the sector.

Coherence of government programs and simplification of housing construction procedures (ANL & social housing) will make them accessible and interesting for local public authorities. The procedures for social housing construction programs need to be made similar to the Youth Housing Construction Program. Thus, without limiting the initiatives of the local public authority to build social housing, the government program on the construction of social housing should ensure the coordination and financing of selected projects, with the national Government financing the projects, and local authorities being responsible with providing land and building infrastructure (water, sewerage, etc.), as is the case for youth housing. This mechanism would simplify procedures and would no longer put pressure on local budgets, which is the reason used by some local public authorities to justify their lack of involvement in the Government Program.

#### 3.6.3 **Action: Use Public Private Partnerships to build new social housing stock**

Partnerships could be entered into with private developers to develop new social housing under through build-operate-transfer (BOTs) agreements and Development Agreements (DAs). Under this arrangement, the local authority would provide the land and infrastructure, while the private sector would develop the

housing, collect the rents and maintain it for a fixed period (typically 30 years) whereafter the ownership of the property passes to the local authority. Rents would be set at levels sufficient to give a modest return on investment, and subject to review procedures as set out in the BOT agreement.

Similarly, DAs could be signed with developers requiring them to include a percentage of 'affordable' housing or social housing in their developments as a condition for development.

The World Bank defines Public Private Partnerships for housing as:

*A partnership between the public and private sectors, established through a contractual relationship which seeks to access private sector finance, design, construction, commercialization, maintenance or operational management for the delivery of affordable<sup>12</sup> housing and, in some cases, ancillary services. The public sector contribution can be provided in the form of cash or equivalents such as land, development rights, revenues (rents/tariffs) generated from land, infrastructure and building assets, taxation relief and/or a share in the equity generated over a fixed period. The private party's remuneration is significantly linked to performance.<sup>7</sup>*

While the global trend is towards some form of public-private partnerships for the provision of affordable or social housing, it should be noted that such partnerships can take many forms, and that PPPs that allocate more risk to the private sector can be difficult to develop. In developing possible PPPs for social housing, local authorities should understand the inherent challenges. In emerging markets these may include the following:

- The real estate industry may be underdeveloped and unregulated;
- A non-competitive domestic market may be dominated by a small number of residential developers who profit more from alternative investments (hence, there may be a lack of motivated bidders);
- The private sector may lack investors and developers capable of assuming risk;
- Public sector capacity, formal processes and/or the structure for decision-making in general may be weak;
- There may be a lack of institutional competence and experience to design, structure/ appraise, and oversee complex PPP transactions;
- The public sector might not be trusted to honor its commitments and responsibilities;
- There may be a lack of access to mortgage financing and construction financing;

Given their complex transactional nature, PPPs tend to be time-consuming, costly and difficult to implement, particularly at the beginning. In most developing and emerging economies, housing PPPs cannot provide a 'silver bullet' to resolve the affordable housing deficit and it might be more important to prioritize improving housing sector fundamentals, strengthening the institutions within the housing sector and removing constraints that can enable rather than inhibit private sector investment.

#### **3.6.4 Action: 'Unlock' private underutilized/ vacant housing stock**

There is a sizable number of unused apartments which are currently empty and in bad condition in Cluj-Napoca and the CNMA. These units could be renovated and leased to those who cannot afford commercial

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<sup>7</sup> World Bank (2020). Public-Private Partnerships For Investment And Delivery Of Affordable Housing In Emerging Market Economies.

rents and at the same time do not qualify for social housing. Poland's Social Rental Agencies (see Box 3.7) provides a very good proof of concept as a way to:

- tap into the underutilized vacant stock of housing;
- expand the effective 'social housing' stock by including private housing into the pool;
- expand the voucher program by identifying a ready pool of housing and hence tackling the supply problem;
- provide housing assistance not just for the poor, but also targeted 'non-poor' groups in need of affordable rentals.

*Box 3.7 Poland: Social Rental Agencies*

A social rental agency model involves private renters as providers of affordable housing units. Social Rental Agency is a non-profit intermediary that negotiates between property owners and households in need of housing. To the owners, it guarantees regular rent payments and proper use of the housing unit in exchange for a discounted rent. For tenants, it offers long-term and affordable leases, up to 10 years, and apartments in good conditions.

In addition, the Social Rental Agency offers social support to the tenant to prevent defaulting on monthly payments and accumulating debt. Social rental specialists are responsible both for the rent administration and social services support.

It is estimated that as many as 30,000 apartments in Poland can be leased via social rental agencies.

**Who benefits?** Social rental agencies target low-income earners, young people who are starting independent living and families with children – those who cannot access credit and cannot afford private rents. On the other side, the model offers set income to the owners who do not want to take on risks associated with letting their property on the market and hence their property stands vacant.

The social rental agency model can be regulated by the Tenants' Rights Act and local municipalities can coordinate the work of the agencies. To ensure financial sustainability, Habitat Poland developed instruments to cover the costs of social rental specialists and establish an insurance fund to cover the costs when tenants default on repayments or need an extension.

**How can it work?** The definition of social rental agencies was written into the National Housing Fund Act. Social Rental Agencies are defined as 'institutions mediating between landlords and tenants that fulfill specific economic and social criteria.' In addition, the government has agreed to introduce grants to establish Social Rental Agencies. They will be launched in the second half of 2017 and target NGOs and local governments. Grants will be administered by the ministry of development with the use of the EU funds.

In Poznan, this research inspired local authorities to set up a municipal rental agency later this year. The agency will rent apartments from private owners at a lower price to tenants who qualify for social housing but at the moment cannot be offered such a unit. The city will cover the costs of the agency and the difference in rents paid to the apartment owners by the tenants.

Source: <https://www.habitat.org/emea/stories/introducing-social-rental-agencies-poland>

### 3.6.5 Action: Consider various models of social/ public housing

Expanding the supply of social housing in Cluj-Napoca will require the municipality to consider models most appropriate for the local conditions. Governments have adopted different approaches, leading to a variety of social housing systems and varying levels of public intervention in the sector. Categorized by

provider, the predominant social housing models are summarized in Table 3.2 (a) below. [Annex 1 provides further discussion on the various models of social housing, based on a forthcoming World Bank report.]

*Table 3.2(a) Models of social housing*

Provider/ Owner-operator	Short summary	Countries
<b>1. Government agencies (national, regional, municipal)</b>	Government builds, owns and rents/sells housing at regulated prices	Brazil, Colombia, Egypt, Ethiopia, Mexico, Singapore, Turkey, USA
<b>2. Non- or limited-profit housing associations</b>	Mission-oriented entities that build and manage social housing, with government support	Austria, France, Netherlands, South Africa, UK, USA
<b>3. Community-led non-profit organizations</b>	Subsidized housing for ownership, developed and managed by community-led organizations such as land trusts or community cooperatives	Thailand, USA, various EU

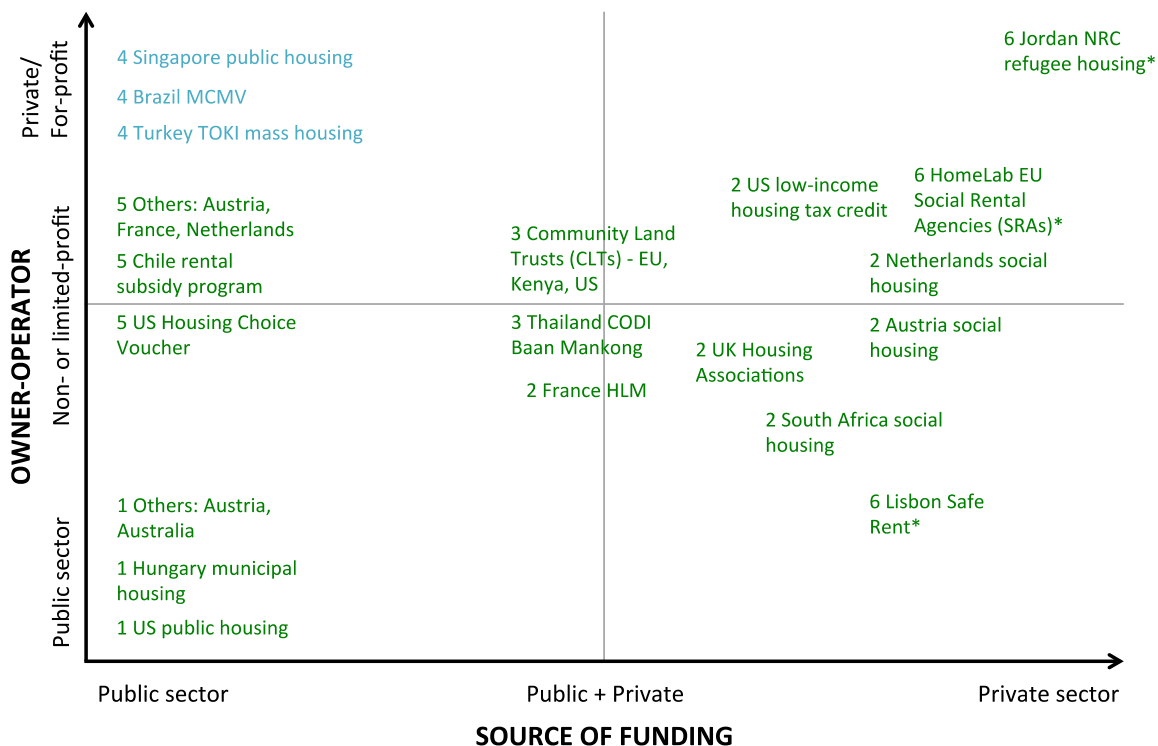
In addition to – but distinctly different from – these three predominant social housing models, three forms of social assistance for housing are listed in the table below. These are distinct from the first three in that they are time-limited and not designed to produce a stock of social housing in perpetuity or in the long term, or spur production of new social housing.

*Table 3.2(b) Models of social assistance in the housing sector*

Provider/ Owner-operator	Short summary	Countries
<b>4. Government assistance for housing production (supply-side)</b>	Government builds, owns and sells housing at regulated prices	Brazil, Singapore, Turkey
<b>5. Government financial assistance to households (demand-side)</b>	Residents' ability to pay for private housing boosted by a government subsidy (rental or ownership)	Chile, USA
<b>6. Private rentals and small-scale landlords</b>	Private housing (subsidized) rentals managed by not-for-profit or quasi-government intermediary, with or without government support	Jordan, Visegrad Four (Czech Republic, Hungary, Poland, Slovakia) Portugal (Lisbon), Spain (Barcelona)

Globally, social housing systems have evolved over time with governments transitioning to an enabling role and private sector taking a more active role in social housing provision and financing – see Figure 3.2.

*Figure 3.2 Social housing matrix*



**LEGEND:**

- 1 - Government agencies (national, regional, municipal)
- 2 - Non- or limited-profit housing associations
- 3 - Community-led nonprofit organizations
- 4 - Government assistance for housing production (supply-side)
- 5 - Government financial assistance to households (demand side)
- 6 - Private rentals and small-scale landlords

Green text represents rental housing programs; blue text represents homeownership programs

\* Pilot projects or new programs; not yet integrated or established in country's overall housing policy

Source: World Bank (forthcoming 2021-22). *Revisiting Social housing (draft report)*.

### 3.7 Objective: Support maintenance of existing (old) housing stock

#### 3.7.1 Action: Enforce maintenance of multifamily buildings

The provisions in the Housing Law outlining the responsibility of HOAs to maintain and manage their buildings need to be disseminated more widely, so owners jointly take responsibility of the common areas in buildings. This is particularly relevant for the on-going thermal insulation programs where these measures could be very easily included as part of the standard package of measures.

#### 3.7.2 Action: Provide technical support to HOAs

A small training and technical assistance unit could be established which can make its services available free of charge to the umbrella bodies and HOAs. It would:

- Advise on routine maintenance procedures and prudent financial management regarding maintenance;
- Advise on the importance of getting adequate insurance coverage (at the unit level, and if available, at the building level);

- Advise on matters arising from major maintenance needs, including: prioritizing repairs, obtaining finance for repairs, obtaining suitable professional construction management; and
- Provide a quick dispute resolution service.

### 3.7.3 Action: Provide financing support to HOAs/ homeowners

Co-financing covering 50-80% of the cost of repairs may be given to HOAs that meet certain eligibility criteria. The contribution of the HOA (20-50% of cost of repairs) may come from cash reserves of the HOA, if available, or through a loan from a commercial bank. Additional grants may be given to the poor households – for example, those earning below the median income, to ensure that their cost burden for housing and all utilities combined does not exceed 30-40% of the monthly income.

#### *Box 3.7 Georgia: Local government assistance for multifamily building repairs*

The most prominent local housing project undertaken by public authorities in Georgia over the last decade is 'Tbilisi Corps', initiated by the Tbilisi City Hall. With the assistance of the German Technical Cooperation Agency (GTZ, renamed in GIZ), the program was aimed at promoting the development of HOAs in the capital city. The program was initiated due to the incompleteness and inconsistency of provisions on housing maintenance in the Civil Code of Georgia (1997). The Tbilisi Corps program was preceded by the normative act (regulatory document) issued in 2002 by the Ministry of Urbanization and Construction of Georgia on 'Delimitation of Land Parcels Under Multi-Story Residential Houses'.

Under the Tbilisi Corps program, a dedicated unit in the municipal government of Tbilisi was established to assist unit owners to establish HOAs. Once HOAs were established as legal entities under private law (by submitting a 3-page form to the Tbilisi Corps), the HOA was able to submit proposals for renovation of their common areas, which required an audit of building conditions and bids sought from at least three contractors for the improvement work. Such buildings were then eligible for municipal co-financing for the repair of common areas. Between 50 and 90 per cent of renovation costs were covered by the Tbilisi municipality with the rest covered by HOA contributions from unit-owners. The program proved largely successful; there are currently 6,000 HOAs in Tbilisi, meaning that almost all multi-family apartment buildings are run by an HOA. In other big cities of Georgia HOAs have been established in some multi-family apartment buildings, although to a lesser degree. That said, the number of HOAs is systematically rising nation-wide.

To this effect, financial assistance provided to HOA should be leveraged to make them more self-reliant – for example, it can be based on a conditionality that the HOA members undergo training in building management, and in budgeting for proper maintenance, and contributing/planning for capital repairs.

## STRATEGIC PRIORITY 3: PLANNING AND GOVERNANCE

### 3.8 Objective: Strengthen technical capacity of local government

#### 3.8.1 Action: Develop housing database

The Mayoralty of Cluj-Napoca, through its Directorate of Local Taxes, compiled the first centralized database of real estate transactions carried out between May and December 2013 in order to shed light on real estate market dynamics in Romania. If extended to other areas in Romania, the housing data could prove an important tool in developing effective diagnoses and policy interventions into the housing market.

That said, the lack of other basic information on the housing sector makes designing, budgeting and targeting specific areas for policy intervention difficult. There is a need to ensure systematic collection and availability of relevant information related to the housing sector by establishing collection mechanisms and a country-wide housing database. It is recommended that data on housing – such as household income, household size, housing typologies/ conditions, as well as market data on housing, including the rate of production, type, tenure, and prices. The creation of a building database, monitoring processes/ trends of urban and housing development through a system of urban indicators according to international experience is crucial. This will allow the budget and extent of energy efficiency, capital repair works, and design of social housing/ other housing subsidies to be determined according to the stratification of data on household composition, income, housing type, age, and condition. Table 3.3 provides a set of illustrative housing data indicators that may be considered for the housing database.

Table 3.3 Illustrative housing data indicators

		Indicator	Definition
1	Housing Demand	New household formation	Annual percentage increase in the number of new households
			Number of households, by household size
		Households per dwelling unit	Average number of people per dwelling unit
		Homelessness	Number of people per thousand of the urban area who sleep outside dwelling units
2	Housing Supply	Housing production	Total number of “formal” housing units produced last year per 1000 people
		Housing investment	Total investment in housing (in both formal and informal sectors in the urban area) as a percentage of gross city product
		Housing investment by public sector	Total investment in housing in the urban area by government (towards social housing, upgrading, etc.)
		Stock of publicly owned housing	Total number of housing units (social, other) in urban area owned by national or local government
		Demand-supply for social housing units	Ratio of number of applicants for social housing last year and number of households who received social housing
3	Affordability	Income	Household income, by quintile
			Median household income
			Median household income, by household type (size)
		Cost of living	Basic (average) cost of living, excluding housing cost
			Cost of living for different household types (by size and profile)
		Poverty	Percentage of households below poverty line
Housing price	House price per square meter by location: -city center -suburbs -outer suburbs		



			Price per square meter for a median-priced unit
			Indicative share of the following in total house price: (i) construction (building and services), (ii) off-site infrastructure, (iii) land, (iv) financing, (v) permits and fees, (vi) developer profit
		Housing price-to-income ratio	Ratio of median free market price of a dwelling unit and the median household income
		Rent-to-income ratio	Ratio of median annual rent of a dwelling unit and the median household income
		Rent in government-owned social housing units	Mean and median rent per unit area (m <sup>2</sup> ) of social housing
		Housing Price Index (house price appreciation)	Annual rate of change of house prices, measured as a weighted average of all sales during the most recent year
4	Housing quality	Persons per room (“overcrowding”)	Average number of persons per room in a dwelling unit
		Temporary structures	Percentage of housing units made of temporary materials
		Structural integrity/ safety	Percentage of structures that are structurally unsafe (e.g. old buildings that were built prior to current codes, or those that are ill-maintained)
		Old multifamily buildings	Percentage of old multifamily buildings that are in urgent need of capital repairs
		Unauthorized/ illegal housing	Percentage of housing in urban areas that is not compliant with current codes/ regulations
			Percentage of low income residents without secure tenure (rental or ownership)
5	Land development, social services, jobs	Water/ sanitation access	Percentage of dwelling units with a connection to (i) electricity, (ii) water, and (iii) sanitation in the plot/ unit they occupy
		Land development multiplier	Average ratio between median land price of a developed plot at the urban fringe in a typical subdivision, and the median price of raw, undeveloped land in an area currently being
		Land concentration	Share of vacant land in the urban area owned by the (2-5) largest landholders (private, customary, or public) last year
		Proximity to schools, health facilities	Median length in minutes of a one-way commute to closest primary school, and closest health center
		Journey to work	Median length in minutes of a one-way commute in the urban area, excluding home based workers

6	Housing choice	Residential mobility	Percentage of all households who moved their residence last year (including newly formed households)
		Vacancy rate	Percentage of total number of completed housing units that are vacant
		Owner-occupancy	Percentage of total number of housing units that are occupied by their owners
			Percentage of residents that are owner-occupiers
		Rental housing	Percentage of total number of housing units that are occupied by renters
			Percentage of residents that live in rental housing
Residential segregation	Percentage of urban population living in the largest contiguous low-income settlement in the urban area		
7	Housing construction	Construction cost	Present replacement cost per square meter of a median-priced dwelling unit (labor, materials, infrastructure, contractor/ developer profit)
			Average cost of construction per square meter for a median-priced unit
		Construction time	Median time (in months) from the start of construction to the completion of a median-priced dwelling unit
		Permits delay	Median length in months to get approvals, permits, and titles for a new median sized (50-200 unit) residential subdivision in an area at the urban fringe where residential development is permitted.
		Robustness of the building industry: industrial concentration	Percentage of new formal sector housing units constructed by the (2-5) largest developers (public or private) in the urban area last year
8	Housing finance	Penetration of mortgage market	Ratio of mortgage loans to GDP
			Percentage of home buyers or owners financing their homes with mortgages

Based on these data, the municipality can develop an action plan (with targets and delivery dates) to implement the Housing Strategy (see Annex 2 for an illustration). This will need to be done through an iterative consultative process with all relevant stakeholders.

### 3.8.2 Action: Establish a dedicated housing department

A housing department at the municipal level is proposed that would have responsibility for programs in energy efficiency, social housing, HOAs and maintenance, accessing finance, monitoring, evaluation, and data collection. Twinning with other European cities can be employed to build institutional capacity at the local level to help carry out the roles and responsibilities for housing. This can encourage best practice exchange with other countries where planning has a well-defined and developed institutional setting. The Housing Department would be responsible for all aspects of the housing sector, including: budgets and financial control, program monitoring and evaluation, data management, and policy development.

The local housing department can mobilize funds and land reserves to expand and retain a stock of public housing, to be further allocated as social, necessity or other uses, based on local needs. New construction is not always the sole or best solution for addressing housing needs; mechanisms will need to be in place to rehabilitate or convert existing public buildings to public housing.

There is also a need to establish Housing Plans at local and metropolitan level, which will require updated information of the territorial housing stock in order to plan the necessary actions, targets and budgets for housing.

### **3.8.3 Action: Develop a Public Asset Management Strategy**

There is need for an inventory of all relevant public assets at both the central level as well as by each Local Authority. However, in its absence, it would be valuable for Cluj-Napoca to develop its own inventory – of all public real estate assets – and develop an *Asset Management Strategy* that would outline the conversion, refurbishment, reuse, and rehabilitation of public building stock and land to increase the stock of public housing. There is also a need to develop the legal and operational framework for the transfer of unused or poorly used public (state-owned) land and public buildings (e.g. old public housing on underutilized land parcels, military land/ barracks, brownfield development etc.), from State ownership to City Hall ownership for the development of sustainable housing projects.

Cities have large real estate portfolios. The IMF estimates that subnational governments control real assets valued at 25% of GDP -dominated by land, buildings and structures. Advanced economies have seen a steady increase in the value of nonfinancial assets since the mid-1990s. By 2010, they accounted for over 80% of GDP in France, Japan, Korea and Australia. In Hungary and Czechia, former transition economies, they are over 100%. Repurposing public real estate assets starts with developing an effective asset management system. With effective real estate management, the value can be extracted from real estate portfolios to help cities meet their goals and growing demands. These assets can be leveraged to achieve nonfinancial objectives such as increasing social housing, enhancing public parks and recreation facilities, regenerating blighted neighborhoods, etc. Building an effective real-estate asset management system would require Cluj-Napoca to develop the appropriate regulations and institutions such as land data and valuation systems. It would also include undertaking asset inventories and valuation process, developing an effective property management system, undertaking asset planning and recapitalization, and strategic asset management. The returns on such programs can be huge.

#### *Box 3.9 Case Study: Meeting Local Development Priorities in Birmingham*

Birmingham manages a large existing property portfolio covering about 25,000 acres within a relatively strong market. Rather than acquiring new sites, the City Council is using their existing portfolio to ensure that future development is aligned with local priorities. Given the expected population growth, the Birmingham Development Plan and the Birmingham City Plan set an agenda to provide new jobs, homes, and infrastructure. The City Council's property was divided into an Investment Portfolio, a Growth and Development Portfolio, Community Portfolio, and Operational Portfolio to strategically manage how municipal properties can support the City's growth plans. Through strategic management, the City Council has been able to complete over 3,000 homes, solidifying its position as the leading housing deliverer in the City and provider of affordable homes. They have also identified sites within the Jewelry Quarter that will sustain and revitalize the area without damaging its existing nature.

*Source: Birmingham City Council Property Strategy (2018/19-2023/24), Centre for Cities*

#### **3.8.4 Action: Plan trunk infrastructure to guide urban growth**

Shifts in residential development follow public infrastructure investments. It is important to have a more proactive approach to urban planning, one in which the planned delivery of trunk infrastructure by local authorities guides the development pattern, and not the other way around.

Better planning and coordination are needed between the local authorities and the utility service providers to provide trunk infrastructure in a timely manner. This can be achieved by operationalizing the legal framework on the responsibilities and sharing of costs between the local authority and the developer in new residential developments. This would benefit both development activity by the private sector due to lesser red tape, lower costs, and greater efficiencies in the delivery of housing, and the end-users and citizens, who will benefit from more affordable prices and better planning of these developments.

According to the current law, cities and communes can associate in order to strengthen the complementarities between them and develop sustainable planning of the CNMA metropolitan territory. This association could ensure, as provided by Law no. 350/2001, coherent and sustainable development, the correlation of development priorities and the efficiency of public investments, and the capitalization of natural and cultural resources. In this sense, the local public administration authorities within CNMA could elaborate the zonal metropolitan territorial development strategy as an integrated territorial planning documentation for the substantiation of general urban plans and the coherent implementation of investments and housing policies.

#### **3.8.5 Action: Improve energy efficiency of housing stock**

Specific actions pertaining to improving energy efficiency, and to move closer to achieving the local and national nZEB (near-zero energy buildings) targets could include the following:

- Establishing a database on social/ collective housing, classified according to the level of energy performance;
- Encouraging the legalization of housing rentals through funding granted for the energy-efficiency-related renovation of buildings, both outside and inside;
- Adopting a plan to increase the number of public buildings, particularly housing, with energy consumption almost equal to zero - nZEB;
- Mapping the areas considered to be heat islands in terms of density of collective housing and identify solutions for passive microclimatic conditioning, through green spaces and artesian wells, to contribute to humidification and cooling of air at the local level;
- Establishing an action plan regarding the major renovation of residential buildings that incorporates energy efficiency measures;

### **3.9 Objective: Advocate for national level reforms**

#### **3.9.1 Action: National housing policy**

There is a need to advocate for a national policy to ensure legislative, administrative and financial coherence of housing actions. The approval of the National Housing Strategy would provide a framework for action, coordination and monitoring of the necessary actions needed to improve the functioning of the housing sector, and mobilize all existing actors and resources towards this goal.

#### **3.9.2 Action: National budget for housing**

The national budgetary allocation for housing can be increased by implementing two specific legal provisions:

- Law no. 10 (2001) on the legal regime of properties abusively taken over between March 6, 1945-December 22, 1989 states, within art. 44 paragraph (2) that “Families with financial means below national average minimum income levels, the disabled, and pensioners will be provided with social housing built from a budget obtained from 2% share of the amounts obtained from privatization and which will be provided annually in the state budget law
- Law no. 116/2002 on social marginalization, states that in order to establish the necessary budgets to facilitate access to housing for persons up to 35 years of age, unable to buy a home on their own, an annual tax should be levied on individuals owning vacant dwellings (other than those in which they reside) that are not on the rental market. Although the law requires the Parliament to legislate annually these tax levels, this rule has never been applied since inception. The tax for vacant housing must also be extended to legal entities, not only to individuals. Further, the Fiscal Code could be amended to create a system of progressive taxation for individuals that own multiple housing units that are vacant. The amendment could be designed in a way that gives local public authorities the opportunity to decide on this issue.

### **3.9.3 Action: Land management (for housing)**

Several areas of legal reform are proposed to improve land management for housing purposes. First and foremost, there is a need to develop a legal framework for local authorities to identify and manage land reserves for public housing projects. A legal framework is also needed for the organization and functioning of Urban Land Associations to facilitate the conversion of agricultural lands into well-functioning urban subdivisions for urban development projects. Permits for such developments may be granted only to projects with suitable density and sustainable urban indicators. Also, the elaboration and application of the methodological norms of Law no. 255/2010 on expropriation for public utility purposes, necessary to achieve national, county and local objectives will allow the organization of streets, public spaces and lots in areas with agricultural land where fragmented urban developments have started to take place.

### **3.9.4 Action: Sale of publicly owned housing**

The sale of ANL housing to existing tenants has effectively removed stock from the (already too small) pool of public sector housing. Moreover, these sales have been administered in such a way that the proceeds of the sales are below market prices, which effectively discounts an important public asset and subsidizes a group without any form of means test.

Although this may be beyond the scope of Cluj-Napoca’s Housing Strategy, moving forward, it is proposed that legal reforms be undertaken to allow any such public housing stock to be retained, ideally, as social rental housing by the local municipality. In some cases, it could also be used as one or more of the following: (i) revenue generating assets with market-price rents that can help cross-subsidize existing social housing or raise funds to construct new social housing; (ii) rental housing targeted to lower income households (up to the 30<sup>th</sup>-40<sup>th</sup> income percentile) who can pay the current rents; (iii) housing for *targeted* groups (such as young professionals, young families with children, or other specific ‘non-poor’ segments of the population), at subsidized rates, but with a cap on the number of years it can be occupied by any single household (e.g. 3-5 years); or (iv) ‘transition’ houses for those in need of housing.

### **3.9.5 Action: Housing Cooperatives**

Romania has some history with cooperative movements, especially in the textile sector where cooperatives have been in place for over 150 years. However, Housing Cooperatives have yet to emerge in the country. Such a system can offer an alternative approach to solving some affordable housing needs

without needed large scale government support. Law 1/2005 on the organization and functioning of cooperatives mentions *housing cooperative societies* among the potential forms of so-called cooperative societies of grade I. These are defined as associations of individuals established with the aim to build, buy, preserve, refurbish or manage housing for their members (Article 4 e). However, the content of this law and other connected normative acts do not contain provisions concerning the actual application of such a form of association.

A housing co-operative is a housing business that is a consumer co-operative owned mutually by all of its members.<sup>8</sup> Housing co-operatives are modeled differently in every country, although all operate on the principle of one member, one vote.<sup>9</sup> Housing co-operatives generally provide a higher quality of private and communal life at a competitive cost because they are geared towards providing affordable housing to members rather than maximizing profits for developers. Because housing co-operatives are not designed for short-term real estate speculation, rents and prices are generally stable and social cohesion is high among neighbors who are committed to fostering a shared community.

Many European countries boast robust co-operative housing sectors that offer an affordable midpoint between fully private housing and fully public housing both for tenants and also for governments that can encourage co-operatives with limited subsidies.

#### *Box 3.10 Cooperative Housing and Housing Associations*

The concept of people forming groups in order to obtain housing started in the 19<sup>th</sup> century and has been formalized in several ways. The “Building Society” and “Savings and Loans Banks” are examples of mutual societies in which citizens join to raise funds for building. Cooperatives in Europe played a similar role, and were a major force in developing housing in the first half of the 20<sup>th</sup> Century.

GERMANY. In Germany, the first housing cooperatives were founded because the growing cities of the 19<sup>th</sup> century provided inadequate housing, in both quantity and amenity.

After the first major foundation phase around 1900, numerous new coops were established in the 1920s, often by trade union members. Cooperative housing construction experienced a new upswing after 1945 in reconstructing the destroyed cities and accommodating refugees. Some 50% of existing cooperative housing stock in West Germany was built in the 1950s and 1960s, and about 60% of stock in East Germany dates from the 1970s and 1980s.

The drastic reduction in housing subsidies after the 1980s and the abolition of the Non-Profit (or Public Utility) Housing Act in 1989 in West Germany, as well as the end of the housing construction program of the GDR changed the ground rules regarding financing of cooperative housing.

However, the not-for-profit tradition in Germany is associated with the provision of housing for *lower-income households*. Although in the late 1980s there was a trend for West German housing cooperatives not to claim public support because they found themselves confronted by the segregation of “difficult” tenants in social housing, charges for inappropriate occupation, and long lock-in periods – about 80% of cooperative dwellings are now no longer subject to price and occupancy commitments – this did not necessarily mean that lower-income households were not accommodated. East German coops have a relatively high proportion of rental tenants (22.3%) with a net household income of under EUR 1000 as a result of the privatization of local authority housing stock, housing cooperatives in some local authorities have become the most important providers of affordable housing. The fact

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<sup>8</sup> “Cooperative housing: a key model for sustainable housing in Europe” organized by CECODAHs HOUSING EUROPE. 26 April.

<sup>9</sup> Ibid.

that most major cooperatives now employ social workers or cooperate with other social service agencies points to an aggressive approach on their part.

Cooperative approaches can also reduce the individual risk of homeownership, especially if they are associated with self-help. Most cooperatives see another task in adaptation to an ageing population. As far as *age structure* is concerned, members and tenants of most cooperatives are on average much older than the population at large, 40% being over 65, so that secure and stable living arrangements are needed to ensure residents can remain.

Geographical differences exist concerning the objectives of cooperatives. The development of owner-occupied dwellings plays a major role in South German housing cooperatives, whereas large rental cooperatives are to be found in North Germany.

*Source: Beetz, S: German Journal of Urban Studies Vol. 47 (2008), No. 1 - Housing Cooperatives and Urban Development*

HOUSING ASSOCIATIONS IN THE UK. A similar concept has been used in Britain following the large-scale sale of public sector housing in the 1980s. Groups who form a Housing Association are eligible for a social housing grant, and usually obtain the remainder of the capital cost from a commercial bank. They operate as non-profit companies, trusts or voluntary associations. Government established the Homes and Communities Agency as a body to assist the Associations and channel grant funding for them.

## Annex 1. Social housing models

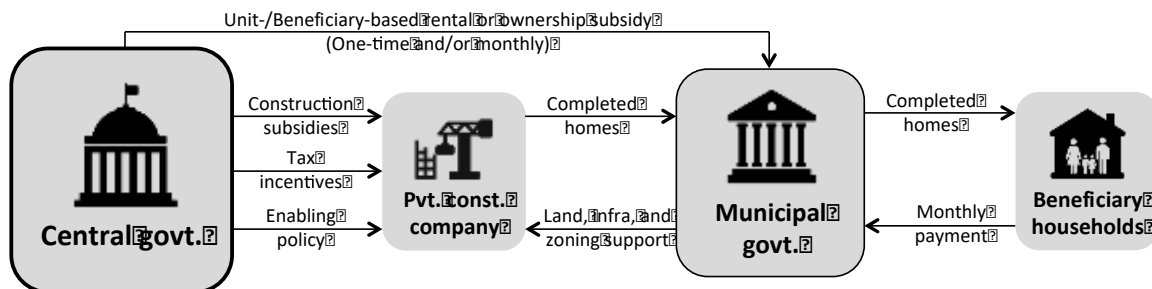
(source: World Bank (forthcoming 2021-22). *Revisiting Social Housing* (draft report).

### 1. GOVERNMENT-LED SOCIAL HOUSING

The beginnings of social housing, as we know it today, were in the post-World War II period when governments in Europe and USA were drawing up plans for reconstruction. To address housing shortages, governments instituted large-scale housing programs whereby public agencies funded, built and managed subsidized rental housing for the working poor and returning war veterans.

At the helm of this model is the central/national government that not only sets the policy framework but also provides funding for housing development. The funds are generally routed through municipal governments (or an instrumentality thereof); in addition, municipalities provide assistance that could include grants, and access to cheap or free land. The construction is typically contracted to private construction companies that hand over the completed homes to municipalities, who then allocate them to beneficiary households for (subsidized) rent.

Figure: Typical modality of government-led social housing



Source: Author

While this model was successful in delivering social rental housing and bridging quantitative deficits, they were expensive and an inefficient use of government resources. Government entities were unable to manage the properties resulting in operating deficits and a backlog in improvements and repairs over time. As a result, the majority of these programs have been either discontinued or modified (USA, Netherlands, France, Austria) or significantly scaled back (UK). The US and UK continue to manage legacy government-owned rental housing stock today; however, the stock has shrunk considerably due to large-scale demolitions, sale to sitting tenants, and/or wholesale transfer to non-profit housing associations, and there is little to no new construction. In most Western European countries, this model has evolved over time and non-/limited-profit housing associations are the main providers of social housing. In Austria, local governments continue to operate legacy municipal housing stock, but limited profit housing associations have been at the forefront of new social housing construction since the 1980s. Since the mass privatization of social housing in the 1990s, most Eastern European countries have relatively small government-owned social rental housing sectors, usually concentrated in large cities.



### Case example: USA Public housing

<p><b>Context</b></p>	<p>The passage of the 1937 Wagner-Steagall Housing Act<sup>10</sup> marked the beginning of public housing in the US, and the government’s first foray in the sector. With a goal to eradicate slums and provide decent, safe, and sanitary dwellings for low-income families, the government provided loans for low-cost housing projects across the country. After World War II, the Housing Act of 1949 expanded the public housing program and it was targeted primarily at the working class.</p> <p>At present, there are 1.2 million public housing units managed by 3,300 Public Housing Authorities (PHAs) across the country.<sup>11</sup></p> <p>Key figures:<sup>12</sup></p> <table border="1" data-bbox="451 659 1367 814"> <tr> <td>Total population, 2019</td> <td>328.24 million</td> </tr> <tr> <td>Urban population (% of total)</td> <td>82.46%</td> </tr> <tr> <td>Poverty ratio at national poverty rate (% of total population)</td> <td>N/A</td> </tr> <tr> <td>GNI per capita, 2019 (USD)</td> <td>65,850</td> </tr> </table>	Total population, 2019	328.24 million	Urban population (% of total)	82.46%	Poverty ratio at national poverty rate (% of total population)	N/A	GNI per capita, 2019 (USD)	65,850
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Poverty ratio at national poverty rate (% of total population)	N/A								
GNI per capita, 2019 (USD)	65,850								
<p><b>Project description</b></p>	<p>The federal government provided funding to PHAs for the construction of public housing, initially through the Housing Division of the Public Works Administration (PWA) when the program was initiated in 1937 and then through the Department of Housing and Urban Development (HUD) after it was set up in 1965. The goal of the program was to “build decent and safe rental housing for eligible low-income families, the elderly and persons with disabilities.”<sup>13</sup> PHAs are responsible for the management of public housing properties.</p> <p>The program worked well for the first three decades, until the mid-1960s, but federal funding moratoriums, renewed targeting, and new regulations led to the deterioration and subsequent demolition of several public housing projects across the country. There has been virtually no new public housing construction since the 1970s, and existing stock is (largely) in poor shape, managed by PHAs across the country.</p>								
<p><b>Targeting</b></p>	<p>Eligibility for public housing is based on the following criteria:</p> <ul style="list-style-type: none"> <li>• Maximum annual gross income limits <ul style="list-style-type: none"> <li>○ (i) Lower-income limit is 80% of the area median income (AMI), and</li> <li>○ (ii) Very Low Income limit is 50% of AMI</li> </ul> </li> <li>• Qualification as elderly, person with disability, or as a family</li> <li>• US citizenship or eligible immigration status</li> </ul>								
<p><b>Subsidy features</b></p>	<p>To ensure affordability for tenants, who are in the low-income and very low-income categories, public housing follows an income-based rent setting method. The Total Tenant Payment (TTP) is based on gross household income minus deductions (if</p>								

<sup>10</sup> A part of the federal government’s New Deal legislation

<sup>11</sup> [https://www.hud.gov/topics/rental\\_assistance/phprog](https://www.hud.gov/topics/rental_assistance/phprog)

<sup>12</sup> <https://data.worldbank.org/country/united-states>

<sup>13</sup> [https://www.hud.gov/topics/rental\\_assistance/phprog](https://www.hud.gov/topics/rental_assistance/phprog)

applicable); this is called adjusted income. The TTP is usually the higher of 30% of adjusted income or 10% of income, with utility expenses subtracted from the monthly amount.

PHAs are also required to maintain and publish flat rents for each apartment, based on size, condition, location, and age, among other factors. Tenants can choose to pay either 30% of the adjusted income or flat rent. Since 2014, Congress has mandated that flat rents be at least 80% of the Section 8 Fair Market Rent (FMR) for the area.

The federal government provides funding to PHAs through Public Housing Capital Fund for capital needs, and the Public Housing Operating Fund for ongoing maintenance and repairs.

Figure: La Guardia Houses on Manhattan's Lower East Side



Source: City of New York: <https://www1.nyc.gov/site/nycha/business/locations.page>

**Project sustainability**

When first formulated, the project was targeted at working class households and rental income streams were adequate to cover operations and maintenance (O&M) costs. Over time, however, amidst renewed targeting and segregationist policies, the tenant mix got poorer. At the same time, public housing stock started to age and with decreased rental income, it became more expensive to manage the properties and PHAs started to require federal assistance for regular O&M as well as capital repairs.

Both federal funds for public housing – the Public Housing Capital Fund and the Public Housing Operating Fund – have been chronically underfunded starting with drastic cuts to the HUD (US Department for Housing and Urban Development) budget in the 1980s (under the Reagan administration). With the government shifting its focus to other housing programs, including the Section 8/ Housing Choice

Voucher (HCV) and the Low-Income Housing Tax Credit (LIHTC) programs, since the 1970s, public housing has not been a focus area.

Since the 1990s, HUD has instituted new programs to revitalize public housing, including HOPE VI since 1992 and the Rental Assistance Demonstration (RAD) program since 2012. Both programs were designed to revitalize public housing projects by allowing PHAs to access private and public sector funds to make capital improvements to projects. Nearly 100,000 public housing units were demolished in the 1990s and 2000s as a result of the HOPE VI program.<sup>14</sup>

Despite these efforts, there is not enough funding to maintain public housing stock. In 2011, HUD estimated that there was a budget shortfall of nearly USD 26 billion for capital repairs,<sup>15</sup> which had ballooned to approximately USD 70 billion by 2019.<sup>16</sup>

Figure: Demolition of the Pruitt-Igoe public housing project in St. Louis in the 1970s



Source: US Department of Housing & Urban Development:

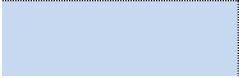
[https://www.huduser.gov/portal/pdredge/pdr\\_edge\\_featd\\_article\\_110314.html](https://www.huduser.gov/portal/pdredge/pdr_edge_featd_article_110314.html)

<p><b>Key reasons for success</b></p>	<p>The program is widely regarded as a failure.</p>
<p><b>Limitations/ Constraints/ Lessons learned/ Scope for improvement</b></p>	<ul style="list-style-type: none"> <li>• <b>Inferior planning and design</b> of public housing projects from the beginning led to projects being built in minority neighborhoods leading to poverty concentration, and poor construction quality led to deterioration of housing stock</li> <li>• <b>Inadequate and ineffective management</b> by PHAs has led to deteriorating quality of the housing stock, with tenants facing issues ranging from water leaks and mold to lead paint and rodent infestations</li> <li>• <b>Consistently decreasing federal funding</b>, and shift of government focus (and funding) to other private-sector led housing programs has effectively left</li> </ul>

<sup>14</sup> <https://prospect.org/infrastructure/housing/public-housing-is-going-private-and-its-congress-fault-HUD/>

<sup>15</sup> [https://www.housingfinance.com/news/public-housing-faces-26-billion-in-capital-repairs\\_o](https://www.housingfinance.com/news/public-housing-faces-26-billion-in-capital-repairs_o)

<sup>16</sup> <https://nlihc.org/resource/public-housing-where-do-we-stand>



public housing projects to fall into disrepair and in many instances, demolition

## 2. NON-PROFIT HOUSING ASSOCIATION-LED SOCIAL HOUSING

Government-led housing programs in advanced economies, in the wake of World War II, were successful (to varying degrees) in building a large stock of social housing in a short period to address the acute housing shortages after the war. Over time, however, most of these models<sup>17</sup> have evolved with non- or limited-profit housing associations leading social housing provision.

These mission-driven entities need to be simultaneously adept at what can sometimes be conflicting ideals – financial discipline, technical (development) know-how, and community engagement. Building capacity in all of these areas takes years, if not decades, as evidenced by the cases of US and European countries; and even so, the sector is a mix of housing associations of different scales and capacities. This model of social housing provision is now common in advanced economies, and is generally seen to be more sustainable than direct government provision.

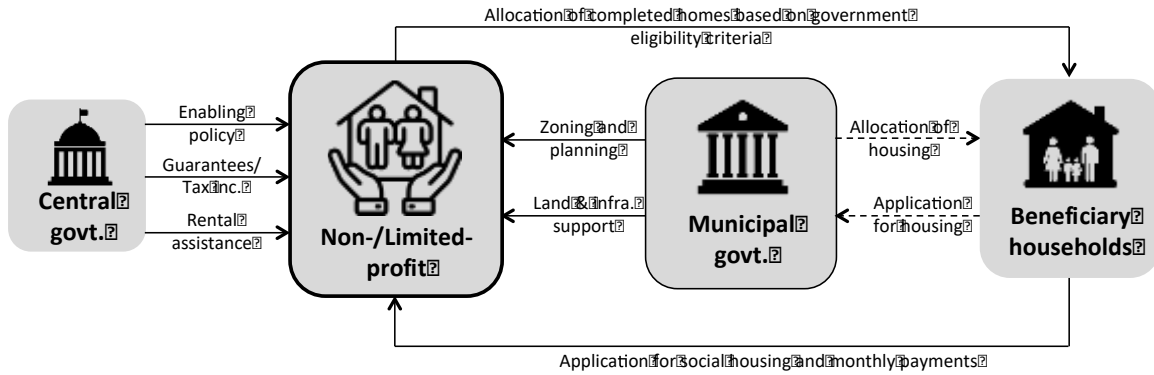
Among emerging economies, South Africa instituted a social housing program (rental) in 1998. Forming the second rung of the country's housing ladder, the program is beset by several challenges that have prevented scale-up so far, but the government implemented changes in recent years to help scale the program. In India, non-profit community-based organizations<sup>18</sup> have partnered with private developers and financiers to build and manage social housing, but these are independent projects that have not been institutionalized at a programmatic or policy level.

While program details vary across countries, the fundamentals remain the same – i.e. housing associations develop and manage social housing, with different degrees of government support (financial and other), and raise capital – mix of debt, equity, and grants – from a number of public and private sources. Housing associations set eligibility criteria based on government guidelines, and are responsible for allocation of completed homes to beneficiary households as well as for the maintenance of homes.

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<sup>17</sup> Eastern Europe saw a mass privatization of social rental housing in the 1990s, and some Southern and Western European countries have small social housing programs, while other Western European countries (some of which are covered in the case examples) evolved to social housing systems led by non- or limited-profit housing associations

<sup>18</sup> Such as Mahila Housing SEWA Trust (MHT) and the Society for the Promotion of Area Resource Centers (SPARC)



### Case Example: Vienna, Austria: Limited Profit Housing Associations (LPHAs)

#### Context

Known globally for its success in the provision of affordable housing, Vienna’s social housing system is characterized by continuing government support, a combination of supply- and demand-side subsidies, established limited profit housing associations, and a large rent regulated private sector housing stock.

Unlike other European countries and cities, the foundation for Vienna’s social housing system was laid before World War II, in the period between 1919 and 1934, also called ‘Red Vienna.’ The Social Democratic Workers’ Party launched a large-scale housing program to address the quantitative and qualitative housing deficits in the city after World War I, building roughly 65,000 units.<sup>19,20</sup> With the same party coming to power after World War II, the government embarked on another large-scale housing program as part of a wider post-war welfare state program.

Social housing in Vienna consists of stock owned and managed by the municipal government as well as limited-profit housing associations (LPHAs), and is homes to low- and middle-income households alike. While the government led the first two waves of housing development (inter-war and post-World War II), they transitioned to an LPHA-led model in the 1980s.<sup>21</sup> In addition to social housing, regulation helps keep rents in the private sector<sup>22</sup> low as well.<sup>23</sup>

The City of Vienna is Austria’s biggest landlord, owning 220,000 social housing units, and has supported the development of another 200,000 units by LPHAs. Together, these 420,000 units house nearly 60 per cent of Vienna’s population.<sup>24</sup>

<sup>19</sup> “Municipal Housing in Vienna. History, facts & figures.” Available at: <https://www.wienerwohnen.at/wiener-gemeindebau/municipal-housing-in-vienna.html>

<sup>20</sup> The government instituted an aggressive tax regime, including taxing luxury goods and services and private property, to pay for this social housing building boom

<sup>21</sup> [https://www.huduser.gov/portal/pdredge/pdr\\_edge\\_featd\\_article\\_011314.html](https://www.huduser.gov/portal/pdredge/pdr_edge_featd_article_011314.html)

<sup>22</sup> For units built before 1945; in 2017, rents per sq.m. were as follows: Municipal housing: €6.30; LPHA housing: €6.60; private sector: €8.60. Source: Mundt, 2018

<sup>23</sup> <https://citymonitor.ai/housing/red-vienna-how-austrias-capital-earned-its-place-in-housing-history>

<sup>24</sup> <https://www.wienerwohnen.at/wiener-gemeindebau/municipal-housing-in-vienna.html>

Key figures (Austria):<sup>25</sup>

Total population, 2019	8.87 million
Urban population (% of total)	58.5%
Poverty ratio at national poverty rate (% of total population)	13.3%
GNI per capita, 2019 (USD)	51,460

### Project description

Since the 1980s, LPHAs have developed the bulk of social housing in Vienna, supported by subsidies and fiscal incentives from the government. LPHAs are required to re-invest their profits back into social housing (akin to housing associations in the Netherlands).<sup>26</sup> LPHA housing stock is primarily targeted at middle-income households.

The city buys land and stipulates conditions for the type and nature of development; then invites proposals from LPHAs who will build and manage the units. The proposals are evaluated by an interdisciplinary jury on the basis of four criteria – (i) architectural quality; (ii) environmental performance; (iii) social sustainability; and (iv) economic parameters such as rent and costs.<sup>27</sup> Once the developer is selected, the city sells the land to them at an affordable price, and also provides low-interest long-term loans for development.<sup>28</sup>

In addition to government financing, another source of financing is down payment from tenants – not to exceed 12.5% of total construction costs which developers refund to tenants, with interest, when they move out.<sup>29</sup>

In response to rising rents and market pressures, the City of Vienna launched a new municipal housing construction program in 2015, called Municipal Housing NEW. The program aims to build 4,000 new units by 2020.<sup>30</sup> Additionally, an amendment to the Building Code adopted in November 2018 stipulates that all new projects that will have more 5,000 sq.m. of housing must include at least two-thirds social housing, the rents for which cannot exceed EUR 5 per sq.m.<sup>31,32</sup>

### Targeting

Social housing in Vienna is known for its broad targeting, which arose from the goal to promote social mixing and create mixed communities. Under the high income limits, roughly 70-80% of the population is eligible for LPHA housing.<sup>33</sup>

<sup>25</sup> <https://data.worldbank.org/country/austria>

<sup>26</sup> Forster, 2013

<sup>27</sup> Housing in Vienna, Annual report 2018-19

<sup>28</sup> [https://www.huduser.gov/portal/pdredge/pdr\\_edge\\_featd\\_article\\_011314.html](https://www.huduser.gov/portal/pdredge/pdr_edge_featd_article_011314.html)

<sup>29</sup> Forster, 2013

<sup>30</sup> Housing in Vienna, Annual report 2018-19

<sup>31</sup> <https://www.equaltimes.org/can-vienna-s-model-of-social?lang=en#.YDYtcelKiSM>

<sup>32</sup> Housing in Vienna, Annual report 2018-19

<sup>33</sup> Mundt, 2018

	<p>Social housing in Vienna can be classified into two types, based on the provider: (i) council/municipal housing which is owned and managed by the city; and (ii) subsidized housing provided by limited-profit housing associations. The former is cheaper, has lower income limits, and stricter allocation rules. Given the increasing affordability challenges, new allocations of municipal housing are more strictly targeted at vulnerable groups.</p> <p>Subsidized housing by LPHAs, which constitutes the bulk of new social housing, is increasingly targeted at middle-income households. LPHAs give a third of the units to the city for allocation (which follows the same allocation principles as it does for municipal housing) and the LPHA allocates the rest (a mix of rent and ownership).<sup>34</sup></p>
<p><b>Subsidy features</b></p>	<p>Austria is one of the few countries in the world where the bulk of government spending on housing continues to be supply-side/production subsidies.<sup>35</sup> These subsidies are in the form of long-term low-interest loans for construction, with repaid loans rotated back into the sector.</p> <p>Rents are strictly regulated, to roughly 25% of household income in the social housing sector. Income restrictions only apply when tenants first move in; and they are not required to move out if their income increases subsequently. Rents are based on the costs of construction and financing, and do not include a profit component. Rents decrease as the building gets older and financing costs reduce over time.<sup>36</sup></p> <p>Additionally, the city offers payment assistance – <i>wohnbeihilfe</i> (housing benefit) – to those who cannot afford rent.<sup>37</sup> This rent subsidy is granted for subsidized units as well as those rented on the private market; and in some cases, it is also granted to homeowners. Eligibility criteria for this housing benefit include: household size, household income, size of the flat, and housing expenditure.</p>
<p><b>Project sustainability</b></p>	<p>The high quality of Vienna’s social housing stock is a result of the social, economic, and environmental sustainability principles that are deeply embedded in the system. Broad targeting has helped create mixed-income communities in social housing projects. Furthermore, there is an even spatial distribution of social housing across the city, thereby preventing the creation of concentrated pockets of poverty.</p> <p>In LPHA properties, a component of rents are earmarked for building maintenance and periodic renovations/upgrading; this is in addition to cost-rents and increases with the age of the building. All new construction proposals are evaluated, among other things, on the economic sustainability of the project, which includes rents and</p>

<sup>34</sup> Forster, 2013

<sup>35</sup> Unlike most countries where spending on housing mainly focuses on demand-side/housing benefits or indirect, tax-based support

<sup>36</sup> Mundt, 2018

<sup>37</sup> <https://www.wien.gv.at/english/living-working/housing/grants-funding.html>

	<p>cash flow. The city received special funds to refurbish and modernize the inter-war housing stock (built in the 1920s).<sup>38</sup> Also, tenants are heavily involved in the day-to-day management of the building.</p>
<p><b>Key reasons for success</b></p>	<p>Progressive planning policy and sustainable design: Social housing is not planned or built in isolation, but is based on the City Development Plan which includes infrastructure development plans, to ensure that social housing is integrated into wider city development and has access to the necessary infrastructure.<sup>39</sup> With the design approach centered on building neighborhoods (not just dwellings), social housing includes commercial uses on the street level and social uses in the courtyard, including day care center, medical clinics, and libraries.<sup>40</sup></p> <p>Special focus on building operations and maintenance (O&amp;M): With special funds reserved for building O&amp;M, the social housing stock in Austria is often of better quality than private rental stock. Rents in LPHA subsidized housing stock include a component reserved for regular maintenance as well as for periodic large-scale renovations as the building ages. The refurbishment of municipal housing stock built in the 1920s was funded by targeted government subsidies.</p> <p>Continued government support: With social housing being a priority for both city/state and national governments, the sector has received tremendous support for the better part of the last century. The City of Vienna invests roughly €500 million every year for housing construction, rehabilitation, and direct financial support to low-income households.<sup>41</sup></p>
<p><b>Limitations/ Constraints/ Lessons learned/ Scope for improvement<sup>42</sup></b></p>	<p>Supply of social housing is not adequate to meet demand: In recent years, decreasing incomes, rising unemployment, and an increase in vulnerable households have been the driving forces behind the higher demand for social housing. At the same time, new subsidized housing built by LPHAs is more expensive due to rising construction costs, and is therefore less affordable for low-income and vulnerable households.</p> <p>Newer housing stock targeted primarily at middle-income households: With increasing market orientation and higher land prices and costs of construction, new stock built by LPHAs is more heavily weighted towards unsubsidized housing that is not affordable for low-income or vulnerable households.</p>

<sup>38</sup> Mundt, 2018

<sup>39</sup> Forster, 2013

<sup>40</sup> <https://citymonitor.ai/housing/red-vienna-how-austrias-capital-earned-its-place-in-housing-history>

<sup>41</sup> <https://www.wienerwohnen.at/wiener-gemeindebau/municipal-housing-in-vienna.html>

<sup>42</sup> Mundt, 2018



### 3. COMMUNITY-LED NON-PROFIT ORGANIZATIONS

Although not quite as prevalent as the government-led social rental model or the non-profit housing association model, community-led social housing development has been around for many decades. In the US, it emerged from the civil rights movement in the 1960s, and in Thailand, since the 1980s (it has since evolved). Additionally, an EU-funded project – Sustainable Housing for Inclusive and Cohesive Cities (SHICC) – “seeks to support the establishment of more successful Community Land Trusts (CLTs) in cities across the North-West European (NWE) region.”<sup>43</sup> Started in 2017, the project is slated for completion in the second half of 2021. The project is being implemented in seven NWE countries – England and Wales (UK), Scotland (UK), Republic of Ireland, Belgium, France, Netherlands, and Germany – and aims to create an enabling policy and financing environment to scale up CLTs in the region.

This model is based on the premise that communities are best positioned to devise solutions to their housing (and other) problems, and that these solutions must arise out of a collaborative process rooted in the local context. Therefore, there is no single universal community-led social housing model, but it takes on very different forms in different contexts, as evidenced by the two case examples described below. Similar to the non-profit housing association model, community-led non-profits must also straddle multiple worlds at the same time, and government support is critical to its continued functioning.

Regardless of program specifics, all community-led social housing is managed by the people who live in them. While there are obvious benefits to self-governance, it also has its inherent challenges. Such a model requires strict financial and management discipline and enforcement of rules, which is often difficult to practice. Therefore, although these programs exist all over the world, seldom have they scaled up to being the dominant force in social housing provision.

#### Case Example: USA: Community Land Trusts (CLTs)

##### Context

Inspired by the US civil rights movement of the 1960s, the community land trust (CLT) movement advocates for collective land ownership and a change in established property rights systems.<sup>44</sup> CLTs are “non-profit, community-based organizations designed to ensure community stewardship of land.”<sup>45</sup> CLTs are governed by a board of directors comprised of CLT members, community/neighborhood residents, and local government representatives.

CLTs can be used for different types of development, including commercial and agriculture, but are primarily used to preserve long-term housing affordability or to prevent displacement of lower-income households in gentrifying neighborhoods.

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<sup>43</sup> <https://www.nweurope.eu/projects/project-search/shicc-sustainable-housing-for-inclusive-and-cohesive-cities/#tab-1>

<sup>44</sup> “Urban Community Land Trust in Europe: Towards a Transnational Movement,” SHICC, October 2020. Available at: <https://www.nweurope.eu/projects/project-search/shicc-sustainable-housing-for-inclusive-and-cohesive-cities/resources/european-clt-guide-towards-a-transnational-movement/>

<sup>45</sup> <https://community-wealth.org/strategies/panel/clts/index.html>

Since its establishment in the 1960s, the movement has grown to include more than 200 CLTs in the US, improving housing outcomes for a growing number of households, based on the shared equity homeownership principle.

Key figures:<sup>46</sup>

Total population, 2019	328.24 million
Urban population (% of total)	82.46%
Poverty ratio at national poverty rate (% of total population)	N/A
GNI per capita, 2019 (USD)	65,850

**Project description**

The CLT model is based on the premise of maintaining housing affordability for low- and moderate-income households in perpetuity. To achieve this, CLTs sell the house to the buyer, but not the land; instead, the homebuyer enters into a long-term renewable ground lease (typically 99 years) for the land, which is permanently owned and maintained by the CLT.<sup>47</sup> Removing the speculative aspect of home purchases from the equation, the purchase price is more affordable since the buyer is only paying for the house. The homeowner pays a monthly (or annual) fee to the CLT for the land lease.

Additionally, when a homeowner sells, s/he is bound by CLT rules regarding sale price.<sup>48</sup> The resale price is based on a formula whose aim is to balance the homeowner’s interest of reaping benefits from their investment and the CLT’s interest in maintaining affordability for future buyers. The seller typically gets 25-30% of the increase in the value of the home,<sup>49</sup> while the CLT retains the rest in the property.

Homeowners have exclusive use of the property, the right to privacy, and the right to bequeath the property and lease. The CLT has the right to purchase the house when the homeowner wants to sell. Since the CLT is the landowner and has a stake even after the house is sold, it can force homeowners to make repairs if the building is dilapidated or step in if there is risk of default.

CLTs raise money from a mix of public and private sources, including equity, debt, and grants, for housing development and CLT operations. Federal Community Development Block Grant (CDBG) and HOME grants are the biggest source of funding. CLTs that build rental housing are also eligible for Low-Income Housing Tax Credit (LIHTC) and Historic Tax Credit (HTC) funding. State and municipal governments offer additional resources that could include grant funding and land at no cost or below-market prices. When mandated by local governments, private

<sup>46</sup> <https://data.worldbank.org/country/united-states>

<sup>47</sup> <https://groundedsolutions.org/strengthening-neighborhoods/community-land-trusts>

<sup>48</sup> Each CLT sets its own formula and conditions regarding sale price

<sup>49</sup> <https://shelterforce.org/2019/08/30/are-we-diluting-the-mission-of-community-land-trusts/>

developers provide support in the form of land or development fees. Private financial institutions and foundations also fund CLT activities, as do individual donors.<sup>50</sup>

Finally, some organizations such as the Institute for Community Economics, part of National Housing Trust (NHT), provide – (i) acquisition loans to help CLTs expand, and (ii) foreclosure prevention loans to help CLTs stabilize troubled properties on their land.<sup>51</sup>

There is a wide variety in housing typologies, including single-family homes, townhomes as well as multi-family buildings.

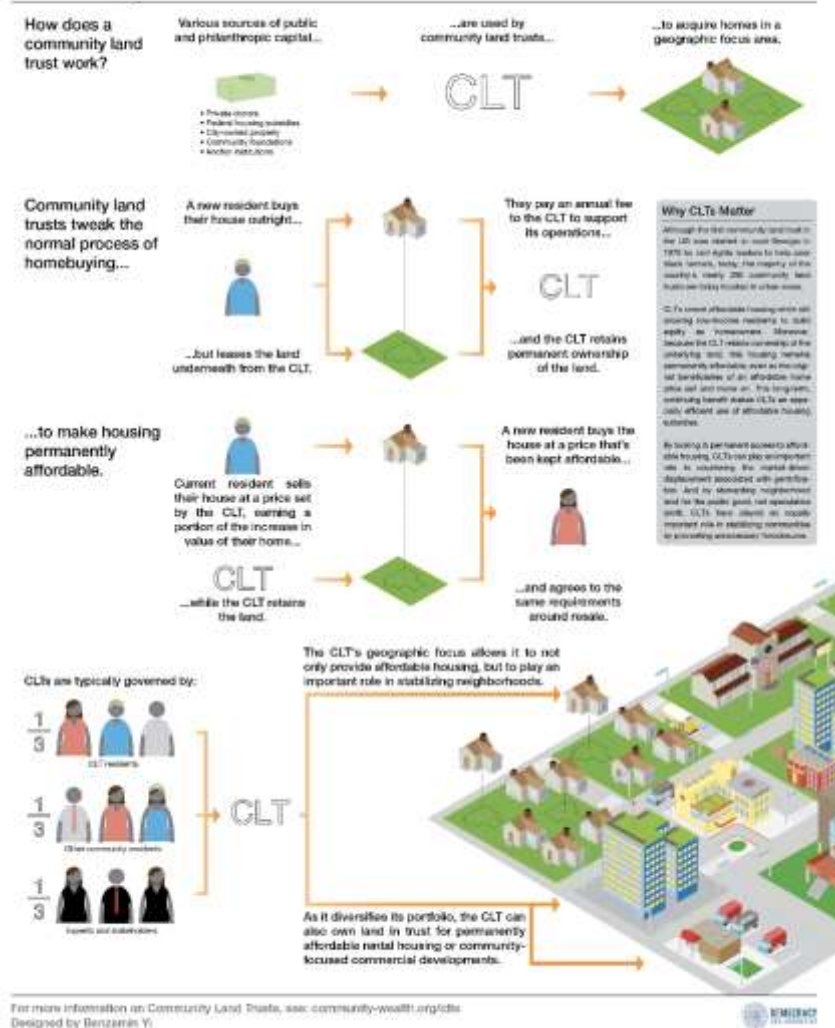
*How Community Land Trusts (CLTs) work*

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<sup>50</sup> [https://www.burlingtonassociates.com/files/2813/4523/7678/Chapter\\_7\\_-\\_Funding.pdf](https://www.burlingtonassociates.com/files/2813/4523/7678/Chapter_7_-_Funding.pdf)

<sup>51</sup> <https://www.nationalhousingtrust.org/community-land-trust-lending>

## Community Land Trusts



Source: <https://democracycollaborative.org/learn/blogpost/infographic-community-land-trusts>

### Targeting

CLT priorities range from permanent affordability to asset building, and working in gentrifying neighborhoods to foreclosure-riddled areas.<sup>52</sup>

CLTs generally target low- and moderate-income households who are unable to purchase market-rate housing. However, each CLT draws up its own specific eligibility criteria, such as income limits based on household size, ability to fund closing costs,

<sup>52</sup> "Investing in Community Land Trusts: A Conversation with Funders of CLTs," by Miriam Axel-Lute. Available at: [https://98pg5li6v8-flywheel.netdna-ssl.com/wp-content/uploads/2010/12/Investing\\_in\\_CLTs\\_2010\\_final-1.pdf](https://98pg5li6v8-flywheel.netdna-ssl.com/wp-content/uploads/2010/12/Investing_in_CLTs_2010_final-1.pdf)

	<p>and value of other assets, among others. Some CLTs, such as those in Europe, focus on special needs populations, eg: the elderly, those with mental health issues, etc.<sup>53</sup></p> <p>Households must meet income and other eligibility criteria only at the time of purchase; CLT homeowners can stay as long as they please. Homeowners can also bequeath the house and the inheritors do not have to meet eligibility criteria; however, resale restrictions still apply.<sup>54</sup></p>
<b>Subsidy features</b>	<p>On the supply side, public and private grants help subsidize construction costs for CLTs.</p> <p>On the demand side, affordable home prices are maintained by – (i) removing the land price from the equation, and having buyers only pay for the house; and (ii) limiting the resale price to (generally) 25-30% higher than the original sale price.</p> <p>Additionally, some CLTs provide financial support for down payment.</p>
<b>Project sustainability</b>	<p>Most grant funding for CLTs is earmarked for land acquisition and housing development, not operations and maintenance (O&amp;M). Therefore, CLTs must use land lease fees for maintenance purposes. At the same time, land lease fees must be kept low (typically \$25-50) to ensure it is affordable for homeowners. In most cases, the fees so generated is not enough to cover O&amp;M costs; only the large CLTs that have a few hundred/thousand units are able to cover O&amp;M costs through ground lease fees.</p> <p>However, most CLTs in the US are small (with less than 100 units) and struggle to make ends meet. Increasing development costs and high competition for limited grant funding has forced CLTs to become highly professionalized affordable housing organizations. In the process, the original focus on grassroots community organizing often takes a backseat. To address this, some CLTs are partnering with housing cooperatives and mutual housing associations (MHAs) wherein the former focuses on community-led development and the latter on construction and property management.</p>
<b>Key reasons for success</b>	<p>Enable homeownership for households that do not have other opportunities to enter the market: The separation of land and home ownership enables CLTs to sell homes at below-market prices, thereby making them affordable for the target segment that is priced out of the open market. Further, the limits on resale price and CLTs’ stewardship of the land ensure that homes remain affordable and prevent the</p>

<sup>53</sup> “Towards stronger EU support for Community Land Trusts,” SHICC, December 2020. Available at: <https://www.nweurope.eu/projects/project-search/shicc-sustainable-housing-for-inclusive-and-cohesive-cities/resources/european-clt-policy-paper/>

<sup>54</sup> [https://www.burlingtonassociates.com/files/4813/4461/1844/6-Community\\_Land\\_Trusts\\_-\\_The\\_Developer\\_That\\_Doesnt\\_Go\\_Away.pdf](https://www.burlingtonassociates.com/files/4813/4461/1844/6-Community_Land_Trusts_-_The_Developer_That_Doesnt_Go_Away.pdf)

	<p>displacement of homeowners due to gentrification pressures. Finally, it also gives homeowners an opportunity to reap the benefits of built-up equity that in turn enables them to graduate to the open homeownership market when they are ready to do so.</p> <p>The CLT model, along with community engagement and tailored mortgage products, keeps foreclosure rates low: The land trust model is structured such that the CLT remains a party to the deal, responsible for ensuring the structural integrity of buildings and the security of occupants. Moreover, the ground lease permits the CLT to step in in case of default, thereby forestalling foreclosure. Since homeowners are not over extended (due to the affordable home prices), they are protected in times of market downturns. For example, when the nationwide foreclosure rate for mortgages in 2010 was 4.63%, that for CLT homeowners was a mere 0.046%, a tenth of the national foreclosure rate.<sup>55</sup></p> <p>Community control of (local) assets and grassroots participation because CLT board is made up of a third of residents, a third of broader community neighbors, and a third of public officials (verify)</p> <p>Sound founding principles:<sup>56</sup> Tri-partite governance system is democratic and community-led.</p>
<p><b>Limitations/ Constraints/ Lessons learned/ Scope for improvement</b></p>	<p>Low ground lease fees and limited grant funding make it difficult to sustain operational costs: With monthly ground lease fees typically between USD 25-50, and a few hundred units (if that), CLTs are unable to cover operations and maintenance (O&amp;M) costs. There is intense competition for limited grant funding, thereby forcing CLTs to become highly professionalized, similar to other affordable housing organizations. In several instances, this has led to mission drift, diluting the community-led aspect of the CLT model. Some CLTs have started to partner with housing cooperatives to address this.<sup>57</sup></p> <p>Fostering and maintaining community involvement is not easy: Despite its democratic tri-partite governance structure, sustained grassroots participation and community engagement is not a given. In several cases, homeowners are not active in the community once they have purchased a home.<sup>58</sup></p> <p>Limited funding for land acquisition: Most public funds for CLTs are in the form of repayable loans, so they cannot be used to fund land acquisition (which requires a permanent subsidy that stays in the project). Therefore, funds for land acquisition typically come in the form of grants from private foundations. However, although</p>

<sup>55</sup> “Community Land Trusts: An Overview,” Burlington Associates, LLC

<sup>56</sup> “Urban Community Land Trust in Europe: Towards a Transnational Movement,” SHICC, October 2020

<sup>57</sup> <https://shelterforce.org/2019/08/30/are-we-diluting-the-mission-of-community-land-trusts/>

<sup>58</sup> <https://shelterforce.org/2019/08/30/are-we-diluting-the-mission-of-community-land-trusts/>

foundations are interested in funding CLTs when they're a novel idea, they move on to something else soon after. This forces CLTs to keep looking for alternative funding sources without any reliable source.<sup>59</sup>

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<sup>59</sup> [https://www.burlingtonassociates.com/files/2813/4523/7678/Chapter\\_7\\_-\\_Funding.pdf](https://www.burlingtonassociates.com/files/2813/4523/7678/Chapter_7_-_Funding.pdf)

## Annex 2. Illustrative Target-setting/ Goal Attainment Indicators

Below are some illustrative targets that the municipality will need to develop as part of an action plan to implement the Housing Strategy.

Strategic Priority	<u>Illustrative Indicators 2040</u>
<b>Enabling environment</b>	<p>Permitting processes will be simplified and streamlined.</p> <p>XXX m2 of serviced land will be made available for housing development.</p> <p>XXX number of affordable housing units will be built by the private sector by the year xxxx.</p> <p>XXX number of 'formal' rental units in Cluj-Napoca will increase from xx in 2021 to xx in 2040.</p> <p>Number of multifamily buildings managed by homeowners/ HOAs/ management companies will increase from xx% (currently) to xx%.</p> <p>Vacancy rate in non-rental properties will decline from xx% to xx%. In rental properties, the vacancy rate will be between xx% and xx%. Overall vacancy rates will not go below 5%.</p> <p>.....</p>
<b>Housing assistance for lower income households</b>	<p>Social housing will account for xx% of the city housing stock (currently xx%).</p> <p>Homelessness will decline from xx% to xx% of the population.</p> <p>Share of social housing units allocated to low income groups (say, below the 30<sup>th</sup> income percentile) will increase from xx% to xx%.</p> <p>Policy framework for informal settlements will be established.</p> <p>.....</p>
<b>Improved planning and governance</b>	<p>Housing strategy will be adopted and implemented.</p> <p>Local government functions related to the implementation of the housing policy will be expanded and their financial capacity increased.</p> <p>Reliable housing sector database will be established.</p> <p>.....</p>