



HOUSING IN ROMANIA

Project co-financed from the European Regional Development Fund through the Operational Programme Technical Assistance (OPTA) 2007-2013



TOWARDS A NATIONAL HOUSING STRATEGY

Regional Development Program 2 | Harmonizing Public Investments
Component 4: FINAL REPORT (1)
August 27, 2015



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Abbreviations and Acronyms

ANEVAR	National Association of Certified Appraisers in Romania (Asociația Națională a Evaluatorilor Autorizați din România)
ANRE	National Energy Regulatory Authority (Autoritatea Nationala de Reglementare in Domeniul Energiei)
ANRP	National Authority for Property Restitution
ANRSC	National Authority for Regulating and Monitoring Public Utilities (Autoritatea Națională de Reglementare pentru Serviciile Comunitare de Utilități Publice)
BCR	Commercial Bank of Romania (Banca Comercială Română)
BNR	National Bank of Romania
BOT	Build Operate Transfer
BPIE	Buildings Performance Institute Europe
CECODHAS	European Liaison Committee for Social Housing
CF	European Cohesion Fund
CHP	Combined heat and power
CLLD	Community Led Local Development
CCD	Consumer Credit Directive (EU)
CPO	Compulsory purchase order
DA	Development Agreement
DH	District heating
EBRD	European Bank for Reconstruction and Development
EE	Energy efficiency
EED	Energy Efficiency Directive
ENhCR	European Court of Human Rights
EPBD	Energy Performance of Buildings Directive
EPC	Energy performance certificates
ERDF	European Regional Development Fund
ESCO	Energy Service Company
EU	European Union
EUR	Euro
FRA	European Agency for Fundamental Rights
FHOA	Federation of Homeowners' Associations
GEO	Government Emergency Ordinance
GD	Government Directive
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GO	Government Ordinance
GOR	Government of Romania
GUP	General Urban Plan
HBS	Household Budget Survey
HfH	Housing for Humanity
HHI	Household Income
HOA	Home Owners' Association
IMF	International Monetary Fund

INCERC	National Institute for Building Research
JASPERS	Joint Assistance to Support Projects in European Regions
LGD	Loss given default
LHDI	Local Human Development Index
MGI	Minimum Guaranteed Income
MRDPA	Ministry of Regional Development and Public Administration
NAR	National Agency for Roma
NCCD	National Council for Combating Discrimination
NEEAP	National Energy Efficiency Action Plans
NGO	Non-Governmental Organization
NHA	National Housing Agency (Agenția Natională pentru Locuințe)
NHF	National Housing Fund
NIS	National Institute of Statistics
NPL	Non-performing loan
NPV	Net Present Value
NRAPUS	National Regional Authority for Public Utilities Services
nZEB	nearly Zero Energy Buildings
PNDR	National Rural Development Program (Programul National de Dezvoltare Rurala)
PPP	Public-Private Partnership
RAS	Reimbursable Advisory Services
RED	Renewable Energy Directive
RON	Romanian Leu
ROP	Regional Operational Program
RSDF	Romanian Social Development Fund
SMR	Standardized Market Rent
SOP	Sectoral Operational Program
SUDS	Sustainable urban drainage system
TRV	Thermostatic radiator valves
UK	United Kingdom
UNDP	United Nations Development Program
UNECE	United Nations Economic Commission for Europe
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax

Currency Equivalents

2014

RON 1 = EUR 0.23

RON 1 = USD 0.28

EUR 1 = RON 4.43

EUR 1 = USD 1.25

USD 1 = RON 3.54

USD 1 = EUR 0.80

2015

RON 1 = EUR 0.23

RON 1 = USD 0.26

EUR 1 = RON 4.44

EUR 1 = USD 1.16

USD 1 = RON 3.84

USD 1 = EUR 0.87

Acknowledgements

This work was carried out for the Ministry of Regional Development and Public Administration, Government of Romania, under an EU-funded Reimbursable Advisory Service (RAS) contract titled, “Harmonizing Public Investments” under the Second Regional Development Program.

The World Bank team that carried out this study was led by Ashna Mathema (Senior Urban Specialist, World Bank), and comprised: Robert Buckley, Max Budovitch, Oana Luca, Sumeet Manchanda, Richard Martin, Marina Neagu, Manjusha Rai, Daniel Valceanu and Simon Walley.

The team thanks the MRDPA for their cooperation in carrying out this research; in particular, Teofil Ghercă and Delia Popa for their detailed inputs and support throughout the study period. The team also thanks Diana Țenea, Alexandru Soare, Bogdan Ghinea, Anca Ginavar, Mihaela Kalogerakos, and other members of the MRDPA team for their support.

The team is grateful for the support received from the Bucharest World Bank office, in particular from Elisabetta Campanelli (Romania Country Manager), Suzy H. Yoon, and Marcel Ionescu-Heroiu. Alexandra Calin and Adina Vintan deserve particular thanks for their flawless organization of the missions and the workshops.

The team thanks David Sislen, Bernice Van Bronkhorst, and Sumila Gulyani for their managerial support and technical advice; Deepali Tewari and Robert Buckley for their valuable inputs as peer reviewers; and Kate Owens for providing informal comments.

Finally, the team is grateful to the numerous individuals in Romania who provided critical inputs: Bogdan Suditu, Irina Paraschivoiu, and many unnamed others, all of whom generously shared their knowledge about housing in Romania throughout the study period.

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EXECUTIVE SUMMARY

Context

After more than two volatile decades since its Revolution, Romania has made remarkable progress in adopting a market-based economy and moving towards the much higher income levels of the European Union. However, the fragmented nature of its housing market and the state of the housing stock continues to have significant adverse effects. Romania's housing is among the most crowded, dilapidated, expensive, and poorly-located of any country in Europe,¹ and exposes a large number of people to high seismic risk.

Many of Romania's housing problems are the legacy of one of the most ineffectual, dictatorial communist regimes, and as such, should be seen as an opportunity rather than a constraint. The opportunity arises because reforming the management of the large share of the nation's capital stock embodied in housing can bring significant benefits to the economy as well as the sector.²

Reforming the sector also represents an opportunity because even though there is significant dissatisfaction with housing conditions, the broader implications of the country's dysfunctional housing sector do not appear to be widely recognized. This may be inferred from the relatively small allocation of public resources to the housing sector, which are badly targeted, non-transparent and distributed in a fragmented and opaque manner. Twenty-two different spending programs operate with little coordination, and cumulatively expend only a fraction of the average amount of housing assistance provided by other middle income countries. Romania's expenditures on these programs amount to less than \$35 million which, in terms of the share of GDP, is less than the one-third of that spent by other emerging economies. Not surprisingly, these programs are unable to serve as either a safety net or a vehicle that encourages investment in high social return activities. Consolidating and improving the targeting of these programs can be expected to offer substantial gains.

¹ In what follows, Romania housing conditions are described as extremely austere. This description is consistent with the evidence provided by *Eurostat*, which compiles comparative data on the EU-27 countries. According to *Eurostat* (2014) Romania has the lowest ranking on almost all measures of housing quality by a significant amount, and at the same time, it has the highest portion of families with high housing cost burden and simultaneously the smallest average size of the transition countries. Moreover, as discussed in the text, our analysis suggests that the country's relatively weak performance in housing is worse than would be expected for its level of per capita income.

² Romania's housing, which accounts for about half of the fixed capital stock, is different from that of other transition economies not just because such a large share of this stock was produced by the country's centrally-planned regime, but because the planning of that regime was highly ineffective and dictatorial. That regime, according to the most widely used measures of accountability, such as that provided by Polity IV, was the second most authoritarian system in Europe. Only Albania, and not even the Former Soviet Union, was as authoritarian as was Romania. While, as described more fully in the text, this highly-central, dictatorial approach had many effects on housing investment, one striking measure is that, according to *Eurostat*, the average housing unit size was half that of EU countries and 60% of that of other transition countries.

How do these unfortunate and seemingly contradictory trends – expensive but simultaneously low quality housing – present such notable and possible widespread gains?³ And, why have the significant indirect costs of its distorted housing sector not been more widely recognized?⁴ These results are even more curious when it is noted that Romania, like all other transition economies, privatized virtually all of the nation’s housing, such that at first glance, it would appear that it has established a successful market-based housing system. However, not only did its privatization program turn the state’s housing assets over to the sitting tenants practically for “free”, as occurred throughout the region, it also produced the world’s highest private ownership of housing of over 98 percent. But, as is evident in the case of Romania even more than in other transition countries, private ownership of the housing stock was unable to realize the gains expected from a “functional” housing market.

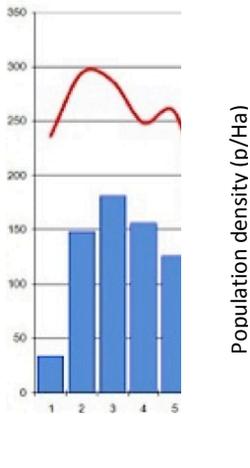
Indeed, in Romania some of the very basic gains of a housing market have not been realized. Because of the way housing was produced under the Ceausescu regime, and the currently atomized home ownership pattern, Romania lacks one of the chief advantages that a well-functioning housing market offers – the ability to consolidate and repurpose the badly-designed and misallocated housing stock.

First, consider the evidence on the country’s housing stock. Besides the policy of systematically under-investing in long-term capital such as housing in order to be able to pay off all of the country’s external debt, a major legacy of the Ceausescu regime is its share of poorly-built communist era housing which is among the highest in the region. Further, a large share of the housing stock is essentially in the wrong place. That is, the location of the housing stock within cities as well as the locations of the cities themselves were determined without reference to resource costs. For example, the distribution of population in Romania’s major cities follows what is known as the well-known a “camel hump” pattern, according to which the city periphery has a higher population density than the central business district. (See Figure 1 which contrasts Paris and Moscow.) As has been documented, this pattern significantly reduces the traditional agglomeration economies offered by cities.

³ Conditions are unfortunate in the sense that the estimates suggest that if Romania had been able to supply housing at the level provided by the “average” transition economy, rather than through its ineffective system, the amount of substandard housing would decline by 60 percent. Put another way, as shown in Figure 2, the quality of its housing stock could be afforded by a country with 16% income.

⁴ In fairness to Romanian policy-makers, measuring the significant indirect costs of housing market distortions is by no means an easy task. Recent analysis for the U.S., by Hsieh and Moretti (2015), for example, among many such studies, show that these indirect costs to the economy can exceed 10 percent of GDP. Housing markets everywhere have significant government intervention, but given that the U.S. market is much less distorted than Romania’s, this work implies that the costs imposed by the Romanian housing system are likely to be substantial.

Figure 1. Density profiles of Moscow (1992) and Paris (1990)



The density profile of Paris (in red) compared with Moscow (in blue) in distance from the central business district (along the horizontal axis).
Source: Bertaud and Renaud (1995).

The location of cities within the country may have been even more inefficient. Many mono-industry cities were built as part of the “Systemization” program by which the Ceausescu regime, rather than economic incentives, determined which locations should grow and which should be eliminated.⁵ Many of these cities are now experiencing severe population decline. Furthermore, almost all of the country’s major cities are experiencing population losses from the city centers, a pattern much like, but more severe, than the so-called “rust belt” decline of many U.S. industrial cities.⁶

The result has been a significant housing “gap”, and more inadequate and more expensive housing conditions, which almost certainly adversely affects social inclusion and economic growth. Many of Romania’s middle income households are forced to live in housing that is either too expensive to maintain, or inadequate in terms of structural safety, location, energy efficiency, space, infrastructure, or physical appeal.⁷ The poor,⁸ on the other hand, are relegated to the worst living conditions in slums and ‘ghettos,’ and have, in many ways, been neglected by public policy.

⁵ Not only was the Systematization Program based on faulty economics, it also entailed relocating minority ethnic groups out of particular locations and Romanians into those locations to dilute ethnic concentrations. See Kaplan (1996) for a discussion.

⁶ During the period of decline in U.S. cities, about one-third of the 100 largest cities experienced reductions in central city population. In Romania, in contrast, only two of its many major cities with populations larger than 50,000 did not experience such population losses.

⁷ There are many instances of buildings with extremely high vacancy rates which are located at considerable distance from the city center. These buildings are often in need of significant renovations. These households, even when of middle income level, can often not afford to pay the implicitly subsidized utilities much less the expenses of renovation.

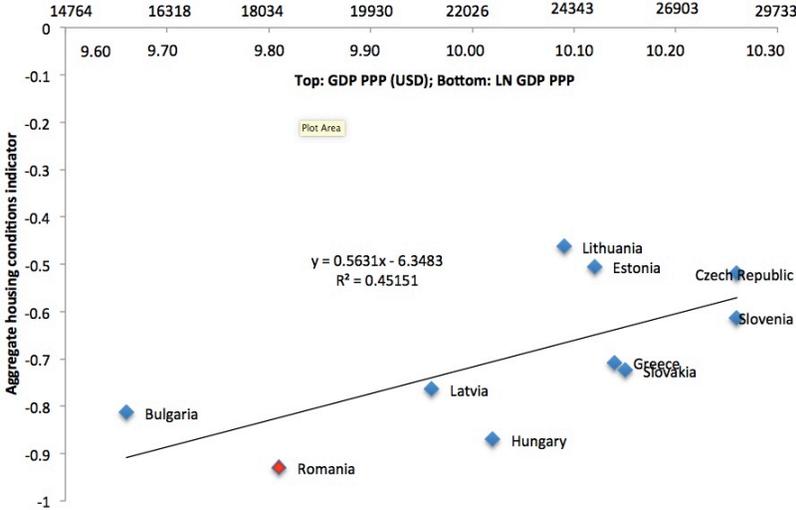
⁸ The “poor” are defined in this report as households in the 20th and lower income percentiles.

Now consider why housing reform presents such an opportunity in Romania. The country’s housing stock is governed by what has become known as an Anti-commons system. This governance system is one that was first identified in World Bank research on Russia’s housing reforms. It results in an inability to manage or repurpose the use of a common property.⁹ Relative to other transition countries, Romania has had greater difficulty in changing the stock’s use because ownership rights are more fragmented and the stock more badly allocated. The ownership rights to each building in Romania have been divided in a way that it is difficult to achieve consensus on how to maintain the fabric of the buildings in which the properties are located, much less repurpose the buildings. When these factors are combined with the country’s volatile economic performance in the 1990s and the economic crisis of 2008, it is not surprising that it has been more difficult to reform what Gorbachev’s advisors called the least efficient sector in the Former Soviet Union.¹⁰

In sum, while Romania has many of same housing problems as other transition economies, its circumstances are much more extreme and, consequently, worthy of much greater attention than that implied by the small share of government expenditures it receives. For example,

1. It is the second poorest country in the European Union, but its housing conditions, controlling for its income level are the worst in Europe.

Figure 2. Housing conditions in relation to GDP



Romania’s housing conditions (in red), as represented by an aggregate indicator on the vertical axis and per capita income PPP on the horizontal axis, are the worst of all

⁹ The notion of the tragedy of the anti-commons, is symmetrical to the well-known notion of the tragedy of the commons. Under the tragedy of the commons, goods are over-used, but under the anti-commons, goods are not managed at all and under-maintained. It was first described by Heller (1998) in the *Harvard Law Review* in an article that has been cited over 2000 times, suggesting that the problem applies to many other goods. The argument was extended by a Nobel Laureate, see Buchanan and Yoon (2000).

¹⁰ Buckley and Kalarickal, 2006.

comparator countries – that is, Romania has the lowest level on the vertical axis. In addition, because Romania's housing conditions measure is below the line that indicates average housing performance by income level of the countries included, Romanians should have better housing given their income level.

2. It is one of the world's most rapidly shrinking countries with an expected population decline of more than 15% by 2050.
3. In what is a very unusual pattern for an upper middle income country, there are more housing units than the number of households – some 8 million dwellings for 7.2 million households. The large population shifts taking place mean that many urban areas are losing population, creating a housing demand-supply imbalance, with overcrowding in some urban centers and a high incidence of vacancy in others. Romania's vacancy rate of 16% is among the highest in the world.
4. It has a rapidly deteriorating housing stock due to inadequate maintenance and management of old multifamily buildings. Also, many low and middle income households live in historic buildings or neighborhoods in dilapidated conditions, and in seismically unsafe buildings, without the financial resources to make necessary improvements. Not only do these crumbling buildings pose a danger to the public, they are a forgone opportunity for neighborhood revitalization, and a threat both to Romania's architectural heritage and the vitality of its towns.
5. Public housing constitutes less than 2% of the housing stock, and is insufficient to meet the demand, as evidenced by long waiting lists of applicants for social rental housing.
6. The atomized ownership of spatially misallocated housing restricts resource mobility to more productive locations. In the U.S., recent studies have shown that even much smaller restrictions on movement have had severe adverse effects on economic growth.
7. The rental housing market is mostly informal and unregulated, and some policies in the current market context make it impossible to repurpose structures which were located without reference to the value of the location on which they were built. This misallocation also restricts labor mobility, particularly in an environment of high unemployment.
8. The 2008-2010 global financial crisis resulted in a large drop in house prices – 50% or more in many prime locations – which bankrupted a large number of private developers. The market is still recovering from the shock and many households have suffered major losses in wealth and equity.
9. The country's major cities simultaneously face rapid sprawl and population losses, with negative implications for environmental sustainability.
10. Public housing expenditures are made through 22 different uncoordinated programs, and cumulatively the amount spent is only a fraction of the average share of GDP allocated to housing assistance in other middle income countries.

It thus follows that Romania has more to gain than most other places by undertaking reform of its housing policy. Such reforms are always politically difficult exercises, but rarely does an opportunity like this arise. Romania's housing sector has considerable potential improve living conditions, stem the rate of population decline, foster a more sustainable pattern of development, and boost macroeconomic growth. Housing policy may accordingly be revised to exploit the underlying spatial economies, as well as to provide safe, sanitary housing that is consistent with its purchasing power. If it is not, it is likely that an even greater share of Romania's dynamic young population will seek opportunities by emigrating, and that many of the country's historic neighborhoods will further deteriorate and be exposed to the kinds of seismic risk that devastated Bucharest nearly 40 years ago.

In this report, the focus is on how to make the housing market work more effectively so that housing conditions can be improved and government resources can be more effectively targeted. The

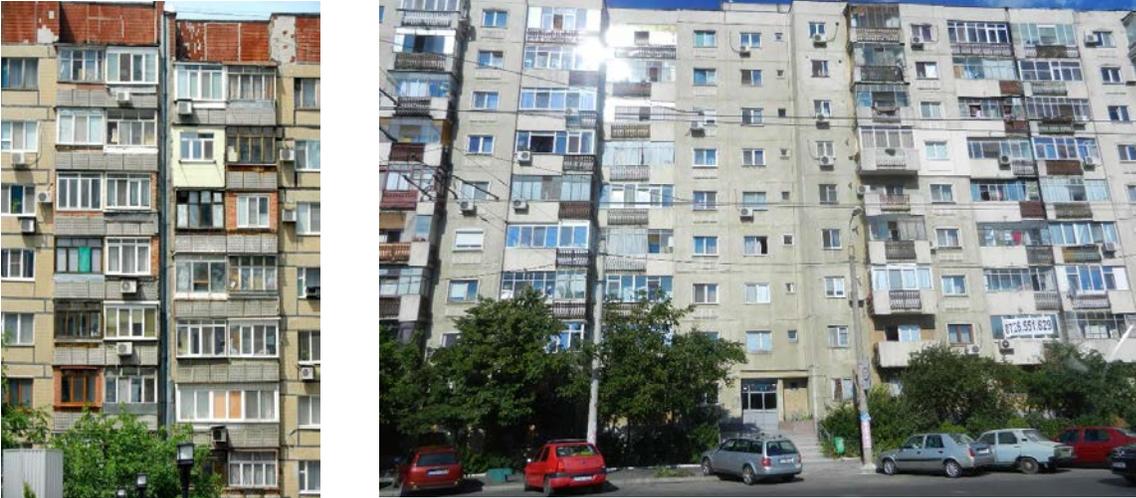
recommendations provided in this document are proposed as the key pillars of the country's forthcoming National Housing Strategy.

Romania's housing constraints

A. Deteriorating Communist era housing stock

Much of the housing stock in Romania built during the Communist period is deteriorating due to poor maintenance. Over 35% of the country's 8.5 million housing units is in a state of neglect and need urgent repairs. This significant amount of dilapidated housing includes over 10,000 pre-1980 blocks with structural, roof, and heating needs. Home Owners Associations (HOAs), legally mandated to maintain and manage these buildings, often either have limited technical or financial capacity to carry out their functions, or lack the sense of ownership or responsibility to carry out these maintenance and improvement activities. An added complication is that old multifamily buildings constitute a mix of households from various income levels, and getting consent and contributions from the homeowners is often a challenging task.

Plate 1. Deteriorated facades of communist-era multifamily buildings in Bucharest



Many historic residential buildings in Romania are also derelict due to the lack of maintenance. In some cases, the buildings have been abandoned for years, and the owners cannot be traced; in others, they are simply neglected because the out of pocket expense for repairing them is unaffordable even if the property itself is valuable; and in some extreme cases, there are reports of vandalism so that the building can be demolished and a new modern block erected.

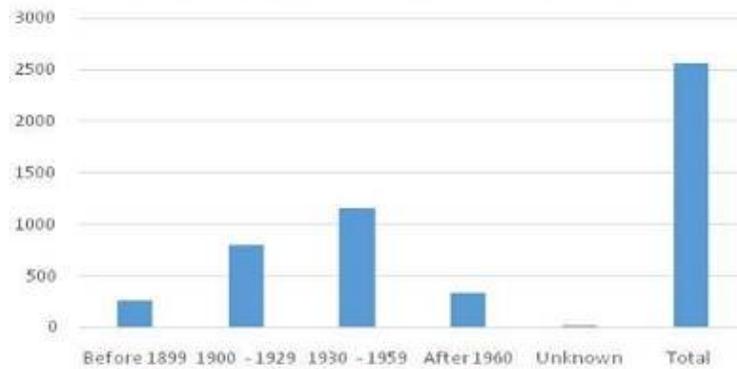
B. Seismic risk

Romania's exposure to earthquake risk is among the highest in Europe. There are an estimated 10,577 households living in 607 residential buildings rated in the Class I (highest) seismic risk category across the country. This translates into 10,577 dwelling units with serious structural deficiencies, most of which are currently occupied. Bucharest has the highest seismic risk of all capital cities in Europe, and is one of the 10 most vulnerable cities in the world. Over 60% of the country's Class I risk buildings are in

Bucharest - some 370 structures with 6,480 apartment units. The majority of dwellings in these apartment blocks are occupied.

Over 2,500 residential blocks in Bucharest are unstable (Class I through Class III risk categories) and need structural strengthening. As shown in Figure 3, many of the structurally unsound buildings were built before 1960.

Figure 3. Number of buildings in Bucharest vulnerable to earthquakes, by period of construction



Source: Paraschivoiu (2014)

The current government loan scheme for retrofitting unstable residential buildings is not proving attractive to homeowners. As a result, the majority of vulnerable buildings remain at risk.

Plate 2. Multifamily buildings in Class I of seismic risk in Bucharest



Source: Alexa Cătălin (<http://www.imagist.ro/>)

Two key problems cited for the failure of the current program on seismic retrofitting include: (i) the lack of what is called 'necessity housing' or other instruments (e.g. rental vouchers) to facilitate transitional shelter for the residents during the retrofitting period, and (ii) even when necessity housing was

available, the residents were unwilling to leave their current homes – either because they did not want to move into public housing units which they considered too small for their needs, or because they distrust the government and fear losing their houses. Finally, many either misunderstand or are willing to bear the risk or danger associated with these buildings, given that the last major earthquake happened nearly 40 years ago.

C. Inadequate housing for poor and vulnerable groups

Housing conditions for a large segment of the poor and vulnerable groups are inadequate, and government assistance falls far short of the prevailing need. Romania has the most “severe housing deprivation” in the EU-27 countries. The country’s poor and marginalized groups are often relegated to live in squalid and overcrowded conditions in slums or old ‘blocks-of-flats’ or ill-maintained social housing units with insecure tenure. These groups mostly lack proof of domicile and/or identity cards, face discrimination and exclusion, and are often the victims of social, economic, and physical exclusion. Other vulnerable groups include orphans, disabled, elderly persons, etc. many of whom do not have the means to access adequate housing without targeted assistance from the public sector.

Housing conditions vary across the different types of poor settlements in urban, peri-urban, and rural areas. Urban settlements in inner city areas are by far the worst, with extremely poor quality housing, little or no infrastructure, and high levels of unemployment and poverty.

Plate 3. Poor settlements in slums and peri-urban areas



Note: There are many different forms of settlement across cities and towns in Romania. The top two photos are of houses in inner city slums and the bottom two are houses in peri-urban areas.

D. Dysfunctional housing market

The private sector in Romania's real estate market is still reeling from the effects of the 2008 global financial crisis, and the developers who survived bankruptcy are now burdened with unsold housing inventories from 2008-10. Competition among developers is limited; many of the smaller cities and towns have practically no private sector developers. Private banks, currently holding a large number of foreclosed assets from 2008-10 on their books, have a much lower risk appetite, and have practically frozen construction lending. This, together with a host of other factors – including high construction costs, high minimum space standards, and low affordability levels – has significantly reduced the production of new housing in Romania, especially for the middle of the market.

The market for new housing construction faces several challenges, key among them being the limited range of housing options being offered in the market. The relatively high construction cost, together with the high interest rate (10-12%) for mortgage loans and relatively low income levels is a major constraint to affordability. These factors, coupled with the high space standards specified in the Housing Law, and the threshold of EUR 60,000 under the Prima Casa program (which guarantees a low interest rate), skews the 'effective demand' for housing - in terms of type, quality and size. Cumulatively, as a result, much of the housing coming into the market constitutes small 1-2 room units (50-55m²), being built largely in the suburbs of urban centers where land is available and cheap.

Further, space standards for dwelling units are currently prescribed in the Housing Law in terms of the number of square meters per person – for example, 58 m² for a one-person home (studio), 81 m² for a 2-person home (1-bedroom or 2 rooms), and 102 m² for a 3-person (2-bedroom or 3 rooms) home. With the spatial standards defining the minimum house size in relation to the number of rooms or occupants, houses with more than 2 or 3 rooms are unaffordable for most households. This constrained demand has impacted the supply which, in turn, has limited the diversity of housing products being supplied in the market.

Little data is available to gauge the size of the rental market in Romania, but unofficial figures suggest that it could be 15-20% of the housing stock in Bucharest and other major cities, and it is largely informal - without any official or enforceable contracts. This may be partially attributable to pro-tenant rental laws, and a high VAT (24%) and income tax on rental income. The very limited supply of 'formal' rental housing has high rents, making it beyond the reach of most middle and low income households. The absence of a robust rental market of course restricts labor mobility; in the case of Romania, it is also unintentionally sharply increasing the demand to purchase (rather than rent), thereby further exacerbating the owner-renter imbalance.

Sprawl negatively affects Romanian cities and the general quality of life. Rural or agricultural zones around Romania's central cities are rapidly transforming into peri-urban areas, increasing the cost of transport and other public infrastructure investments. The high cost of trunk infrastructure is passed on to the consumer through higher house prices.

Plate 3. New developments on the periphery of Bucharest



E. Inadequate legal and institutional framework

Housing laws, public programs, and institutions are inconsistent and over-lapping. The Housing Law has been amended nine times since 1996. With each successive amendment came new provisions, such that the Housing Law today constitutes a large number of disparate – and sometimes conflicting – provisions which make it difficult to comprehend or enforce. The lack of an underlying housing strategy to substantiate housing legislation has created a diverse classification of public housing – for example, Social Housing, Necessity Housing, Youth Housing – which cannot be used interchangeably to adapt to changing local needs.

Public institutions responsible in one way or another for housing – Ministry of Regional Development and Public Administration (MRDPA), National Housing Agency (NHA), Ministry of Labor, Ministry of Finance, local authorities – operate as disparate entities. Public programs in the housing sector are deeply fragmented: there are some 22 government programs under the purview of multiple agencies, without almost no coordination or monitoring, or for that matter, adequate budget allocations. NHA gets state budget funds to build public housing – for the youth, for example – with the local authority providing the underlying serviced land. Local authorities have to raise their own funds to build and operate social housing and necessity housing, which is expensive to do and a net drain on their finances, and hence rarely prioritized. Ministry of Finance and Ministry of Labor provide other types of financial support, but their priorities are not aligned with those of the MRDPA or NHA.

Evidence-based policy and meaningful budget allocation requires access to reliable data on sale prices, rents, unit size, number of sales transactions, construction costs, construction pipeline, vacancies, locations of vulnerable groups (e.g. the elderly, orphans, disabled persons) and so on. Data on Romania's housing markets is severely lacking, and there is little to no data available on publicly funded housing at the national or the local level. This makes it impossible to do a meaningful diagnostic or draw future projections in the sector.

The stock of publicly owned buildings in Romania is not being utilized to its highest potential. One reason for this is that there is no comprehensive inventory of these buildings, as a result of which it is not clear how asset-rich or asset-poor a local authority may be. The other reason is the lack of capacity at both the central and local levels to assess the full potential of these assets and assign uses accordingly. Also, some of the residential stock, particularly in Bucharest, is of high heritage value and is located in prime areas of central Bucharest. Much of it is underutilized, and many buildings still lie vacant and derelict. Due to low/ no revenue generation in their current use, it is difficult to do any rehabilitation work in these buildings, and vice-versa.

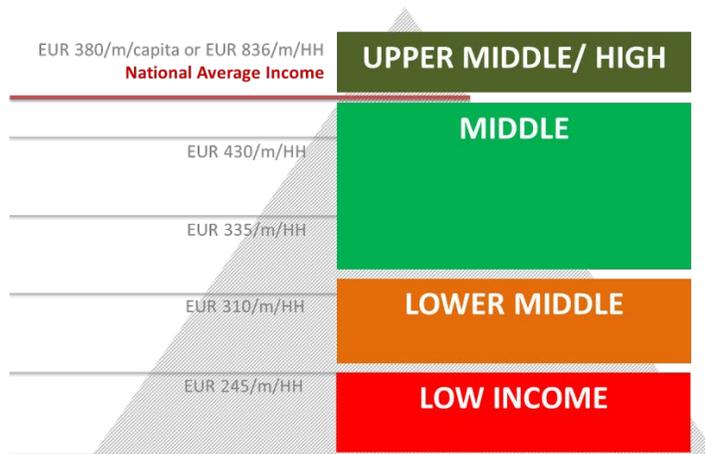
F. Poorly targeted government assistance in housing

The country's public housing stock is inadequate, both in terms of quantity and quality. Less than 2% of housing in Romania is publicly owned, and since 1990, less than 10% of new housing has been built using public funds. The little public housing that does exist is split into several administrative categories, which often makes the allocation of limited stock based on local need impossible.

Public sector housing subsidies are far too over-reaching to be effective. Local governments are required to provide social housing for individuals earning below the National Average Monthly Net Income of RON 1,866 (EUR 380) per capita, an income threshold mandated by the Housing Law, which also applies

to most other public housing programs. Based on this income threshold, almost everyone except the richest 7-8% of the income distribution is eligible apply for social housing.¹¹ The tendency of government housing programs to favor higher income individuals is even more explicit in Land Lots for Youth Program, which awards higher eligibility “points” to applicants with higher incomes. Finally, the Housing Law refers to low income persons, but does not explicitly include socially marginalized or physically challenged persons.

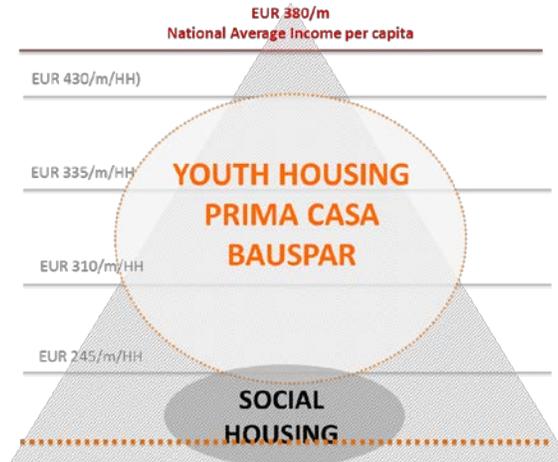
Figure 4. Income breakdown: Illustrative categories



Perhaps because the housing market operates inefficiently, the bulk of housing subsidies and government programs in Romania end up going to middle-income households as opposed to the poorest 20-30% of households who need it most. In general, international experience suggests that it is difficult to target resources to the poor when the typical family faces the sort of difficulties that are common in Romania. The three largest government programs in housing include the Youth Housing program (with an investment of EUR 224 million to date), the Prima Casa loan guarantee (EUR 4 billion since 2009 to date), and the BauSpar subsidy (EUR 188 million to date), none of which provide much benefit to poor households. While the Social Housing program and a range of other programs are intended for the poor, they have faced major challenges in terms of budget allocations and implementation. This is demonstrated by the fact that the total budget allocation for the Social Housing Program over a 10 year period (EUR 55 million from 2005-2014) is only 20% more than the budget allocation for the BauSpar subsidy for a single year (EUR 45 million for 2015).

Figure 5. Poorly targeted government programs address mainly middle-income households

¹¹ According to the Household Budget Survey of 2012, individual income for the first income decile is RON 0-281 (EUR 0-63) and RON 1201-10740 (EUR 270-2,416) for the 10th income decile.



Furthermore, individuals purchasing private houses within a certain price range (less than EUR 86,000 or RON 380,000)¹² are offered a VAT subsidy – they pay 5% VAT payment compared to the regular VAT of 24%. Although data on this program is not available, it appears that there is no income eligibility criteria. In other words, this program loses potentially substantial government revenue by way of untargeted subsidies to individuals who do not necessarily need them.

Local authorities have the responsibility to provide social housing, but have neither the technical capacity nor the financial means to undertake such projects. This lack of capacity is coupled with the fact that social housing as it currently stands is essentially a “loss-maker” for local authorities, as a result of which they have no incentive to build or maintain or increase their social housing stock.

Another problem with social housing is the way it is allocated to beneficiaries. Local authorities establish the eligibility criteria for social housing at the local level, which may include: # HH members, education level, income, etc. Preference is usually given to those with the ability to pay for utilities, which are already subsidized by lower prices. This rationing excludes the very poorest by design. The discretionary power of the local authorities to decide who can occupy these units, and for how long, has too much potential to be misused. For example, there are reports of lease terms being as low as 3 months, so that a delinquent tenant can effectively be “evicted” by not renewing the lease rather than through judicial proceedings which are costly and time-consuming. This means that all tenants – including the law abiding ones – have to renew their leases every 3 months, which is not just a hassle, but also creates insecurity of tenure and disempowers the poorest even further.

Plate 4. Social housing in Romania



Left: Social housing block
Middle: mold on the walls and ceiling of a social housing unit
Right: bathroom with poor light and no running water in a social housing building

The Youth Housing program, on the other hand, is intended for people younger than 35 years, and is not income-targeted. The government has invested EUR 49M into this program between 2005-14, and in June 2015, another new financial injection of EUR 175,000,000 was approved by the Council of Europe Development Bank to build 6,990 housing units over the next 7-8 years. Implemented by NHA, the implicit subsidy embedded in Youth Housing rental units includes land and services provided free of charge by the local authority, and below-market rents with no term limit for occupancy, which is a disincentive for tenants to move out – particularly in cities where the price differential is high. Further, the current policy to sell this rental stock to sitting tenants will further dissolve an important public asset and subsidize a group irrespective of need.

Plate 5. Youth housing units



Another program targeted to young people is the Land Lots for Youth program in which plots of land are allocated to beneficiaries, ranging from 150-300 m² in cities, 250-400 m² in towns, and 250-1,000 m² in rural areas. Not only are these relatively large plots of land essentially given out for free to individuals who do not necessarily need them, they also are an inefficient use of limited public land reserves.

Massive investment is on-going to improve the energy efficiency of residential buildings. The program on thermal insulation is among the most active government-supported programs in housing, and the speed at which this program is being implemented deserves commendation. However, the focus of these programs is too narrow, and the quality of work has considerable scope for improvement. Moreover, even though legally mandated to do so under GEO 18/2009, this program is not adequately tapping into the potentially huge opportunity to simultaneously improve common areas and undertake structural seismic retrofitting on the vast stock of old housing. Another problem is the program's "top-down" implementation: massive subsidies from the central and local governments essentially direct the implementation, and in most cases, HOAs play a peripheral role in decision-making or monitoring of construction or on quality control. This approach effectively perpetuates the old culture of centralized planning where all major decisions were taken on the top, leaving people with very little sense of ownership or responsibility, and reinforcing an "entitlement" culture.

Plate 6. Thermal insulation in multifamily buildings



Left: A large multifamily housing complex in Bucharest that benefited from the government’s thermal insulation program. Right: the external face of a ‘ghetto’ occupied by poor people, where one of the residents thermos-insulated his own unit.

Towards a National Housing Strategy

Within an overarching goal **to make adequate housing attainable to all income groups by 2030**, this report provides recommendations to address the gaps in Romania’s housing sector, and establish the foundations for Romania’s forthcoming National Housing Strategy.

Box 1. Definition of Adequate Housing

“Adequate Housing” is defined in this report as one that offers:

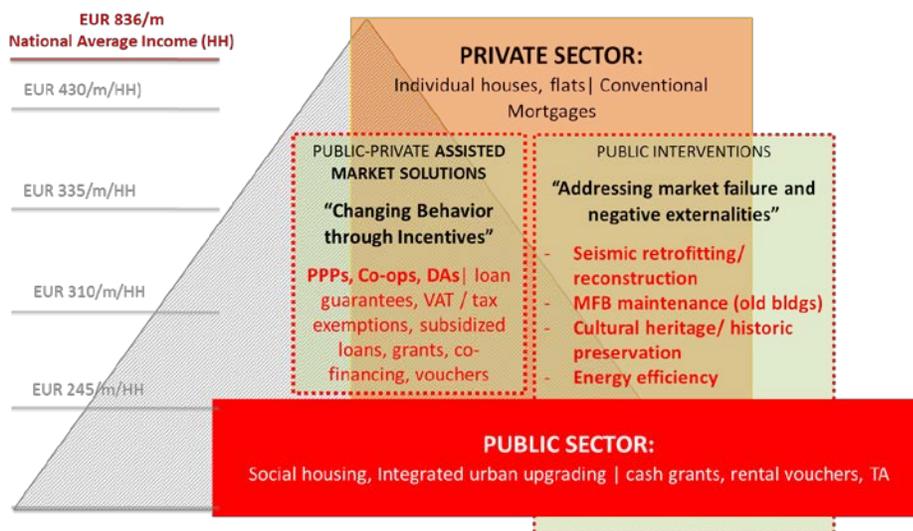
- Security of tenure and protection against forced evictions
- Safety in terms of structural stability
- Equal and non-discriminatory access to housing for disadvantaged or marginalized communities
- Affordability: Eurostat defines a household to be financially ‘overburdened’ when total housing + utility costs exceed 40% of net income.
- Availability of services
- Habitability: Appropriate dwelling units usable by special needs communities such as the elderly, nonconventional family types, etc.
- Suitability of location: Access to job opportunities, and workforce mobility.

As illustrated in Figure 6, a basic principle of the Strategy should be to aim for a ‘functional’ housing market, in which:

- The public sector plays a key role in providing direct housing assistance to the poorest and most vulnerable groups;

- The public sector actively intervenes in specific themes or sectors facing market failure or negative externalities;
- The public sector creates incentives to change behavior and leverage private investments for affordable housing through “assisted” market solutions; and
- The private sector is enabled to serve the housing needs of middle and upper income groups.

Figure 6. Functional housing market: Proposed roles of the public and private sectors



This section outlines the key recommendations for Romania’s housing sector, starting with the priority areas, i.e. “what” needs to be done, which includes seismic retrofitting of residential buildings, improving the old housing stock, prioritizing assistance and targeting government resources to the poor and vulnerable, and leveraging the private sector for affordable housing delivery. This is followed by “how” this can be achieved in terms of the legal framework, the institutions, and financing for housing.

THE WHATs...

A. Urgently initiate seismic retrofitting of structurally unsafe residential buildings

Financial and technical assistance should be prioritized for seismic retrofits of structurally unsafe buildings. Funding for this program could be through a direct central budget allocation channeled through the proposed National Housing Fund (NHF), discussed later in the section.

- **Develop a Seismic Risk Mitigation Plan for all residential buildings categorized structurally unsafe**
First and foremost, a mitigation plan needs to be developed for seismic risk mitigation in residential buildings. This plan should essentially outline a range of approaches that could be used under the different scenarios – for example, historic/ non-historic buildings, level of risk severity etc. – together with a participatory process to engage with resident communities to create awareness and ease the process of relocation.

- **Provide transitional accommodation for residents during retrofitting as well as prevent occupation of dangerous buildings**

The urgent need for seismic retrofitting will also require a plan to ensure that residents temporarily move out of dangerous buildings into transitional shelter. This shelter will need to be provided by the state. Since it will take some years to build up an adequate stock of public housing that can be used for this purpose (Necessity Housing), other alternatives may be considered in the interim: the government might consider offering other more flexible incentives to households to vacate the premises so that improvements can be undertaken - for example, rental vouchers to the households temporarily displaced by the retrofitting, with special assistance focused on the most vulnerable groups. The voucher amount should be a progressive subsidy that targets those most in need.¹³ Importantly, besides providing alternatives to their current location, it should also be required that unsafe buildings no longer be occupied.

- **Implement structural retrofits**

Once the buildings are vacated, they will need to be retrofitted or demolished and reconstructed – based on a thorough technical analysis. Financing for such retrofitting would largely come from the government, with a small-co-financing element from the resident households, depending on their income levels and the value of the property. The subsidy can be progressive – for example, the co-financing requirement for households in the lowest 30 income percentile could be zero, while those in the top 30 income percentile could be required to contribute up to 30-40% of the cost of repairs. The resident household’s contribution could take the form of an interest-free loan (as is the case under the current seismic retrofitting program). For properties with commercial or other monetary potential, the private sector may be encouraged to participate through incentives such as tax breaks, placing liens on valuable but risk-exposed property, etc. The construction of additional public housing (to be used as Necessity Housing), as needed, might be executed by the NHA, based on its experience in undertaking large-scale housing projects.

B. Prioritize improvement of old housing and neighborhoods

- **Improve the quality of Communist period housing**

There is lack of awareness among the public regarding the law which requires HOAs to maintain the common areas of their buildings. Moreover, in principle, such associations should spontaneously emerge so that occupants do not have to experience excessively rapidly depreciation and general lack of maintenance. The fact that they do not emerge is the result of the partial nature of the housing privatization program and the difficulties of coordinating such programs in buildings with many occupants. The law and the obligations of the occupants needs to be spelled out more clearly and disseminated more widely. Owners need to be induced to take responsibility for the common areas in buildings.

Enforcement is also key, because at present the lack of maintenance and upkeep is causing a significant part of the nation’s wealth to depreciate rapidly or remain in highly suboptimal locations. It is critical that the obligations that correspond to ownership rights be clearly put in practice. At the same time, it is

¹³ For example, 100% of established standardized market rent for households in the bottom 30 income percentile; 90% for households in the 31-50 income percentile; 80% for the 51-75 income percentile and so on.

important to provide the necessary support to HOAs – and more specifically to poorer households who are members of these HOAs – to ensure that the cost of repairs is manageable. To this effect, partial grants or co-financing covering a significant portion of the cost of repairs may be given to HOAs that meet certain eligibility criteria, and this could be done from a window under the proposed National Housing Fund (NHF, described under section G). 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 which is guaranteed by the NHF. Additional grants may be given to the poor households – also through the NHF – 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.

- **Improve the quality of historic buildings and neighborhoods**

The NHF could provide financial assistance to owners of historic residential buildings/ dwellings – both HOAs and individual households – to undertake improvements of these structures. As for the case of non-historic buildings described above, this could take the form of a grant, or a loan with a large co-financing element because, as mentioned, the cost burden may often be too high for individuals or HOAs to bear, and the improvement of such buildings is in the larger public interest. The financial assistance would be most effective if linked to a technical assistance component.

- **Link energy efficiency (EE) / thermal insulation program with more general building improvement**

Repairs of common areas in multifamily buildings should ideally also be tied to measures for improving energy efficiency as well as seismic/ structural safety. The massive financing being made available for EE measures offers a significant opportunity to instill a culture of building maintenance more generally. The EE program offers the largest pot of money for the housing sector in Romania, and may be used a means to foster this sense of ownership and responsibility– this support for creating interested participants is essential and will be cost-effective and sustainable in the long term.

C. Prioritize housing assistance to the poor and vulnerable

- **Provide security of tenure and protection from illegal evictions**

There is a need to accelerate land tenure programs, especially in poorer neighborhoods - possibly by introducing alternative land tenure instruments – e.g. renewable occupancy permits until the time they receive a legal title. It would be advisable to subject all evictions to checks and balances to determine whether it is justified; appropriate legislation needs to be developed to this effect. Legislation should also be developed to allow NGOs to represent a community in the case of forced evictions.

- **Use a customized approach and expand the menu of options**

A one-size-fits-all approach can often fail to target the poor and vulnerable. The government could consider expanding public sector housing assistance beyond ‘social housing’ to include a menu of options that are not just more appropriate for the recipient households and their lifestyles, but also more value-for-money for the government, more equitable, and more sustainable. A range of housing-related interventions – such as in-situ infrastructure upgrading, site-and-services, subsidized rental housing – may be considered for poor and marginalized communities, linked with finance, community participation, and income generation.

- **Improve targeting of subsidies for EE programs**

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. Similarly, special ‘allowances’ funded by the state may be awarded to lower-income households in

private buildings who are ‘forced’ to participate in insulation programs because a 2/3rd majority has been reached in the vote to participate in the thermal insulation programs.

- **Apply a participatory approach to housing**

All housing programs should consider adopting two basic elements: (i) Emphasis on ‘process’, not only ‘product’, with a systematic, sustained and structured engagement with the communities to identify the appropriate interventions and to build ownership; and (ii) Encourage inclusive developments, and retain the social fabric, especially in the case of the poorest and most vulnerable households.

- **Designate “Improvement Areas”**

For certain segments of the population, the goal of meeting current building standards will take time to realize. Meanwhile, their priorities may place a higher value on space than, for example, services. It is, therefore, recommended to permit building to alternative, lower standards in such cases. This can be done by designating “Improvement Areas”, within which different standards are applied. Such regulations should ensure compliance with the ‘hard’ components (standards for structural stability, day lighting and ventilation, basic sanitation) but be flexible in terms of the ‘soft’ components (e.g. building materials, finishes of walls, doors/windows, roof etc.), which can be upgraded over time.

- **Factor in utility expenses in housing subsidy calculations**

The current subsidy on social rental housing mandating that the rent not exceed 10% of household income is not appropriate for households in the lowest three income deciles – because utility costs make housing unaffordable. For these households, a subsidy ensuring that the household does not pay more than 10-15% of income on the housing *and* utility bills combined would make housing more affordable. Also, the problem of incoming tenants of social housing ‘inheriting’ the debt of previous occupants may be rectified by changing the law to make the debt and the account linked to the person, *not* the property.

- **Include a separate program for vulnerable groups such as the elderly and disabled**

The Housing Law specifically defines disabled persons for state assistance, and the disabled and elderly are identified as vulnerable groups targeted by the Law on Combating Marginalization through Housing. However, public support in terms of providing adequate housing for these special groups has been limited thus far. They will require specific investments and programs in line with European Standards, such as improving accessibility for those who are disabled or have with limited mobility, and mandating special features for the elderly.

D. Improve the social housing program

- **Make social housing financially viable for local authorities**

Current policy for social housing subsidizes the rent payable by setting it at 10% of the family income, irrespective of the cost of the dwelling. This level is much lower than the share used in wealthier countries which often require a contribution level of 30%. The low level means that buildings designed for social housing will always be a net drain on the finances of the local authority, which is a significant disincentive for them to develop more units for this purpose. While 30% may be too high, 10% is almost certainly too low a figure – especially for households in the 40-50th income percentile. What would be more appropriate is a policy that subsidizes the family and not the house, and could help reverse the disincentive: Setting the rents at a level that recovers more of the costs of the development, day-to-day maintenance, and management costs would also be more sustainable. Funds from the national government could make up the difference for poor tenants with income insufficient to pay the rent.

- **Revise criteria for social housing allocations**

Criteria established by local authorities that give priority to those with education or on the basis of home domicile hurt the poor and vulnerable who typically lack education and often do not have the necessary (residency) registration papers. It is important to streamline these criteria, and to mandate that allocation of social housing be done on the basis of transparent and published criteria.

- **Narrow the income eligibility band**

Eligibility based on the 'average' income skews due to outliers. As mentioned earlier, currently, households with incomes that place them higher in the income distribution than the top 10th of the population are "income" eligible for social housing and other housing subsidies. In most economies, only the bottom 2 or 3 income deciles are eligible for subsidies, but this should be reviewed in light of incomes and housing costs in Romania. A more targeted eligibility threshold is the 'median' net monthly income (50th income percentile). Subsidies should be targeted at those most in need, with much stricter criteria applied through a regular review of incomes, and other means tests.

E. Facilitate the production of affordable housing by the private sector

- **Incentivize and leverage private funds for 'affordable' housing, both private and public**

Affordable housing could be encouraged by local authorities offering Public Private Partnerships (PPPs) and Development Agreements (DAs) for the delivery of private 'affordable' housing, and even public housing. This public housing may then be used as 'social housing' or 'necessity housing' – similar in concept to NHA's youth housing, but built with private investment and centered on more with a more demand-responsive approach. In addition, local authorities are well-positioned to actively upgrade and refurbish existing public buildings for use as public housing (or other uses) through PPPs and DAs. This can start with creating a comprehensive inventory of relevant public assets (buildings) to be converted into social housing. Local authorities may obtain loans or grants (or a combination thereof) to pay for the above options through a financing window under the proposed NHF.

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. Housing Cooperatives can serve the function of a developer or a registered social landlord. As a developer they are well-placed to 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. Sometimes, these organizations develop only for rent. They might develop only for rent of their members, or may build for a wider public, including social housing, thus taking the management burden from the public sector.

- **Review and reform the Prima Casa guarantee program**

The Prima Casa program may serve its purpose better through improved targeting to lower income creditworthy homebuyers who would otherwise not be able to get a mortgage loan in the market. One way to do this is to limit the span of eligibility to lower middle income households (say, people in the 30th to 50th income percentile), and at the same time, removing the house price threshold – which, as it currently stands, is not only a "free-for-all" subsidy, which is inefficient, it is also having a distortionary effect on the market.

- **Review and reform the rental housing policy**

The lack of formal rental housing and the growth of the ‘grey’ rental market in Romania is a major deterrent to labor mobility. It causes difficulties for new families, and inflates the rents of the limited stock available. While there is little available data for the rental market, sector expertise indicates that the policies pertaining to rental housing need to be reformed. Several measures may be considered to this effect, for example, removing tax disincentives for rental housing, reforming the rental policy which currently leans in favor of the tenant, and introducing a landlord-tenant dispute resolution mechanism.

THE HOWs...

F. Legal Framework

▪ **Introduce a new Housing Law**

While it is the case that the Housing Law has been revised with an excessive frequency, the current Housing Law needs to be nevertheless replaced by something that establishes a more general framework. The new law will need to clarify the obligations of homeownership that correspond to the rights that have been distributed. Without this clarification it is unlikely that HOAs will take on the role of maintaining and improving the housing stock. The new Law would also refine income eligibility criteria for social housing and other public housing programs in a more general way, while simultaneously establishing more appropriate and lower housing standards, and refining the role of the NHA. Among other things, the new law will need to mandate that public money be used to assist either those who have insufficient income to meet their housing needs, with priority for those most in need, i.e. the poorest 20% to 30% of the population, or those – such as emerging HOAs, or the elderly in seismically risky housing – who with minor assistance can undertake high social return activities. For greatest effectiveness this latter step should be accompanied by the establishment of a National Housing Fund (described under ‘G’ below). Whether that Fund should be defined in the new Housing Law, or as a separate legislation is a matter of legislative efficacy. However, it should be emphasized that the governing regulations for an effective Housing Fund are themselves complex.

▪ **Introduce a legal framework that proscribes living in unsafe structures**

It will be important for the new Housing Law to ensure that families currently at risk are not left at risk. This means clearly stating under the new Law that unsafe structures be vacated, and tied with a clause that ensures adequate support from the government to the affected households, both in terms of temporary resettlement – either in the form of government provided public housing or in the form of cash vouchers with which the households can access private housing for rent. The law should also require that unsafe buildings – historic or non-historic – that have been lying vacant for more than a certain period of time (say, 2 or 3 years) be compulsorily acquired by the government (or local authorities), and retrofitted or torn down.

▪ **Consolidate the various categories of “public housing”**

The current distinction between “social housing” and other housing built or managed by the public sector needs to be reconsidered such that all housing provided by the state, for whatever purpose, is designated public housing. Families lacking the means to pay the economic rent and utility costs of such housing (for example, those who are currently eligible for “social housing”) could be given income support. This move will achieve three important objectives: make it economically viable for Local Councils to erect and manage public housing; make public housing supply more responsive to the

prevailing demand – for example, any single public housing unit could serve as a ‘necessity’ house or a ‘social’ house or housing for any other special group; and prevent social housing from becoming socially damaging ghettos where only poor people reside.

▪ **Improve space and building standards for dwellings**

The current standards as prescribed under the Housing Law legislate on the size of house required by a specific number of occupants. This is unrealistic in two senses: firstly because family size changes from year to year, and secondly, because it prevents families from making spatial adjustments in order to achieve other economic objectives. It is advisable that such a standard be omitted from the Housing Law. Regarding building and space standards more generally, the existing regulations regarding minimum room sizes, window sizes, ventilation, sanitation etc. may be retained. However, alternative building, planning and sanitation regulations will be required for areas designated as informal settlements or incremental/self-build housing.

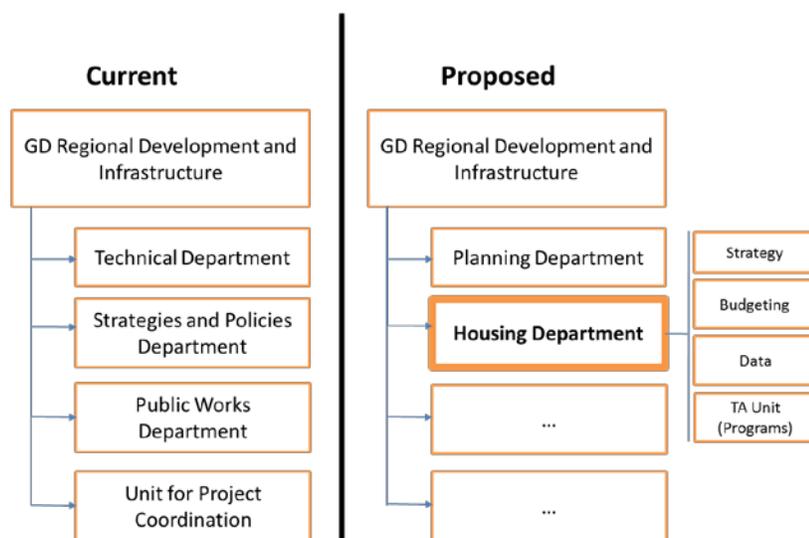
G. Institutions

▪ **Strengthen the Housing department and its mandate at the national level**

At present, MRDPA has a duty to prepare the national level budgets for the programs implemented by the government for housing, and play an advocacy role to justify the maximum possible allocations. However, there is little recognition of the broader effects that a more proactive housing policy could have on economic growth and social inclusion. The spatial legacy of the communist era construction has an extraordinary effect on the nation’s potential. In order to address these problems will require resources and greater policy attention.

Ultimately, of course, MRDPA will need to ensure that the funds benefit the more needy sections of the population, and are properly accounted for. MRDPA’s coordination role among the various public and private stakeholders needs to be strengthened, including maintaining a consolidated housing database. A housing department at the General Directorate (GD) level is proposed that would have responsibility for programs in energy efficiency, HOAs and maintenance, accessing finance, monitoring, evaluation, and data collection. Such a strengthened housing department can provide training to specialists at the county level, who can then provide support to local authorities in energy efficiency standards and procurement, social housing, asset management, housing finance, and other key areas.

Figure 7. Current and proposed institutional structure for Housing Department at the central level



- **Clearly define and strengthen the role of local councils**

The current policy requires the local council to construct social dwellings instead of providing incentives for them to refurbish existing public buildings for residential use. The refurbishing of existing public buildings into social housing is allowed by the Housing Law; however, it is not effectively implemented – for example, conversion from other uses to residential use may not always be properly done, or the sanitation and other underlying infrastructure may be inadequate. Local councils are, in principle, well-suited to provide serviced land and need to engage in PPPs with HOAs, Housing Cooperatives, and private sector developers to provide social housing, but their technical and financial capacity in the housing sector needs to be improved. It is recommended that county councils take a stronger lead in identifying housing need and coordinating local councils' five year housing plans, while local councils be assisted to access funds and technical assistance in developing public housing.

- **Reform the role of the National Housing Agency**

Public institutions in the housing sector would benefit from a reform process so that they are positioned to serve as 'enablers' of an efficient housing system, rather than 'providers' of housing (especially housing targeted to the non-poor). In particular, the role of the National Housing Agency (NHA) requires reconfiguration: from a constructor of Youth Housing to an overseer of the construction of Necessity Housing (to temporarily accommodate residents of these risky buildings undergoing retrofitting), and as a leader in seismic retrofitting projects.

The NHA could also play a role in public sector programs for which local authorities lack the skills to design or implement, in which cases it would be appropriate for the NHA to step in. The NHA may establish a division that serves as a technical assistance arm for Local Councils. This division would include architects, financial analysts, engineers, urban planners and community development/ social workers, and would take the lead in designing and implementing such programs, or in advising and training local staff in that field.

H. Finance

- **Establish a National Housing Fund**

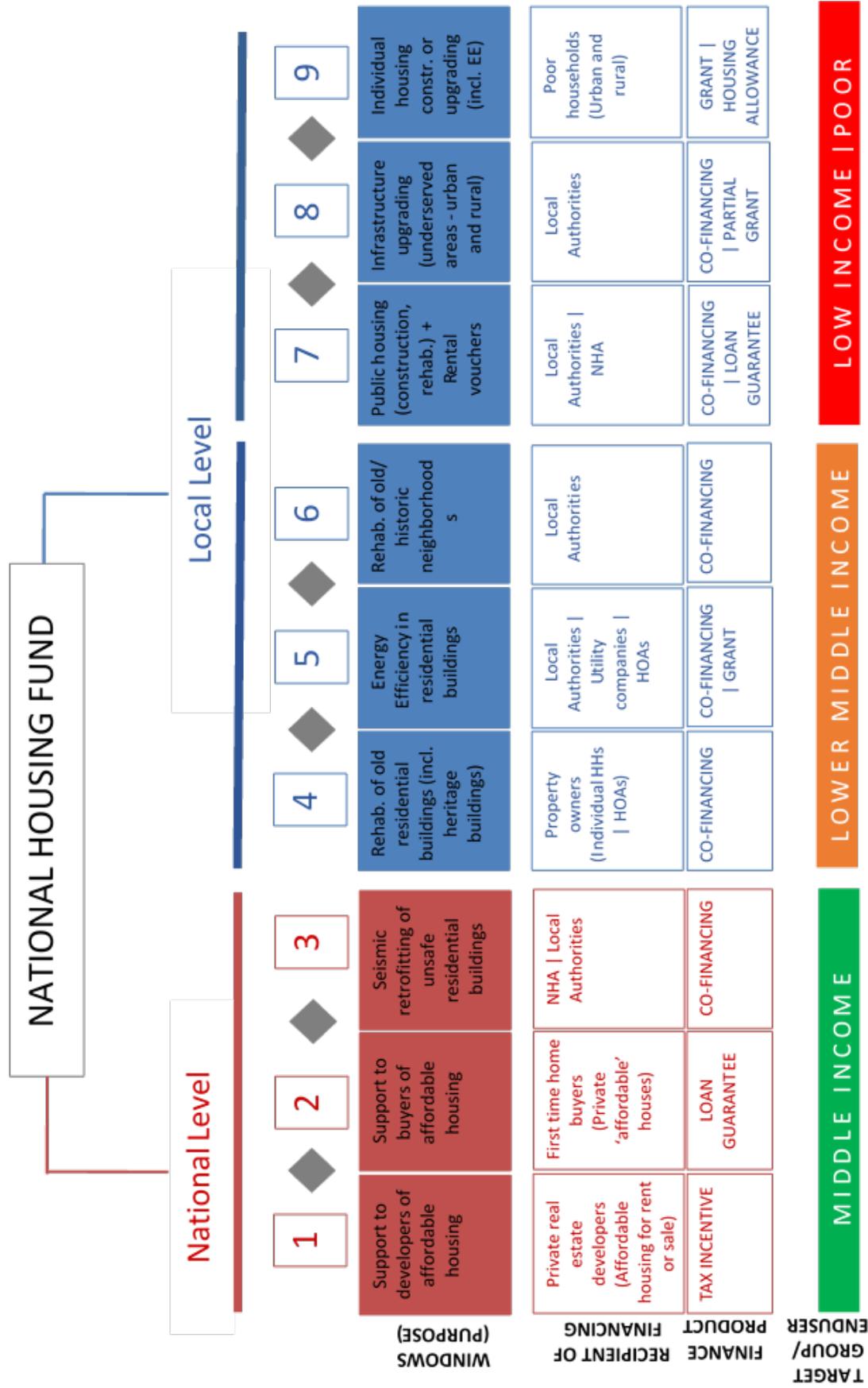
A potential solution to some of Romania's blockages in the production of affordable housing could be the establishment of a dedicated National Housing Fund (NHF). The Fund would be a centralized source of government support for developing the affordable housing market through targeted financial support. The Fund could consist of several specific funding windows accessible by both private and public sectors. It could serve to consolidate the existing labyrinth of programs into a more coherent, consistent public role. The overall objective is to increase the availability of good quality, energy efficient, affordable housing while providing it in a transparent, efficient way. This could be for rental housing, or for affordable homeownership, or for improvement of residential buildings or neighborhoods. The Fund would support both new housing and rehabilitation of existing housing stock.

The NHF could have a social function and, as such, would require public funds. However, if it is to successfully develop a multi-year long-term investment strategy for housing, it needs independence from the political process and stable funding sources. A major objective of such a fund would be that current, poorly-targeted and highly expensive subsidies would be retargeted to encourage the greatest output for public expenditures. That is, the expenditures would be designed to leverage other resources

– e.g., beneficiary contributions and private finance – as well as minimize the government taking on responsibilities and/or risks in ways in which it does not have comparative advantage.

The Fund would be managed at the national level, but would have a strong regional presence also as the key link with local authorities that serve as the main delivery point for social housing at present. Some windows under the proposed Fund would be run as national schemes; others would be run as local schemes under local authorities, and administered through private banks serving as financial intermediaries for these housing finance products. Local authorities might also provide a contribution or co-financing (<10%), with the bulk of the financing coming from the Fund.

Figure 8. Proposed National Housing Fund



- **Redirect existing funds/ subsidies**

Youth Housing program. The Youth Housing program has been successful in terms of scale (approximately 30,000 units delivered to date) and is a good tool to attract youth to growing cities, in principle. However, the massive per unit public expenditure involved in the construction of new housing for the non-poor is a questionable use of limited government resources: it channels scarce public resources away from people who most need the assistance. While providing housing for Romania's youth in urban centers is a valid policy objective, the currently programs are not necessarily achieving this objectives. At the same time, poor households who are left out of the public assistance agenda will not be able to contribute to the economy without targeted assistance from the government, a foregone opportunity that outweighs any economic windfall represented by the current Youth Housing.

Abolishing this program should first take the form of ceasing construction of new Youth Housing, and stopping the sale of Youth Housing. Selling these units effectively removes stock from the already too small pool of public sector housing, while continuing to rent them for extended contracts means that the same residents benefit from the subsidy year after year. These should be retained as rental housing stock to be used as one or more of the following: (i) revenue generating assets with market-price rents that can help cross-subsidize the cost of existing social housing or raise funds to construct new social housing; (ii) rental housing targeted to lower income households who can pay the current rents; (iii) housing for the youth 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 residents of buildings undergoing seismic retrofitting.

BauSpar subsidy. The BauSpar (saving-for-housing) product offered by two leading banks has been relatively successful in inducing people to register accounts eligible for the subsidies, with over 300,000 savers between two private banks in 2015. However, it is not having its intended impact of expanding housing loans: only 5% of savers are exercising the option to take out a housing loan after the 'saving' period elapses. Also, the subsidy element of this program is not well-targeted: anyone can apply for a BauSpar product and benefit from the subsidy of EUR 250 per customer annually. Many of the accounts probably would have existed without the subsidy. From 2005 to 2015 the programs budget has exceeded RON 841,590,738, representing an average government liability of RON 84,159,074 annually for the last ten years. This program could be better designed to target the savings subsidy for home improvement and mortgage loans to those earning below the national median income. The remaining subsidy could thereby be re-allocated towards a small home improvement loan guarantee program, which would be accessible through all banking institutions rather than just the two currently administering the BauSpar program.

VAT subsidy. The VAT subsidy for purchase of houses would be much more effective if targeted by income level, for instance to people earning below the national median income. The additional revenue thus generated (from otherwise "lost" VAT) could be allocated to other priority areas discussed in this report, including public housing and seismic retrofitting.

- **Better utilize public buildings to their full potential: Asset Management Strategy**

One of the most useful ways to raise revenue for housing programs is through a more efficient use of existing public buildings. First and foremost, an inventory of all publicly owned buildings is needed, at the central and local levels – including the youth housing stock, heritage buildings, social housing, and any other vacant or derelict public buildings. Once this is done, an Asset Management Strategy should be developed, to help public authorities determine the best use of these assets. Some of these –

particularly the historic buildings (owned or acquired because they were lying vacant for an extended period of time, as suggested above) – might be revenue generating assets that could potentially finance some of the subsidy programs in the housing sector, including public housing.

Concluding Remarks

As an upper middle income country and EU member, Romania faces the challenges of developing the sorts of institutions needed to complete its movement to a market-based democracy. It has made incredible progress in establishing democratic institutions and overcoming the legacy of what, according to standard measures of governance performance, was the second most repressive governance system among transition economies. It has made similar progress in improving economic conditions, converging quickly with the income levels of its European Union neighbors. However, it is hard to describe its housing market as one which contributes to this fuller integration into the world economy. It restricts mobility and opportunity and does not allow resources to flow to those places where they can be most productive. Furthermore, given the fragmented way public expenditures are made, it does not appear that the urgency for reform is recognized. Improving the functioning of Romania's public role in the housing sector could significantly improve conditions at relatively low costs, and these improvements would not only make housing more affordable and of better quality, they would rebound to the broader economy as well.

Structure of the Report

This report constitutes two main Parts, A and B.

Part A presents the Situation Analysis, which includes a broad assessment of the housing sector in Romania. Sections II through VII address key themes in the Romanian housing sector.

Part B provides the foundations of a National Housing Strategy for Romania based on the thematic areas listed above. Section VIII provides the key findings of this housing diagnostic. Section IX lays out in detail the key recommendations, including policy measures and actions to be taken to reform Romania's housing sector.

As evident from the length of this document, it is a very detailed assessment of the country's housing sector. Such an assessment necessarily includes discussion of topics ranging from housing maintenance to finance to local government responsibilities to seismic risk exposure. It is, as a result, necessarily quite detailed and even nuanced. For ease of reading, and in order to more easily comprehend the wide range of issues, the authors have attempted to present the key messages and overall assessment of the sector in the Executive Summary. Part B, on the other hand, provides the Key Findings and Recommendations in Sections VIII and IX, respectively, and spells out the issues and the proposed reforms in more detail. Thus, for an overall assessment, the reader is advised to pay greater attention to the Executive Summary; and for more details on specific measures, the chapters which correspond to the particular sub-topic may be referred to in Part A.

Two other reports are also included in the overall package:

- "Coordination of State and EU Funds", which elaborates on how investments in the housing sector by the State can complement EU investments

- “Prioritization Housing Programs and Projects”, which provides a detailed review of all housing-related programs in Romania, proposes new programs as well as reforms for existing programs, together with prioritization mechanisms and actions required to make this happen.

I. INTRODUCTION

1.1 Background

The Government of Romania (GOR) has asked the World Bank to support its efforts to harmonize public investments financed by the European Union and from the State budget. The objectives of this work are to encourage synergies, deliver stronger impact, and promote Romania's drive towards sustainable and inclusive development. This engagement is a follow-up to the World Bank's Regional Development Program in Romania, implemented between November 2012 and March 2014, and continues to be based on the January 2012 Memorandum of Understanding on Partnership and Support in the Implementation of EU Structural and Cohesion Funds in Romania and Modernization of Public Administration. This work includes the following four components:

- i. Alignment and coordination of strategies and processes for public investments monitored and/or implemented by the Ministry of Regional Development and Public Administration (MRDPA) and other relevant public stakeholders;
- ii. Improvement of the assessment methodology for the portfolio of projects managed by the General Directorate for Regional Development for optimal prioritization and preparation of potential EU-funded investments for the 2014-2020 period;
- iii. Dissemination of more cost effective project designs through innovative technologies;
- iv. Support for defining a comprehensive strategy in the housing sector.

This Report corresponds to the fourth aforementioned component – i.e., support for defining a comprehensive strategy in the housing sector. As part of this work, a detailed housing sector assessment is being carried out at a national scale. The housing study is envisaged as a diagnostic that presents a broad-brush picture of the country's housing market, both urban and rural, and makes strategic policy recommendations to make it more responsive to the needs of various population groups and income segments, particularly the lower income households. Specific activities, as stated in the Reimbursable Advisory Services (RAS) Agreement, include:

- Analysis of the housing market in terms of demand, supply, affordability, financing, and the underlying gaps, particular in terms of serving lower income groups.
- Review of existing government strategies/policies/programs pertaining to housing and social infrastructure.
- Analysis of social housing and infrastructure needs, and existing programs.
- Knowledge-exchange activities on housing and supporting infrastructure, focusing on lower income groups.
- Recommendations pertaining to the way the housing sector and social infrastructure programs can respond better to the needs of poor and marginalized communities.
- Recommendations pertaining to the way housing and social infrastructure can complement EU-Funded investments.
- Technical assistance for the assessment and selection of priority social infrastructure projects.
- Recommendations to involve marginalized communities in bottom-up processes of defining priorities and implementing and supervising investments.

1.2 Definitions

Given the wide variety of housing sub-components, the recommendations presented in this report are based on the aim **to make adequate housing attainable by all income groups by 2030**.

This report places particular emphasis on the **“poor”**, defined in this report as the 20th income percentile and lower. Households in this income bracket cannot usually obtain housing on the market and are in need of government assistance. In Romania, this bracket coincides with the Roma population and other vulnerable groups who are largely poor and in need of housing assistance.

“Adequate housing” encompasses all relevant housing sub-components discussed in this report and was introduced as a tenet in the housing sector in Article 25 (1) of the Universal Declaration of Human Rights. “Adequate” in this report is based on this Article, and is defined in this report as one that offers:

- Security of tenure and protection against forced evictions
- Safety in terms of structural stability
- Equal and non-discriminatory access to housing for disadvantaged or marginalized communities
- Affordability: Eurostat defines a household to be financially ‘overburdened’ when total housing + utility costs exceed 40% of net income.
- Availability of services
- Habitability: Appropriate dwelling units usable by special needs communities such as the elderly, nonconventional family types, etc.
- Suitability of location: Access to job opportunities, and workforce.¹⁴

1.3 Report Structure

This report constitutes two main Parts, A and B.

Part A presents the Situation Analysis, which includes a broad assessment of the housing sector in Romania. Sections II through VII address key themes in the Romanian housing sector, which include:

- Institutions, Laws, and Government Programs
- Housing Characteristics
- Housing Market
- Housing Affordability
- Housing for the Poor and Marginalized
- Energy Efficiency and Environmental Sustainability

Part B provides the foundations of a National Housing Strategy for Romania based on the thematic areas listed above. Section VIII provides the key findings of this housing diagnostic. Section IX lays out in detail

¹⁴ Source: UNHABITAT. “The Right to Adequate Housing: Fact Sheet 21, Rev. 1” Office of the United Nations High Commissioner for Human Rights. Geneva, Switzerland, 2009.

the key recommendations, including policy measures and actions to be taken to reform Romania’s housing sector.

Two other reports are also included in the overall package:

- “Coordination of State and EU Funds”, which elaborates on how investments in the housing sector by the State can complement EU investments
- “Prioritization Housing Programs and Projects”, which provides a detailed review of all housing-related programs in Romania, proposes new programs as well as reforms for existing programs, together with prioritization mechanisms and actions required to make this happen.

1.4 Methodology

A detailed review was conducted of all relevant existing data and studies and documents at the national level, in addition to a field mission carried out in Bucharest (capital city) and Slatina (third tier city) in August 2014. Meetings were held with relevant stakeholders to cover all the sub-components of housing in the public, private, and non-government sectors (including county council and city hall representatives, beneficiaries of different housing projects and construction companies executing works contracted by the municipality). The fieldwork also included visiting different sites of housing projects implemented by local authorities (including NHA Youth Housing, land lots allocated to youth, thermal insulation works, and social housing). These meetings yielded important findings and data that have been used and referenced throughout this report. References are also made to other relevant World Bank work in Romania.

Following the mission in August 2014, additional field research was carried out in September-October 2014 to collect supplemental data in seven cities/ towns representing the different city/ town typologies in Romania: Bucharest (first tier city – population 1.8 million), Cluj-Napoca (second tier city – population 325,000), Alba Iulia (third tier city – population 64,000), Popești Leordeni (satellite township of Bucharest – population 22,000), Florești (satellite township of Cluj-Napoca – population 22,000), Aiud (rural area – population 23,000), and Plătărești (rural area – population 4,000).¹⁵ Cluj-Napoca is referenced extensively as an indicative example in the housing market as it is the only city for which comprehensive real estate transaction data is available, based on data monitoring undertaken by the City Council there.

Due to the overall lack of reliable data as explained in section 1.2, the primary input to this report came from relevant existing quantitative data, studies, official documents, and qualitative interviews with

¹⁵ Case study cities and towns

City	County	Population
Bucharest	Bucharest	1,883,425
Popești – Lerodeni	Ilfov	21,895
Cluj Napoca	Cluj	324,576
Florești	Cluj	21,832
Alba Iulia	Alba	63,536
Aiud	Alba	22,876
Plătărești	Calarasi	3,666

expert stakeholders in a variety of sub-sectors of housing. This last source of data was compiled during the field mission and cross-referenced between experts and other stakeholders to ensure reliability.

In addition, a Social Housing survey was conducted by the Romanian government in October 2014. This involved questionnaires being sent out to all municipalities to assess the demand and supply of social housing in their jurisdictions, its quality, budgetary allocations, and the key constraints that municipalities face in delivering social housing more effectively. The responses to these questionnaires were received in December 2014, followed by an analysis of the data in March 2015. Relevant findings of this survey have been incorporated into this report.

PART A: SITUATION ANALYSIS

II. INSTITUTIONS, LAWS, AND GOVERNMENT PROGRAMS

This section starts with an analysis of the relevant stakeholders in Romania's housing sector, followed by the legal framework governing housing, and a general overview of housing programs in Romania. This section is complemented by a separate report titled "Prioritization of Housing Programs and Projects", which presents a detailed analysis of all current housing programs in Romania – both government and EU-funded – as well as a series of proposed programs, actions and projects for the government to consider, moving forward.

2.1 Relevant stakeholders in the housing sector

2.1.1 Public institutions

2.1.1.1 Ministry of Regional Development and Public Administration

The Ministry of Regional Development and Public Administration (MRDPA) is the key player in the housing sector at the national level. It has two major roles: The first is to establish housing policy, and draft legislation as required to establish the legislative framework for that policy; and the second is to obtain funds to implement housing programs. MRDPA administers several programs in the housing sector, key among which are listed below (and described in more detail in the secondary report on program review and prioritization):

- Social Housing Construction program (Law 114/1996)
- State subsidies for savings and loan products for housing (GEO 99/2006)
- Housing Fund for Tenants Evacuated from Nationalized Houses (Government Emergency Ordinances 68/2006 and 74/2007).

Additional housing programs implemented by the MRDPA include:¹⁶

- A program aimed at *completing the private apartment complexes/ residential units* in various stages on execution started before 1989 targeted socially disadvantaged categories of people.
- A program for *supporting the construction of privately owned housing*, under which MRDPA granted to people under 35 years who had an agreement with a developer, state budget subsidies of up to 30% of the value of the housing unit, but not exceeding EUR 15,000 (GEO 51/2006).
- A program on the *rehabilitation of residential apartments located in disadvantaged areas*, targeting units with serious structural system damages and major deficiencies at the thermal/hydro-insulation system.

The MDRPA also holds the secretariat for the National Centre for Human Settlements (HABITAT), which is an interministerial structure operating under the authority of the Prime Minister. HABITAT has as main tasks the elaboration of the national strategy and implementation of housing policies (according to

¹⁶ 2009-2012

GD no.711/2001 with subsequent amendments). The leadership of HABITAT is ensured by the head of the ministry responsible for developing and implementing the national housing strategy and housing policies (namely MRDPA). The coordinators of this structure (president, vice president or executive director) represent Romania in international relations in the field housing and, through its Secretariat, liaise with the United Nations Commission for Human Settlements, UNECE Committee on Housing and Land Management and other international and EU structures. The secretariat is organized as a specialized team within the MRDPA.

2.1.1.2 The National Housing Agency

Established and regulated under Law 152/1998, the National Housing Agency (NHA) is a statutory body under the authority of the MRDPA with the mandate to implement public sector housing programs. It is primarily a technical arm of the central government, staffed by architects, engineers and building specialists. According to Law 152/1998, the role of the NHA (which is financially autonomous) is to administer financial resources for housing construction, and also to coordinate the sale, rehabilitation, consolidation and extension of the existing housing stock. The investments are covered from the State budget and/or local budgets, internal/external credits, private investors, and other legal sources. The NHA's projects are developed on land provided and serviced by local authorities. The following are some of the NHA's key programs (further discussed in the accompanying report on Prioritization of Programs and Projects):

- Youth Housing
- Mortgage-financed Housing Program
- Housing for Resident Physicians
- Rental housing concessions program
- Rebirth of the Romanian Village
- Social Housing for the Roma Community
- Necessity Housing (flooding)
- Rental Housing through Private Capital

Recent amendments to Law 152/1998 brought allowed new scope for NHA programs, extending the NHA's role in building service housing for public sector workers in the fields of education, defense, security and law, in addition to health professionals.

2.1.1.3 Local Authorities

In accordance with Law 114/1996, housing is a shared responsibility between the national government and the local authorities (city halls/ local councils). The Framework Law on Decentralization no. 195/2006 (Art. 24) stipulates that "local authorities at the level of rural and urban municipalities exercise shared competencies with the central government authorities with regards to building social and youth housing."

County councils have a general oversight and intermediation role with regard to housing, although they also retain important powers for prioritizing investments. The relevant laws pertaining to the competences of county councils include the following:

- Housing Law no. 114/1996 and GD 1275/2000 for approving the Methodological Norms for the implementation of the Housing Law provisions mandate county councils with the following attributions:
 - o Aggregate requests for state budget allocations, received from local councils, and forward these to the MRDPA

- Oversee the transfer of revenue from the sale of housing units and non-residential spaces in blocks of flats into specially designated budget accounts earmarked for housing investments
 - Request on a monthly basis the necessary co-financing from the MRDPA for construction and assembly works executed by the end of the previous month. Upon transfer of the co-financing, the county councils redistribute the state budget allocations to local councils
 - Request subsidies from the MRDPA from the ministerial designated budgets for housing investments.
- GD 962/2001 for approving the Methodological Norms for the implementation of Law no. 152/1998 on the establishment of the National Housing Agency stipulates the following attributions for county councils:
- Monitor and analyze waiting lists for requests for rental youth housing
 - Elaborate and update the list of new investments proposed for communication to the MRDPA
 - Play a role in managing rental youth housing
 - Finance, develop, and approve pre-feasibility studies on the need and opportunity for construction of youth housing.

This law stipulates that the county councils act as intermediary between the local councils and the central government and retain an important role in how funds and investments are being prioritized within the county.

- **Law 116/2002 on preventing and combating marginalization** mandates county councils to support access to housing for youth between the ages of 18 and 35 years who cannot afford housing at market prices. The law provides possibility for county councils to fully cover payment advances for housing purchases or construction, but also rent for a period of up to 3 years. The value of a payment advance covered through this instrument is established at the beginning of each year by the county council (or the General Council of Bucharest Municipality, respectively), based on the provisions of the methodological norms. This level can be adjusted periodically according to trends in consumption and housing prices. As per the provisions of the Law, the budgets for such investments can constitute a share of central budgets re-distributed to county councils, a share of county councils' own revenues, an over-tax for individuals who own housing units in which they do not reside and which they do not rent, as well as donations, sponsorships or other sources approved by the law. These legal provisions are further reviewed in the complementary report on program prioritization for their existing and potential future impact.

There are a number of limitations to the annual over-tax legally established for the ownership of vacant housing units. First of all, the provision is discriminatory, as it only applies to private individuals and not legal entities. On the other hand, it is unclear if and how such a provision could be effectively applied in the absence of legal and financial mechanisms allowing for such a tax. Indeed, according to the Fiscal Code (Art. 252), individuals owning two or more buildings bear an over-tax of 65% for the first building, except their primary residence, an over-tax of 150% for the second building, and 300% for the third or any additional buildings. However, there is no precise financial mechanism to ensure that budgets collected from this overtax are earmarked for housing investment, as per the obligations arising from Law no. 116/2002.

In this regard, several legal and budgetary issues need to be clarified to actually allow for these mandated powers to be effective and adequately targeted.

Local councils have shared responsibilities with higher administrative units. Social housing is implemented in partnership between local councils and the MRDPA, while collaboration with county councils is required for assisted and sheltered housing for youth or homeless people, as well as other NHA run programs.

The Law on Local Public Administration no. 215/2001 details that, "in exercising its powers, the local council ensures, according to its mandate competences and current laws, the basis for providing local public services for social housing and other housing units owned or administrated by the mayoralty. In exercising the powers referred to above, the local council approves the construction of social housing, the allocation criteria for social housing and housing units under its property or administration (Art. 36).

The main attributions of local councils in the field of housing are defined by the **Housing Law no. 114/1996:**

- Build housing, with funds from the specially designated budget accounts, controlling the sale price, in order to enable access to housing for certain categories of people
- Allocate public land for housing construction
- Manage and allocate social housing stock in the respective territorial administrative unit
- Designate, in case of emergency, un-used social housing units as necessity housing
- Set the maximum rent for public housing units
- Provide funding for social housing, service housing and necessity housing.

Interestingly, little is mentioned on the need and mandate for local councils to draft an overarching housing needs assessment and local housing plan, and neither any specific departments/ individuals are designated with the responsibility for housing within the mayoralty.

Local council attributions are also defined based on GD 962/2001 for approving the Methodological Norms for the Implementation of Law no. 152/1998 on the establishment of the National Housing Agency, which outlines the local council's responsibilities for:

- Management and allocation of the youth housing rental stock
- Identification of buildings in various stages of completion or finalized, to be included in NHA programs
- Determining the selling price of housing and using the proceeds for the sole purpose of financing further housing construction
- Providing serviced public land for housing construction.

Interestingly, the Law does allow local councils to capitalize on existing residential buildings in various stages of completion for the creation of public housing, a possibility that does not seem to have drawn adequate attention.

In addition to this, **Law 116/2002 on preventing and combating marginalization** (described in Chapter III) mandates that local councils ensure that marginalized individuals and families have access to basic public service provision (i.e. water, electricity, natural gas, heating, etc.). For this purpose, local councils can sign special agreements with service providers to cover the debts of marginalized individuals and families. The law adds that the government must act to institute measures necessary for preventing the eviction of individuals from collective housing units as a result of unpaid dues to the housing association. Such measures should include adjustments to processes regulating house sales in order to eliminate the possibility of house purchase at below market rates that exploit vulnerable sellers (although no mention

is made of how such measures might be instituted). These legal provisions are reviewed for their existing and potential future impact in the accompanying report on program prioritization.

2.1.1.4 National Agency for Roma

The National Agency for Roma (NAR) is an advocacy body to advance the interests of the Roma, including the implementation of the Roma Inclusion Strategy. Currently, it has a modest budget to obtain titles to the land they occupy. The Agency recognizes the problems associated with poverty, such as social exclusion and marginalized locations, but currently lack the funds to make any major contribution. They work closely with NGOs and Local Authorities.

2.1.1.5 National Regulatory Authority for Public Utilities Services

The National Regulatory Authority for Public Utilities Services (NRAPUS) is a public institution, subordinated to MRDPA, which is regulating and monitoring the activities of the central services of public utilities. In 2013, there were 2,558 operators in Romania distributed as below:

- 1,077 in water supply and sewerage
- 98 in public services of centralized thermal power
- 666 in sanitation services in cities
- 499 in public transport services
- 578 in public lighting services.

2.1.2 Private entities

2.1.2.1 Homeowners Associations

The privatization of public housing stock after the fall of communism created a need to address the common interests of homeowners in terms of maintenance of the common property and other matters of mutual concern. This need was met by the formation of Homeowners Associations (HOAs), which operate under the Housing Law, and Laws regarding Homeowners Associations as described in section 2.2.2 below.

There are 80,000 HOAs in Romania, some of which have responsibility for as many as 4,000 units, though the average HOA includes approximately 100 units. There are two umbrella bodies for homeowners associations that provide advice and advocacy for their members, but there is no obligation for any HOA to join such a body. The value of their housing assets is enormous though their skills and resources to manage those assets remain in question due to the difficulty they face in obtaining financing to implement improvement projects.

HOAs in Romania have faced numerous difficulties. Transforming a group of tenants – who have neither experience in property management, nor experience in matters of governance, nor very much in common with each other (apart from their place of residence) – into an organization which can take care of their common interests is not easy. Their task is helped by the fact that they can use the services of a professional manager who takes care of their day-to-day affairs. The condominium administrator is proposed by the specialized department within the city hall, further certified by the Mayor and endorsed by local council decision (Law 230/2007, art. 54). This law provision is some object to criticism on the grounds that it allows the Mayor the opportunity to appoint persons in whom he has either political or pecuniary interest.

2.1.2.2 Federations of Home owners

Homeowner associations are currently grouped in federations at city, county or national levels. The largest federation is the League of Homeowner Associations, “Liga Habitat”, constituted in 1991 and currently representing over 15,000 HOAs¹⁷ from 31 counties in Romania. Its subscribed members are either individual HOAs or city/ county level federations of HOAs. A similar network is FAPR (Federation of Homeowner Associations), which encompasses a significant number of HOAs, mainly from Bucharest. Both structures offer advisory and specialized training (e.g. on housing administration and management), represent the needs of its members to third parties, organize events to disseminate information, as well as facilitate contact and discussion among members.

2.2 Legal framework and relevant laws

2.2.1 Laws governing housing

2.2.1.1 The Housing Law

The Housing Law 114/1996, modified 9 times since 1996, defines specific types of dwellings and their production, including:

- *Social housing*: Dwellings with subsidized lease allocated to individuals or families, whose financial situation otherwise would not allow them to access dwellings on the open market.
- *Official residence*: Dwellings for public servants, or senior employees of certain institutions or businesses allocated under an employment contract.
- *Intervention dwelling*: Dwellings for employees of companies or public entities who, under their employment contract, must be permanently accommodated within their place of work (including in case of emergency).
- *Protocol residence*: State-owned dwellings for persons elected or appointed to public positions, provided solely for their term of office.
- *Necessity dwelling*: Temporary accommodation for victims of natural disasters, or whose homes have been demolished to permit the construction of public utilities, or when a dwelling is being rehabilitated. Necessity dwellings are financed and built under the same conditions as social housing.
- *Condominium*: A condominium is a multi-floor building or, in circumstances in which it can delineate the common property, each with one or more shares within it, a residential complex comprising housing and common areas interrelated through a shared ownership and perpetual servitude.

The Housing Law states that local authorities have a responsibility to build housing for youth (people under 35 years of age), and other special categories (such as qualified persons in agriculture, education, health, public education and religion), and in so doing must exercise control over the selling price (Article 7). Such persons, if they earn less than RON 1866 (EUR 380) in monthly salary (which is the National Average Monthly Net Income for an individual¹⁸), are eligible for a state subsidy of 30% of the

¹⁷ Source: Liga Habitat (<http://www.habitaturban.ro/>)

¹⁸ The National Average Monthly Income for 2013 and 2014 reported by the National Institute of Statistics is as follows:

cost of the house (less 10% deposit). A sliding scale is used to calculate subsidies for households with incomes above this threshold.

The Law states that land and public roads, water and sewage systems and, if necessary, heating networks for public housing should be financed by the local authority (Articles 11 and 12). It also states that funds for housing will be transmitted through County Councils to local authorities (Article 15).

The Law also provides some detail about social housing. Social housing may be provided through the development of new units or rehabilitation of existing dwellings. It must be developed on local authority land (art 38 and 40). To qualify for social housing, families or individuals must have an income below the national monthly average net earnings (art 42). The law also gives eligibility criteria for social housing:

- Individuals and families evicted or who are to be evicted from their homes returned to former owners (during the Communist period)
- Youth up to 35 years old
- People from institutions of social protection and who have reached 18 years of age
- Invalids and disabled persons
- Pensioners, veterans and war widows
- Beneficiaries of the legislation dedicated to heroes and martyrs of the Romanian Revolution from 1989, and of the anti-communist workers rebellion from 1974
- Beneficiaries of the Law decree regarding the persons politically persecuted during the communist regime (1945-1989).

Occupants must be given a 5-year lease, which is renewable on production of proof that the tenant's income falls within the limits prescribed. Rent cannot exceed 10% of the household's net monthly income over the last twelve months prior to obtaining the social housing dwelling (art 44). Social housing is funded from the local budget, (though the State supports social housing through transfers from the state budget) and cannot be sold (Article 50).

Other sections of the Law cover necessity housing and protocol homes. Annex 1 to the Law states the minimum requirements for housing as shown in the table below and discussed in the subsequent sections of this report.

2.2.1.2 Home Owners Associations

The establishment, organization and functioning of homeowners associations is controlled under Law 114/1996 and Law 230/2007 on the establishment, organization and functioning of the owners' associations, which currently has an amendment posted for public consultation. By privatizing 'blocks-of-flats' (a commonly used term for multifamily housing) in Romania and selling them to sitting tenants, the state created conditions to engage in the joint management and maintenance of common parts of the buildings, structures and facilities. "For this purpose, the owners shall form an association with the capacity of a legal person," the Housing Law declares. The Civil Code, approved by Law 287/2009, provides a framework to organize associations of owners in any condominium / property of forced co-ownership, an aspect which was not covered by the Law 230/2007.

2013: EUR 357 – RON 1,760 (Dec 2013, net); EUR 489 – RON 2,430 (Dec 2013, gross)
2014: EUR 380 – RON 1,866 (Dec 2014, net); EUR 526 – RON 2,582 (Dec 2014, gross)

The Law's definition of an HOA is a non-profit company tasked with improving and managing the block. Under the Housing Law, condominiums may be managed by natural or legal persons, associations, public agencies, or specialized companies. In each case, however, the management is to be appointed by and under the control of the joint owners, in whose interest it operates. Per the regulation, HOAs need to be established in all privatized blocks.

The members of the HOAs have the right to participate and the right to vote in the general meeting, the right to put up their candidacy, to run for, to choose and to be elected in the organizational structure of the HOA. The revenues from the use of the common parts belong to the HOA. Homeowners have the duty to maintain their individual property in a good condition, at their own expense. The management of each block is to be handled by a housing manager.

The executive committee is ultimately responsible for ensuring the physical integrity of the building(s) operated by the HOA. These responsibilities include facilitating the adoption of a management plan, ensuring adherence to the plan, ensuring that the building and adjacent land are well maintained, and contracting with service providers.

For important tasks such as maintenance, repairs, consolidation, rehabilitation and modernization of common parts, the owners association can take mortgage loans or any other form of loan or credit.

The change of use of apartments, as well as of portions intended for other uses than living, can be done only with a notice from the executive committee and the agreement of the neighboring owners. The common parts can be used by a third party only with an agreement of the majority of members of the owners association and the neighboring owners, through a contract of rent, use or concession.⁴

The executive committee has to prepare an annual budget of revenues and costs, sufficient to cover homeowners' association costs, including the funds needed for it to organize and to function. The owners are obligated to approve an annual repair fund for common property. The executive committee must prepare an annual forecast for replenishing this fund. Repairs or improvements to common property will be paid for from the repair fund. The owners can approve any other special funds.

The management and maintenance of housing associations are governed by a several laws namely the Civil Code, the Housing Law no. 114/1996 and Law 230/2007 (on setting up, organizing and functioning the owners' associations, with the subsequent amendments and additions). A housing estate is self-managed by the executive committee of the owners association, by a property management company or by a hired on-site manager employed by the association. The major obligations of the housing manager of a multi-apartment block are to:

- Administer the goods and funds
- Prepare the contracts with all suppliers of services
- Inform all inhabitants in the block of the regulations governing their cohabitation
- Represent the owners' interests in contracts signed with the public authorities, and
- Fulfill any other legally contracted responsibilities.

The management and maintenance responsibility is usually limited to the common property. Owners are responsible for maintenance of their own dwelling. The homeowners association can hire a physical person licensed as an administrator or can sign a management contract with judicial persons. In order to

protect the interests of the owners against the risks of the management activity, the administrators can sign insurance policies of civil professional responsibility.

Law 230/2007 also regulates the registration of housing managers/ management companies. All housing managers have to be licensed by the Mayor, at the proposal of a specialized department of the local public administration authority, on the basis of a local council decision. This provision of getting approval by the Mayor is viewed as constraint because it limits the ability of professionals in the building management business to practice their profession freely. Unfortunately the proposed amendments to the Condominium Law (Proiectul Legii Asociatiilor Proprietari se Condominiilor) retain the requirement for the Mayor to approve the appointment of the housing manager.

Also, in the case of new buildings, the regulations do not clearly specify when future owners can or should associate and elect an administrator of the condominium. As a way around this, and to enforce building maintenance, some Mayoralties require that the management of the condominiums be undertaken by the developer (with their approval), at costs that are often very high and unjustified. This has led to a number of lawsuits that the associations of owners in these condominiums have filed against the property developers

The administrator has the following main tasks:

- Professional provision of services
- The management of physical assets and financial funds
- Signing any necessary documents for hiring the providers of utilities for the economic use and maintenance of the building
- Assuring that everyone knows and respects the rules regarding common property
- The fulfillment of any other duty provided by the law.

The property manager is responsible for the on-site general administration and physical operations. He/ she will manage the on-site staff and ensure that the management program is properly executed. The property manager will be responsible for the effective operation and cleanliness of the buildings; for ensuring implementation of established preventive maintenance programs of the buildings and equipment; for hiring, training, and supervision of qualified, competent personnel; and for the establishment of excellent relations with residents. The property manager organizes the completion of work in response to service requests by residents or staff for unexpected maintenance such as plumbing problems, sudden roof leak etc. The basic housekeeping chores include: Mowing the grass; trimming shrubs and trees; vacuuming and sweeping halls; cleaning common areas, driveways, sidewalks, etc.; snow removal; cleaning light fixtures and changing the light bulbs; and washing common area windows.

The HOA costs are the following:

- Costs per number of persons that live or have any activity in the individual property
- Costs for individual consumption
- Costs for ownership fraction, divided according to the useful floor space of the individual property
- Costs for utility providers, for individual services of the owners, but financially managed through the homeowners association
- Costs for technical services
- Costs of any other nature.

The HOA can have its own system of penalties for debts owing to the association by owners. The penalties may not be higher than 0.2% for one day's delay and can only be applied 30 days after the due date. The total of penalties cannot go over the total amount of the amount taken into consideration.

The HOA has the right to sue any owner whose payments are overdue for more than 90 days. The HOA has a privileged lien on the individual property, as well as for all the mobile goods of an owner, for the amounts due and for the court costs of all the debtors.

2.2.1.3 Condominiums

Currently, the general regulatory framework referring to condominiums include the Housing Law no. 114/1996 which regulates the social, economic, technical and legal aspects of housing construction, renting and administration. The law defines the condominium as a dwellings formed by a piece of land together with one or more buildings, some of which may be common property. A condominium may thus be a multistory building or, if the common property can be delimited, a section of a multistoried building served with one or more stairs; or a residential complex comprising individual housing units and sharing common property. The definition was introduced by GEO no. 210/2008 which amended the Housing Law to introduce these new provisions.

The Law no. 230/2007 regarding the organization and functioning of owners associations also touches on the theme of condominiums. The law governs the legal, financial and technical aspects of the establishment, organization and functioning of home owners associations, also covering the management and operation of residential buildings comprising of at least 3 owners, be it public or private. However, the Law no. 230/2007 only refers to collective housing units (blocks of flats).

The subsequent Law. 287/2009 on the Civil Code emphasizes that certain provisions of the current legal framework regarding co-ownership and organization of condominiums have limitative regulations (see Section: Co-ownership of the common parts of multi-storey or multi-apartment buildings, Art.648-659). A Condominium, as per the Civil Code, does not refer to technical aspects of the building, but to the organizing and functioning of it, given its individual and common components which need to be managed together.

However, the legal provisions mentioned above, with regard to the definition of condominiums and the conditions in which HOAs can be set up are not correlated. Given this need, the United States Agency for International Development (USAID) recently prepared a draft law and a Condominium Operations and Management Training Manual.¹⁹

On 1st July 2015 a draft law on the Establishment, Organization and Function of the Administration of Condominiums and Owners' Associations (Proiectul Legii Asociatiilor Proprietari se Condominiilor) was published for comment. One of the important changes is that the law expands the definition of a condominium to include all forms of co-ownership of housing beyond the previous definition, which referred to multi-story blocks only.

Three provisions in the Bill should be reconsidered:

- First, the Bill retains the right of the Mayor to approve the appointment of the Condominium Manager. Mayoral approvals can take time and thereby cause damaging delays in the management

¹⁹ *Condominium Operations and Management Training Manual*: International City/County Management Association, Washington DC, June 2014.

of utility bills and similar functions. A better solution would be to require all persons fulfilling this role to have a specific accreditation, and allow the HOA the right to select whomever they prefer.

- Second, the Bill should state a time limit within which a condominium should be registered.
- Lastly, there is a section about tenants associations: This is out of place in a condominium law in that condominium occupants are owners, not tenants. If owners of condominium units let them to tenants, such tenancies and the rights of tenants to form tenants associations, should be governed by legislation relating to rental properties.

2.2.1.4 Right of possession for current informal settlers

The recent Law no. 150 issued in June 2015 amending Law No. 7/1996 on cadastre and real estate is an important step forward in providing the legal framework for allowing policy interventions in informal settlements. These new provisions can actually be regarded as part of measures to implement the engagements undertaken by Romania as a signatory of the "Vienna Declaration on Informal Settlements in South Eastern Europe", described in Annex 1 of the accompanying report on Program prioritization.

This amendment creates the legal framework necessary for formally considering, in technical documents, the *possession right* of buildings and/ or land, including those in urban and rural informal settlements. There are thus legal mechanisms and steps by which informal settlers can become formal possessors of land/ buildings, provided they are not reclaimed by another land owner within the time and manner prescribed by law (Article 13).

The provisions describe a clear, effective and coherent legal and technical/ cadastral mechanism of registration of properties possessed by different individuals, and represents an important moment of progress in resolving the issue of informal settlements.

2.2.2 Laws governing housing finance

2.2.2.1 Mortgage Law

The Mortgage Law 190/1999 regulates the legal regime of mortgage loans for real estate investments. The loan can be attributed to the applicant if he/she fulfills the following two requirements: a) The loan is granted for real estate investment in housing or other than housing or with the purpose of reimbursing a mortgage loan for real estate investments previously contracted; b) the loan granting is guaranteed with at least the mortgage on the real estate which is the subject to the respective investment, that was previously financed through another mortgage loan for real estate investments.

Overall the system for registering mortgage liens and for foreclosing on property is relatively efficient in Romania. The table below from a 2008 study by EBRD compares the legal frameworks of European countries for registering mortgage liens and enforcing property rights.

Figure 2.1 - Mortgage Legal Efficiency Indicators

	Basic legal function	Simplicity	Speed	Cost	Certainty	Fit-to-context
Bulgaria	Some inefficiency	Some inefficiency	Efficient	Some inefficiency	Some inefficiency	Some inefficiency
Croatia	Some inefficiency	Some inefficiency	Efficient	Very efficient	Efficient	Efficient
Czech Rep.	Efficient	Very efficient	Inefficient	Some inefficiency	Efficient	Inefficient
Estonia	Efficient	Very efficient	Some inefficiency	Some inefficiency	Very efficient	Very efficient
Georgia	Some inefficiency	Some inefficiency	Some inefficiency	Some inefficiency	Some inefficiency	Efficient
Hungary	Some inefficiency	Efficient	Some inefficiency	Inefficient	Efficient	Very efficient
Kazakhstan	Efficient	Efficient	Some inefficiency	Very efficient	Some inefficiency	Some inefficiency
Kyrgyzstan	Efficient	Efficient	Efficient	Some inefficiency	Some inefficiency	Some inefficiency
Latvia	Very efficient	Very efficient	Some inefficiency	Some inefficiency	Very efficient	Some inefficiency
Lithuania	Very efficient	Efficient	Efficient	Efficient	Efficient	Some inefficiency
Poland	Some inefficiency	Inefficient	Inefficient	Some inefficiency	Some inefficiency	Some inefficiency
Romania	Some inefficiency	Efficient	Efficient	Efficient	Efficient	Efficient
Russia	Inefficient	Inefficient	Inefficient	Efficient	Some inefficiency	Some inefficiency
Serbia	Unclear	Efficient	Unclear	Very efficient	Some inefficiency	Some inefficiency
Slovakia	Very efficient	Very efficient	Some inefficiency	Efficient	Efficient	Some inefficiency
Slovenia	Efficient	Very efficient	Inefficient	Very efficient	Very efficient	Very efficient
Ukraine	Efficient	Very efficient	Some inefficiency	Very efficient	Inefficient	Efficient

Very efficient	Efficient	Some inefficiency	Inefficient	Unclear
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Source: Mortgages in Transition Economies, 2008, EBRD

2.2.2.2 Consumer Credit Directive

One of the key legal changes in recent years has been the implementation of the EU consumer credit directive (CCD) 2008/48. This Directive was aimed at unsecured lending such as credit for the purchase of consumer goods or leasing contracts. The EU included provisions to exclude mortgage loans or loans above EUR 75,000; however, Romania decided to go for 'super-equivalence' and introduced Emergency Government Ordinance 50/2010 which applied all the CCD features, but extended them to mortgage loans. One major change is the repeal of fees for early repayment, this can be seen as beneficial to consumers, but it puts a heavy interest rate risk burden on banks. Previously banks would have been able to lock in long term funding at a certain rate, but now, because the consumer is able to change loans without penalty, they could be faced with losses when unwinding their funding. This will either act as a deterrent for lenders to offer long term fixed rates, increase overall rates to cover possible losses from funding losses (i.e. the American model of mutualizing cost of no early repayment fees), or lastly, limit the availability of long term loans.

Should a mortgage loan go into default, the lender is encouraged to explore options to restructure the loan to help the borrower become current on the loan again. The Guidelines for Extra-Judicial Restructuring of Mortgage Loans encourages the parties involved to discuss solutions prior to any measures for mortgage enforcement, e.g. modifying the amount of installments, delaying payment, reducing the interest rate for a given period of time, changing the type of interest rate, capitalization of interest or arrears, or refinancing the loan. In practice this voluntary agreement has not worked as well as hoped.

Romania was until recently one of just a few European countries without a personal bankruptcy regime in place. The new personal bankruptcy law issued in June 2015 is expected to provide some means of resolving bad debts so that lenders do not keep them on their books when repayment is highly unlikely.

This would have two key benefits: One, it would allow for a more rapid resolution of bad debt cases, allowing banks to absorb losses and move forward, and two, it would allow individuals/ borrowers to move on rather than be saddled with a debt which they may never be able to repay. There were several valid arguments why a personal bankruptcy regime was considered inappropriate for Romania which includes: Higher levels of organized crime than in other EU countries, lack of capacity of the legal system to cope with increased workload, lack of capacity of banking system to write off the debts, and lastly, that it would potentially result in higher losses for banks which in turn may restrict new lending and raise interest rates.

The recently approved law, which will be enforced by the end of 2015, has also faced criticism that some provisions have a high degree of ambiguity, which leaves too much room for misinterpretation – an even more difficult situation for lawyers and courts since the number of files is expected to be significant. By March 2015, individual lenders had unpaid bank dues exceeding RON 11.5 billion, as per data from the National Bank of Romania. For an effective implementation of the law and in order to limit the expected burden on the legal system, drafting and approval of secondary legislation (methodological norms) is strongly recommended.

2.2.3 Law governing Energy Efficiency

EU regulations are the main driver for some of the most important policies and programs in energy efficiency (EE) in Romania. Significantly, there is an EU-wide target to reduce energy consumption by 20% by 2020, based on a 1990 baseline. The EU Directives related immediately to energy efficiency in housing in Romania are:

2.2.3.1 EU Energy Efficiency Directive

The EU Energy Efficiency Directive (EED) introduced in 2012 was transposed in Romania through the Energy Efficiency Law 121/2014. This facilitates a very significant number of issues:

- Setting the national energy efficiency 2020 target in contribution to the EU 2020 target
- Increasing the rate of building renovation
- Creation of a long term strategy (beyond 2020) to mobilize investment in building renovation, to be regularly updated
- Setting up of a new Energy Efficiency Department or Agency (now set up within ANRE)
- Encouraging integrated approaches to energy saving and energy supply
- Facilitating energy savings to consumers
- New rules for energy efficiency in generation, transmission and distribution
- Facilitation of energy services market
- Facilitation of good practices such as energy audits, individual metering etc.

The transposition of the EED through the Energy Efficiency Law is an important legislative milestone in Romania's journey towards a low carbon future.

2.2.3.2 Energy Performance of Buildings Directive

The Energy Performance of Buildings Directive (EPBD) 2010 is transposed through Law 372/2005 regarding the energy performance of buildings. This legislation deals with a wide variety of building-related issues including:

- Methodology for calculation of energy performance of buildings

- Setting minimum energy performance requirements, acknowledging differences between building types, use etc.
- Requiring major renovations to include energy efficiency retrofits to meet minimum standards where possible
- Setting an objective to have new buildings consume nearly zero energy, reached in intermediate stages from 2014-2020
- Making the use of energy performance certificates (EPCs) mandatory in the sale and rental process

Romania has fully implemented the provisions of the EPBD. EPCs are now collected by INCERC and a databank is being created which will be useful for analysis in the coming months and years.

2.2.3.3 Renewable Energy Directive

The Renewable Energy Directive (2009/28/EC) introduced in 2009 requires minimum levels of energy from renewable sources in new buildings and existing buildings that are subject to major renovation.

2.2.3.4 National Energy Efficiency Action Plans

EU member states are to produce National Energy Efficiency Action Plans (NEEAPs) providing targets and actions for all energy generation and consumption activity. Romania's second NEEAP, published in 2011, specifies residential sector GHG emission reductions of 41.5% in 2020 in comparison with the average value within the period 2001 - 2005. The second NEEAP proposed the following specific objectives:

- Improvement in thermal performance of buildings, with the application of stricter performance standards (as per standard C107/2010). Two financing mechanisms are to be used for this (as described later)
- Encouragement for pilot projects for ecologically-sensitive homes, passive homes and homes integrating renewable energy systems
- Modernization of centralized heating systems, through implementation and extension to 2020 of the "2006-2015 Heat and Comfort" National Program (GD 462/2006)
- A program for energy efficiency improvements in buildings occupied by low income groups
- A program to encourage consumers to purchase electrical goods with high energy efficiency, considering the provisions of the Regulation 106/2008/EC
- Reductions in water consumption, to facilitate a substantial reduction of energy consumption used in pumping water

The recommendation of eco-obligation schemes where energy suppliers are obligated to complete thermal insulation of a certain proportion of properties every year was introduced by the Energy Efficiency Directive but not in Romania, and could be aimed solely at the residential sector. The challenge with such schemes is that implementation costs are usually passed on through tariffs and can create a burden for the poorest sections of the population – on the other hand, the government already subsidizes a significant portion of the bill for the lower income sections of society.

Such subsidies would need to continue and possibly be increased if such an eco-obligation scheme were implemented. Where simple monomial tariffs²⁰ are in operation, simple subsidies can be ineffective as

²⁰ *monomial*: where the bill amount is a product of variables such as tariff rate and energy consumption.

they weaken the price signal to improve energy efficiency. A potential solution currently being considered in Romania is to introduce binomial tariffs,²¹ where the subsidy applies to the fixed portion of the bill. However, binomial tariffs usually mean a high fixed element of the bill and lower tariffs for consumption over the fixed threshold. This weakens the incentive for energy efficiency especially among the higher-consuming population. It is in fact normally better to move away from subsidizing energy consumption to subsidizing energy efficiency works.

In addition to the EU directives outlined above, members countries have adopted individual targets which taken together meet the total target. Romania has adopted a 2020 national target to reduce primary energy consumption by 19% (approximately 10 Mtoe). As the largest consumer of primary energy in Romania, the housing sector has an important part to play in meeting this target.

2.2.4 Laws governing urban development

Law 350/2001 provides the legal framework for spatial planning and urbanism throughout the country relevant to the housing sector in terms of social infrastructure, transportation infrastructure, and the overall efficiency of the built environment. The goal of the law is to promote the efficient use of land by guiding new development, conservation of heritage sites and buildings, and establishing building standards for urban and rural living. It also mandates sustainable development guidelines achieved through public participation. Both the state and local authorities have spatial planning responsibilities as per Law 350/2001.

Other legislation pertaining to urban space and housing quality includes: The Ministry of Health Order 119 / 2014 for the approval of hygiene norms and public health concerning the living environment of the population (including provisions with regards to health standards for residential space) and Law 153/2011 on measures to increase the architectural and environmental quality of buildings (known as “Law of facades”), which targets owners of buildings whose level of degradation endangers the health, life, physical integrity and safety of the population and/or affect the quality of the built environment and public spaces. The law charges the owners with taking on structural-architectural rehabilitation works and also provides the legal framework for funding such works and shared attributions and obligations of local authorities and owners.

A significant gap in national legislation refers to land policies and land reserves. The planning legislation has no provisions for setting land reserves for public housing, for instance. For this reason, the approach adopted by LAs is often reactive (if there is an opportunity for financing social housing, the city hall searches for land lots and initiates works for equipping the area with infrastructure) and not proactive (land lots identified based on needs for social housing, considering social mix, connectivity and endowment with infrastructure). The lack of land reserves is often mentioned among most important constraints in implementing social housing projects.

Other necessary improvements are those with regard to alignment of Romanian legislation to principles and objectives of different European and international charters and policy declarations. As mentioned in

²¹ *binomial*: where the bill amount is calculated as the sum of two monomials – e.g. where two different tariff rates are applied to two separate parts of energy consumption, and the products are added together.

a previous section, the Romanian Government has adhered to several such structures. However, these have had little impact in subsequent law developments and amendments, for instance, principles regarding correlations between the planning system and provision of social/ public housing.

2.3 Housing programs in Romania

2.3.1 General overview

The accompanying report on Program and Project Prioritization contains a comprehensive review covering all umbrella programs, as well as all government and EU-funded programs in the housing sector. While adequate data on housing programs and investments is not complete, there is sufficient evidence to draw broad conclusions regarding existing policy and legislation and to propose a list of projects for future program implementation.

- Currently, there are 22+²² housing-related program tracks in Romania in different stages of implementation. The largest outreach is registered by housing finance programs, such as the Prima Casa program (currently providing 126,200 beneficiaries with favorable mortgage terms) and the BauSpar scheme, which is expected to have 330,000 contracts by 2015 since its commencement in 2006.
- Energy efficiency programs have also been largely successful in terms of outreach, with a significant number of beneficiaries. Such programs partially address the need to make housing improvements on the deteriorating stock of multi-story housing blocks built in the communist era. These initiatives have benefitted from the EU's prioritization and consistent allocation of funds towards improving energy efficiency in order to reach Europe 2020 targets on CO₂ emissions.
- However, the vast majority of housing programs have either had limited outputs to-date or been temporarily suspended. Lack of political support, limited funds, and in some cases, inappropriate program design have all contributed to this outcome.

2.3.2 Historic context of housing programs in Romania

The change in political regime in 1989 had a significant impact on the field of housing: Rules on control of residence and restricted access in major cities were discontinued, ownership of more than one dwelling was allowed, the law on systematization was abolished, access to real estate was liberalized, the number of actors (construction, rental) in housing multiplied and housing in collective blocks was privatized. These measures have determined a fundamental change in the housing sector and the mechanisms of housing construction and administration.

The different policy approaches and diversification of housing initiatives did not have any apparent ideological background, with each successive government implementing measures to solve urgent problems with a limited budget. Unlike other policy areas, the development and implementation of new

²² There are 22 programs directly related to housing, and 3 additional programs that impact housing sector indirectly.

programs at the beginning of the 1990s was based on a previously existing legal framework (ex. Law no. 4/1973 on the development of housing construction and sale of housing from the state to the public) and only later on a legal framework elaborated according to the new realities and needs for housing.

The list of housing programs grew to address a diversity of issues:

- Ensuring access to housing in personal property
- Development of public rental housing or completion of residential buildings commenced during the communist period
- Restitution of properties confiscated during the communist period
- Protection of nationalized housing tenants from restituted units
- Financial support for purchasing state housing or free market housing
- Retrofitting and improving living conditions

Programs addressing these areas developed in three stages:

- Phase 1, 1990-1996: Housing stock privatization by sale of units built with state funds and completion of collective housing blocks in different stages of execution, whose construction began before 1989 with state funds
- Phase 2, 1996-2006: Legal and institutional framework (re)structuring
- Phase 3, 2006-present: Multiplication of housing programs.

Given the absence of a comprehensive, formally approved housing policy or strategy, such housing initiatives were not always harmonized. Some specific measures initiated in the 1990s, have been successively re-applied, for instance the privatization of the public housing stock, which was first applied in the early 1990s, repeated in 2004, and perpetuated to-date through the sale of NHA youth rental housing. Most housing programs initiated after 2004 were continued by subsequent governments, which each administration adding new laws and initiatives to the portfolio. There was a clear lack of initiative to conduct a systematic evaluation and redesign of the housing program portfolio, based on clearly formulated and approved strategic objectives.

2.3.2.1 Phases in housing program development

a) *From 1990 to 1996*, there was mass housing stock privatization through sale of units built with state funds and completion of collective housing blocks which were in different stages of execution in 1989 and whose construction began with state funds before 1989.

According to specific legislation, the proceeds from the sale of housing to sitting tenants should have been used for the construction of new housing. Unfortunately, following the 1992-1995 massive currency devaluation, the proceeds from sale were neither sufficient to achieve this objective nor to complete unfinished buildings. Indeed, by 1989, a significant number of collective housing blocks were in different stages of execution and little financing was available. In order to finalize these housing units that were slated to be given out as private housing, a dedicated government program was initiated in 1994.

This stage was also characterized by the inadequacy of the regulatory framework to the new economic realities and the lack of financial and operational tools required to foster a functional real estate market and ensure access to decent housing (rent or property) for the population.

b) *From 1996 to 2006*, the housing sector underwent legal and institutional reconstruction. Two important laws were introduced during this phase: Housing Law no. 114/1996 and Law no. 152/1998 on

the establishment of the National Housing Agency. Even though such laws helped create a basic institutional setting and define housing categories that were to be funded with public budgets (i.e. social housing, necessity housing, etc.), operationalization has not been consistent with the principles set forth by the original Housing Law. To this day, public housing units constructed under government programs have continued to be sold to tenants and the public housing stock remains limited. Moreover, the legal provisions allowing the establishment of a social housing fund using 2% of proceeds from housing privatization²³ was, and still is, not used. This reflects a general failure to push housing – and in particular housing for marginalized groups – further up on the government’s agenda or the priority list for funding.

Housing instruments and programs nonetheless diversified during this phase, including investments in rental housing for youth, the first initiatives for social housing and housing subsidies, allocating land to youth, and the development of the first mortgages granted by the state (through NHA) or through private banks (with state guarantees).

A massive restructuring of legislation combined with decentralization and local government reform characterized this phase. Unfortunately for the housing sector, the government reserved the most important levers for the central level (e.g. implementing programs through the NHA), and little progress was made towards decentralization or empowering local authorities (either technically or financially) to deliver their housing function.

c) From 2006 until the present, Romania has witnessed a multiplication of programs in the housing sector. After 2006 (and especially after 2009) and until the present, there has been a multiplication of programs in the housing sector. This has unfortunately not been accompanied by a commensurate increase in budgetary allocations for housing, despite growing needs. Housing construction programs dominate in terms of their number (youth rental housing, social housing for evicted tenants, social housing for Roma, etc.) but programs for housing finance (e.g. Prima Casa, BauSpar scheme) and programs for the thermal rehabilitation of residential buildings have also witnessed significant budgetary allocations and funding from the EU.

Due to these significant budgetary allocations and EU funding, many programs have had significant outreach, such as the thermal insulation programs, Prima Casa, and the BauSpar scheme; other programs, however have remained non-operational (such as the Rebirth of the Romanian village - 10 houses for specialists, the Program on Rental housing construction by attracting private capital, etc.). One reason for the failure of these programs is the centralized strategic and operational design of such programs, which implies that the initiative and largest share of budget allocation is expected from central government. Hence, there is little interest in, knowledge of, or input into such programs at the local level.

Current programs on housing finance, energy efficiency in the housing sector, and housing for marginalized groups are referenced in the subsequent chapters of this report. Annex 1 contains a list of all relevant housing programs in Romania implemented since 1989. A more thorough and systematic

²³ As provided for by Law no. 10/2001 on the legal status of buildings abusively confiscated during 6 March 1945 - December 22, 1989, Art. 44.

review of the current housing program portfolio is contained in the report on Housing Program Prioritization, which also outlines proposed modifications to current programs and new programs to be implemented.

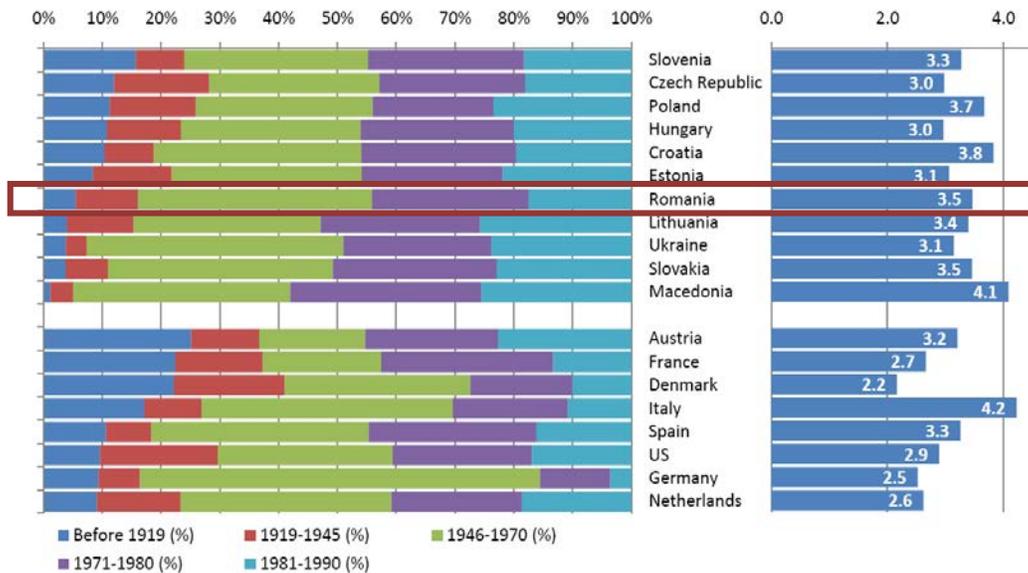
III. HOUSING CHARACTERISTICS

3.1 Basic attributes

3.1.1 Age

In 1990, the year after the fall of Communism in Romania, 85% of the dwellings in the country were built after 1945, presenting a challenge in terms of maintaining such a large stock of aging buildings.

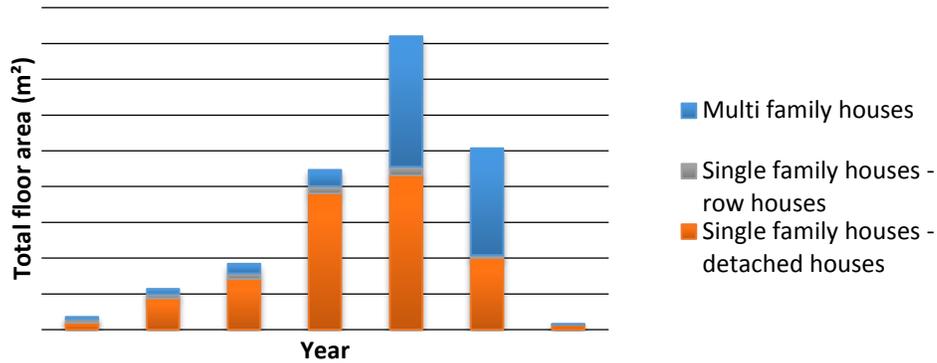
Figure 3.1 Dwellings by year of construction (% of all dwellings in 1990) and people per dwelling in 1990



Source: UNECE and World Bank

Most residential buildings in use in Romania today were constructed in the latter half of the 20th century. The socialist period (1961-1980) stands out as the most significant period for housing construction, as seen in the figure below (Figure 3.2).

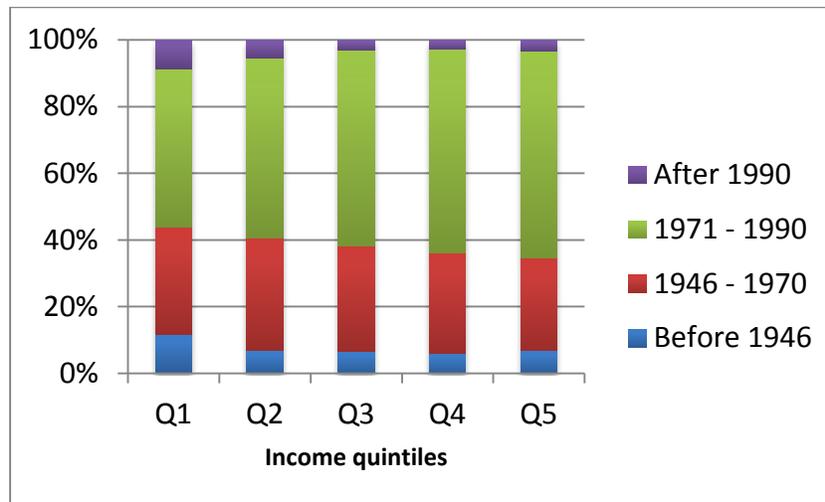
Figure 3.2 Building stock by age bands



Source: Building Performance Institute Europe, 2014

The contemporary urban housing stock is characterized by dwellings constructed between the years 1971-1990. The share of housing built after 1990 is about 5% for the lowest income quintile (explained largely by the new social housing construction), and 1-3% for all other income quintiles. The lack of new housing is consistent across all income groups, but once again, is notable in the case of the highest income quintile that may best be able to afford new housing but still continues to live in old buildings, many of which are in poor condition. The conclusion is that 90% of the stock is very old, and in need of upgrades or retrofitting.²⁴

Figure 3.3 Year of urban dwelling construction

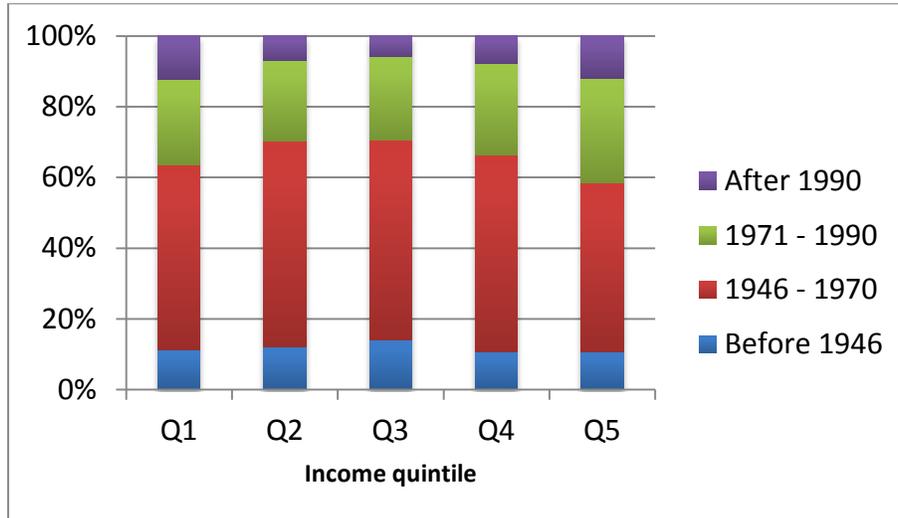


Note: Data sourced from Household Budget Survey, National Statistics Institute (2012)

²⁴ Different age bands pose specific problems and needs; communist era structures are in particular need of energy efficiency upgrades and maintenance of common spaces, while structures dating to 1921-1940 as well as some Communist era buildings are in particular need of seismic upgrading.

The rural dwelling stock is older than the urban stock, with a majority of dwellings built between 1946 and 1970 across all income quintiles. However, there appear to be a much larger percentage of households in rural areas occupying newer houses, across all income quintiles. The age of the rural housing stock suggests need for upgrading and new construction.

Figure 3.4 Year of rural dwelling construction



Note: Data sourced from Household Budget Survey, National Statistics Institute (2012)

3.1.2 Quality

Over 35% of the country's 8.8 million housing units are in a state of neglect and need urgent repairs. These units, many of which are in socialist period housing blocks, make many Romanian cities appear blighted. This significant amount of dilapidated housing includes over 10,000 pre-1980 blocks with structural, roof, and heating needs.²⁵

The current functional status of the existing large residential estates in all major cities in Romania has brought into attention serious questions on quality of life. According to the NSI, many green public spaces in Romanian cities were replaced with blocks-of-flats or office buildings between 1991 and 2009. Land Law 18/1991 allowed restitution of what had by then become public green spaces. Given the increasing demand for housing and the lack of space for construction, these lands represented a valuable stake, particularly for the developers. There are cases, especially in Bucharest, when the public green spaces between the multifamily buildings were restituted to former owners who then obtained, often illegally, building permits for multi-story housing or office buildings (often not respecting the height regime of the area). This has resulted in a tri-fold problem: one, these buildings are non-compliant with the basic regulations for privacy and sunlight, which impacts the neighboring houses.

²⁵ Habitat for Humanity Romania, <http://www.habitat.org/where-we-build/romania>.

Two, the population in these neighborhoods lacks public green spaces for leisure. And three, the infrastructure (water supply network, sewerage network etc.) is not sufficiently dimensioned for the resulting increase in demand.

Until 10 years ago, this phenomenon was frequently seen in Alba Iulia. It was the case of the city main arteries where blocks-of-flats were built on every piece of land. The result was that the pedestrian corridors remained very small. During more recent years, the construction sector has become more regulated, and the urban planning norms are being respected more.

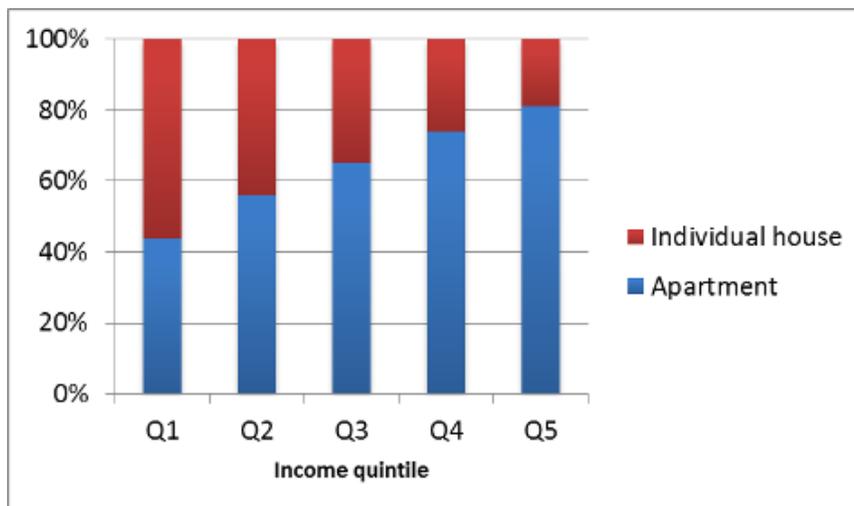
Plate 3.1 Grey and poorly finished buildings in Bucharest



3.1.3 Building typology

Approximately 35% of dwellings units in Romania are in multifamily flats, 63% are detached homes, and 2% are semi-detached dwellings and other types. Urban households increasingly live in apartments in the higher income quintiles; by contrast, nearly 60% of the lowest quintile occupies individual houses. That said, more households live in apartments than individual homes beginning in the second income quintile and higher.

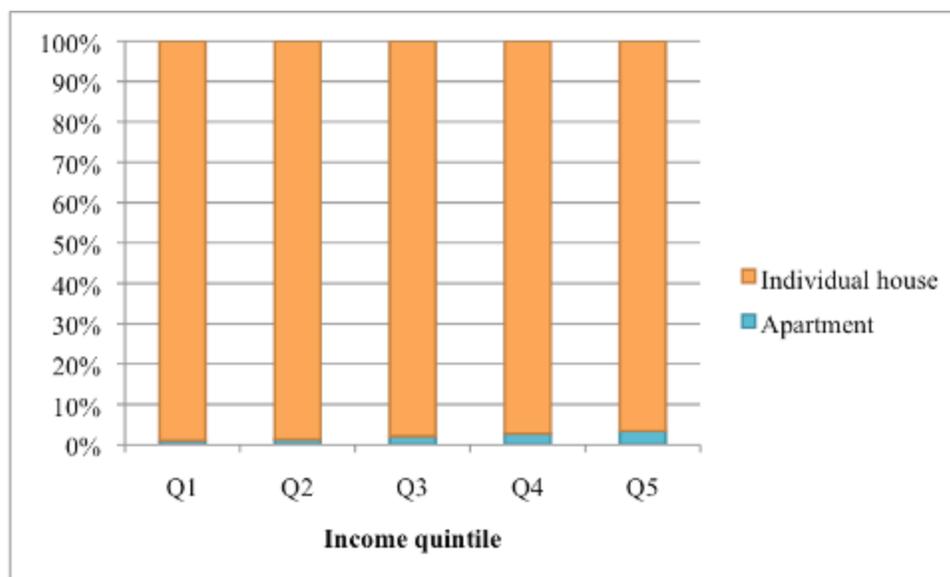
Figure 3.5 Housing per income quintile by type of urban residence



Note: Data sourced from Household Budget Survey, National Statistics Institute (2012)

In contrast to urban households that generally trend towards apartments, rural households live almost entirely in individual homes. Only in the higher income quintiles is any prevalence of apartments noticeable and even at that it remains under 5%.

Figure 3.6 Type of rural residences, by income quintile



Note: Data sourced from Household Budget Survey, National Statistics Institute (2012)

3.1.4 Size and occupancy

Of Romania's 8,458,756 dwelling units, 99.1% are classified as "conventional dwellings" made up of no less than one room for habitation and accessory rooms (i.e., kitchen, bathroom, etc.), and other areas such as storerooms. According to census data, the 8,450,607 conventional dwellings vary between urban municipalities and towns and rural communes.

Table 3.1 Dwelling units in different locations

	Total	Municipalities and towns	Communes
Number of conventional dwellings	8,458,756 ²⁶	4,582,717	3,867,890
Average number of rooms per dwelling	2.7	2.5	2.9
Average floor space of the rooms for habitation (m ²) per:	Dwelling	47.1	45.9
	Room for habitation	17.5	15.7

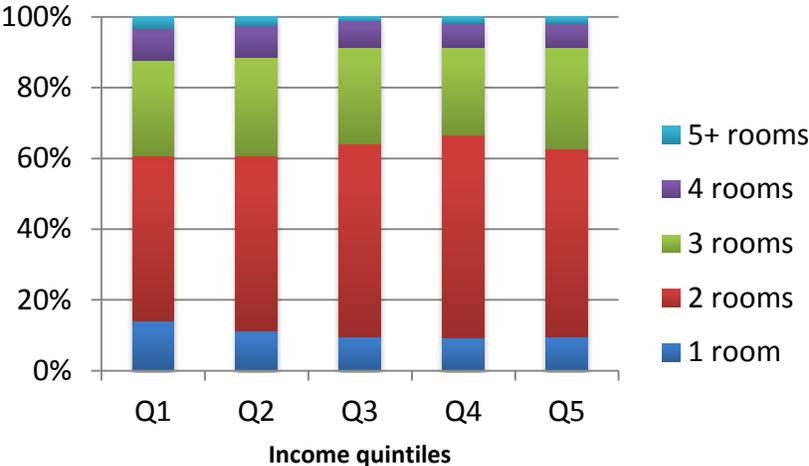
Note: Data sourced from Household Budget Survey, National Statistics Institute (2012)

²⁶ The total number of conventional dwellings comes from the National Household Budget Survey, National Statistics Institute (2014).

Average dwelling size varies from city to city. The largest average floor space for dwellings was found to be larger in Ilfov, Timis, Satu Mare and Constanta at 52-66 m² per dwelling; smallest average floor spaces per dwelling were recorded in Braila, Calarasi and Vaslui, Teleorman and Mehedinti (39-41 m² per dwelling.)

The urban housing stock is characterized by the prevalence of two-room apartments across all income quintiles. The absence of any observable increase in the number of rooms at higher quintiles suggests that households who could otherwise afford to live in bigger units are constrained by the housing and housing finance products available in the market.

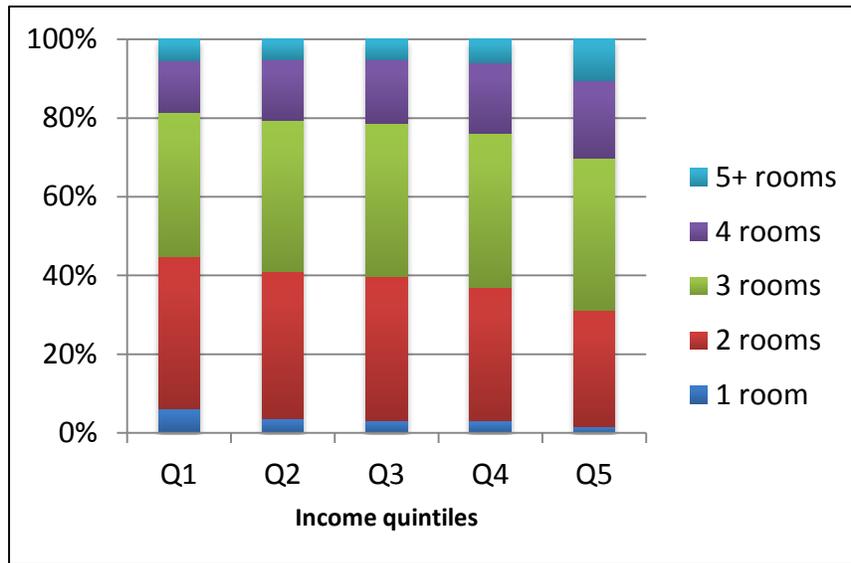
Figure 3.7 Number of rooms in urban households, by income quintile



Note: Data sourced from Household Budget Survey, National Statistics Institute (2012)

The rural housing stock is also dominated by two and three-room dwellings across all income quintiles. However, the gradual increase in dwellings with more rooms at higher quintiles indicates a direct correlation between income and number of rooms.

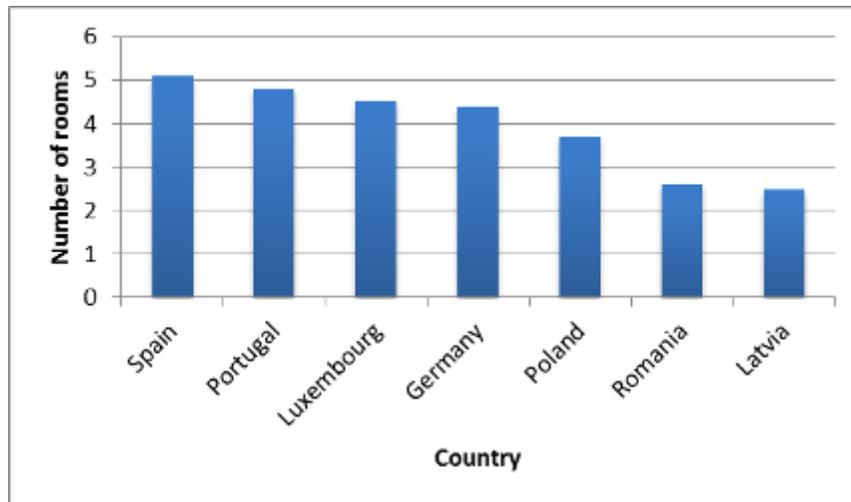
Figure 3.8 Number of rooms in rural households, by income quintile



Note: Data sourced from Household Budget Survey, National Statistics Institute (2012)

The average number of rooms per dwelling in Romania hovers between two and three, which is far below the average number of rooms per dwelling in other European countries.

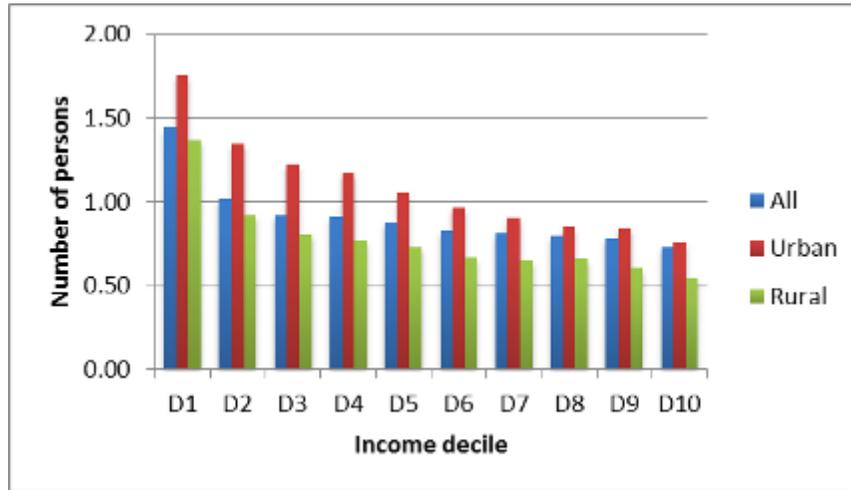
Figure 3.9 Average number of rooms per dwelling 2008



Source: Kees Dol and Marietta Haffner, Ed. "Housing Statistics in the European Union," The Hague: Ministry of the Interior and Kingdom Relations. September 2010.

The mean number of persons per lived-in room is higher in urban Romania than in rural areas across all income deciles and comparatively high for the EU-27 countries. These numbers are significantly higher for lower income households. The leveling-off of the mean number of persons per lived-in rooms for the middle to high-income deciles indicates the lack of housing options irrespective of the income or size of the household.

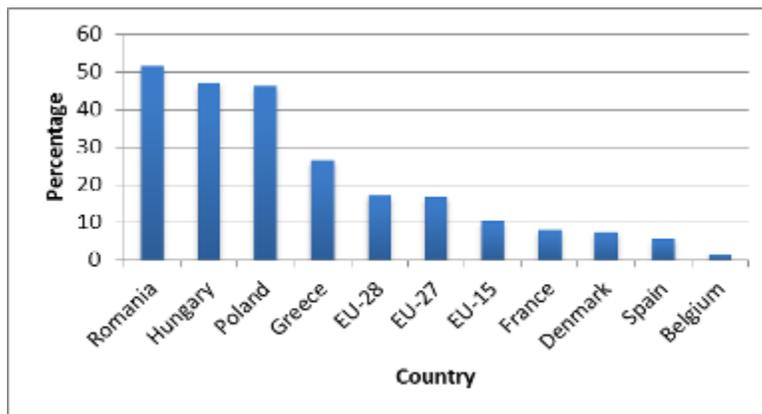
Figure 3.10 Mean number of persons per lived-in rooms



Note: Data sourced from Household Budget Survey, National Statistics Institute (2012)

Overcrowding in Romania is reported as being among the highest in EU-28 countries. In 2012, Romania's overcrowding rate was 51.6%, the highest among the EU-28 countries, three times the average of 17.2%. Romania was followed by Hungary (47.2%), Poland (46.3%) and Bulgaria (44.5%).²⁷ The overcrowding rate among the population at risk of poverty in Romania was 63.7%, surpassed only by Hungary at 71.0%.²⁸

Figure 3.11 Overcrowding rate in 2012



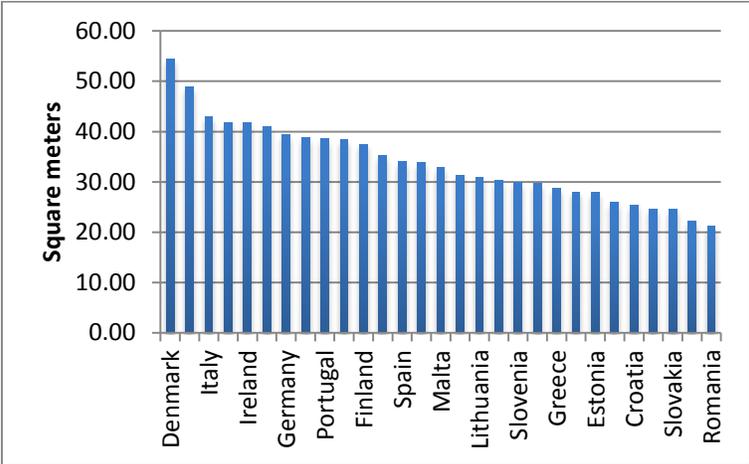
Note: Data sourced from Eurostat, Overcrowding rate by age, sex and poverty status – Total population (source: SILC). <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

²⁷ The lowest overcrowding rates were found in Belgium (1.6%), the Netherlands (2.5%) and Cyprus (2.8%). (Source: Eurostat Housing Statistics. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Housing_statistics)

²⁸ Eurostat Housing Statistics. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Housing_statistics

Compared to the European average living area of 34 m² per person, Romania has a relatively low average per person (20 m²). While 20 m² might not seem too small or unreasonable compared to most countries around the world, it is important to note that the average living area discussed here is different than the 'net' average living area per person. The average here is calculated by dividing the total built up residential area (including potentially vacant buildings) by the population. Where the vacancy rate is high, as is the case for Romania, the 'net' average area per person is in fact much smaller.

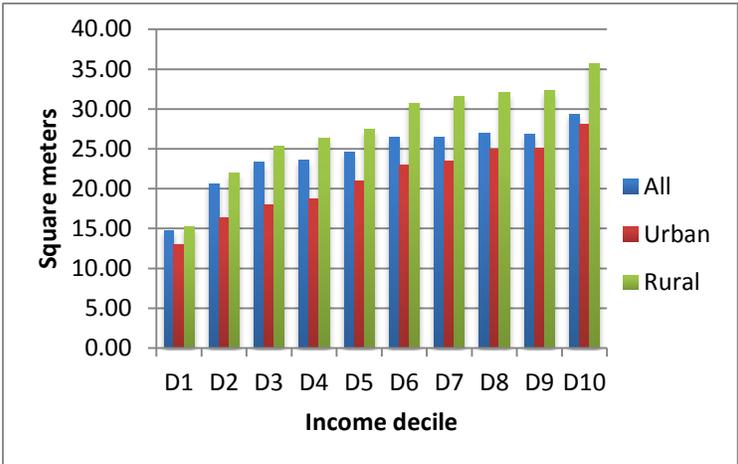
Figure 3.12 Average floor area per capita



Source: Entranze data, 2008. <http://www.entranze.enerdata.eu/>

This lack of living space is most acute for the lower income deciles, and is attributed to their typically larger households combined with very low incomes, together with the lack of adequate access to subsidized public housing.

Figure 3.13 Mean area of lived-in rooms per person (by income decile)



Note: Data sourced from Household Budget Survey, National Statistics Institute (2012)

3.2 Access to infrastructure

Urban housing units in Romania have a fairly good access to infrastructure, including water, sewage, and electricity. In Bucharest, 98.3% of households are supplied with water from the public network, 98.3% are connected to a public sewage disposal plant, 95.7% receive gas from the public network, and 99.8% are connected to the electrical network.

The situation in rural areas is very different. According to the NRDP 2014-2020, even though the length of the water supply network in rural areas has increased significantly (by 55.65%) between 2005-2012, the rural population's access to water supply network is lower than in urban areas (70.29% rural and 99% urban settlements). The access to water distribution networks and sewage is low - according to INS, in 2012, only 13.6% of rural settlements were connected to the water supply network.

This high level of connectivity applies also to second tier cities (Cluj-Napoca and Alba Iulia), although the numbers drop precipitously with third-tier towns of 20,000-199,999 inhabitants and even more so in small towns and villages with 19,999 inhabitants or fewer. This trend is most dramatic for connectivity to water and sewage networks; the majority of rural households have no access to piped water.²⁹ Only 65.1% of households received piped water from the public network in suburban towns like Popești Leordeni, a town with a population of 21,895. That said, connection to electricity in Popești Leordeni is comparable to Bucharest at 99.2%. In Plataresti, a rural area, electricity connection was high at 97.6%, but only 13.6% of households received piped water from the public network and no houses were connected to a public sewage disposal network.

Table 3.2 Infrastructure connections

Percentage of housing units supplied with:	Bucharest	Cluj Napoca	Alba Iulia	Aiud	Popești Leordeni	Florești	Plătărești
WATER							
Piped water in the dwelling from the public network	98.3	98.8	97.0	81.5	65.1	95.7	13.6
Piped water in the dwelling from its own system	0.9	0.5	1.3	6.5	32.3	1.4	16.1
Piped water outside the dwelling	0.5	0.4	0.7	5.0	1.3	1.6	54.1
No piped water	0.3	0.3	1.0	7.2	1.3	1.3	16.2
SEWAGE							
Sewage disposal system connected to a public sewage disposal plant	98.3	98.3	91.5	71.7	81.2	91.0	0.0
Sewage disposal system connected to a private sewage disposal plant	0.4	0.7	6.1	11.1	15.0	5.6	28.3
Other	0.4	0.2	0.7	5.2	1.2	0.4	0.7
No sewage disposal system	0.9	0.7	1.7	12.0	2.6	2.9	70.3

²⁹ Habitat for Humanity Romania, <http://www.habitat.org/where-we-build/romania>.

GAS FROM PUBLIC NETWORK	95,7	97.7	97.0	84.1	91.2	93.5	0.0
ELECTRICITY	99,8	99.9	99.7	99.2	99.2	99.3	97.6

Source: World Bank field survey carried out under this study, October 2014.

3.3 Urban planning and infrastructure

3.3.1 Quality of life

The Local Human Development Index (LHDI) measured changes in Romanian standards of living based on census data for 2002 and 2011.³⁰ This data shows that there was an extraordinary change in the Romanian poverty ratio and the scale of development since 2002. And while the standard of living in certain municipalities has improved much faster, the rural areas do not have the same access to quality housing, jobs, infrastructure, and important public services and urban and peri-urban areas do.

Figure 3.14 Comparison of the Local Human Development Index in 2002 and 2011



Data source: Competitive Cities: Reshaping the Economic Geography of Romania, World Bank, 2013.

There are still significant areas where improvements can be made throughout the entire country. This is particularly evident with regard to the quality of housing, its physical appearance, sustained maintenance, and the environment in which that housing is located.

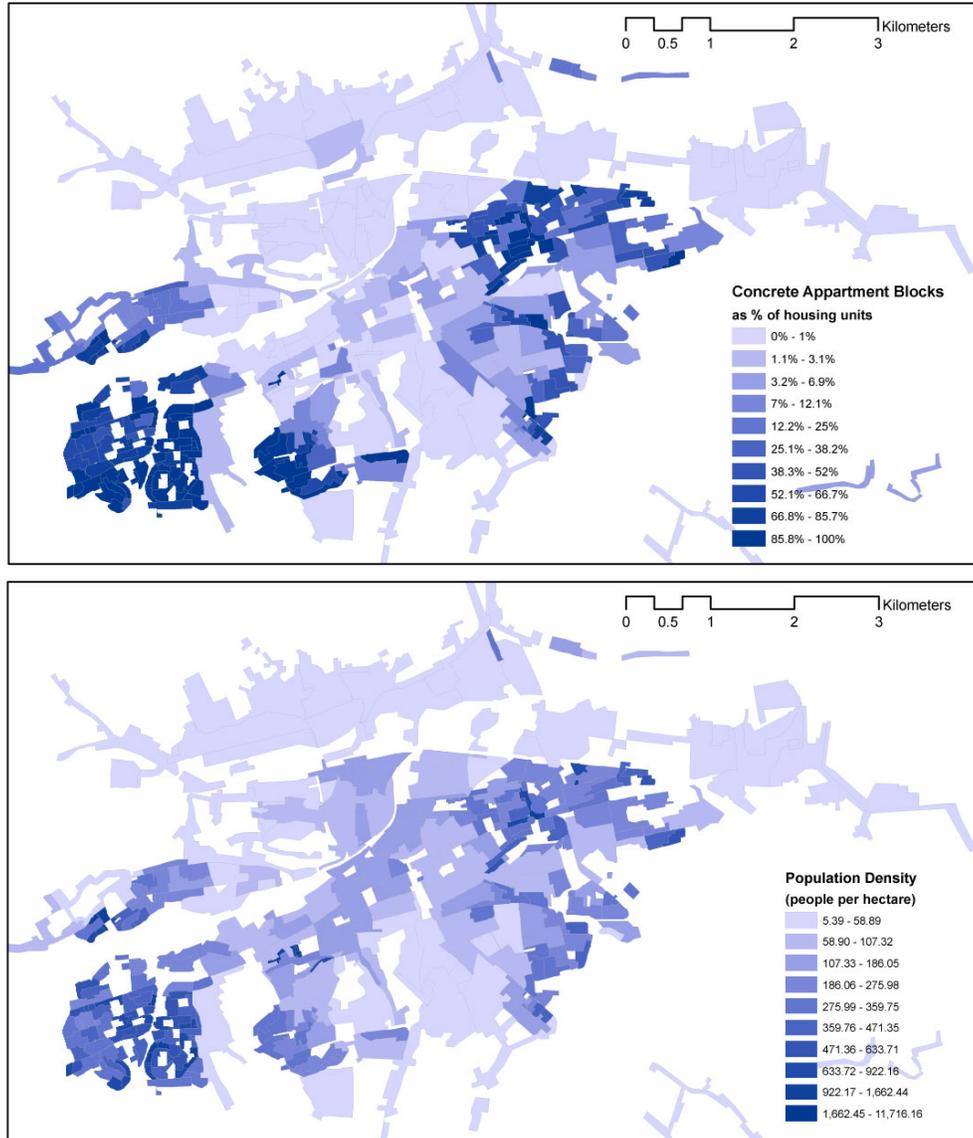
3.3.2 Density and spatial development

During the Communist period, decisions on where to build housing units were taken centrally. New housing units were usually built around an existent historic core (where such a core actually existed) in

³⁰ Ionescu-Heroiu, Marcel et al (2013). *Growth Poles*. Bucharest, Romania: World Bank, pp83-84.

concentric rings with higher densities as one moved towards the outskirts of the city, as illustrated by Cluj-Napoca (see Figure 3.15).

Figure 3.15 Cluj-Napoca: Population density

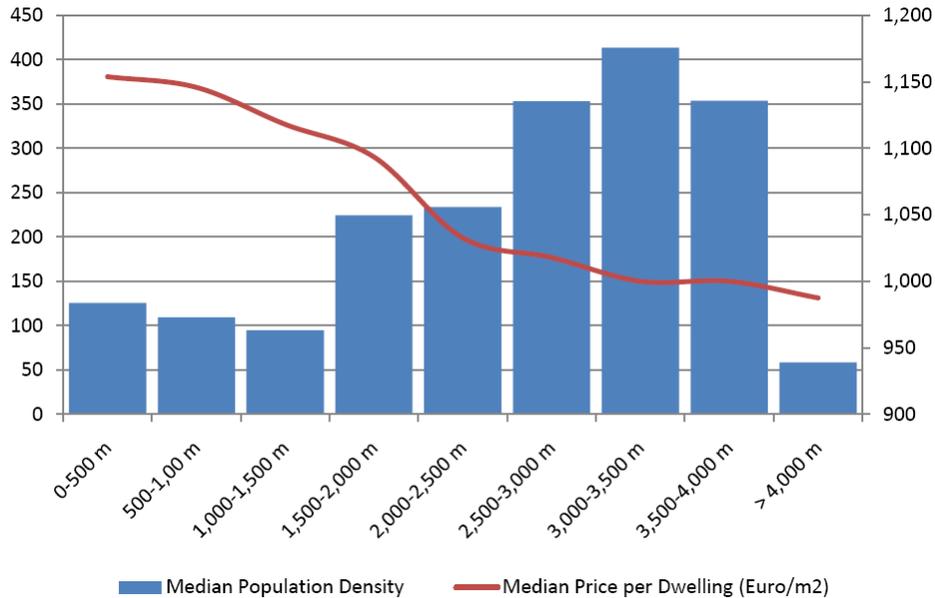


Source: Competitive Cities: Reshaping the Economic Geography of Romania, World Bank, 2013.

This pattern of development is contrary to market dynamics observed in most well-planned cities around the world, and also contrary to market dynamics prevalent in Romania today. For example, the largest demand for housing in Cluj-Napoca is in areas around the city center, while the lowest demand is in fringe areas – which is the exact opposite of what is being supplied in the market.

Figure 3.16 Cluj-Napoca - mismatch between demand and supply for housing near the city center

Y axis: on left, population density in persons per Ha; and on right, median price of dwelling in EUR/m²
 X axis: distance from the city center in meters

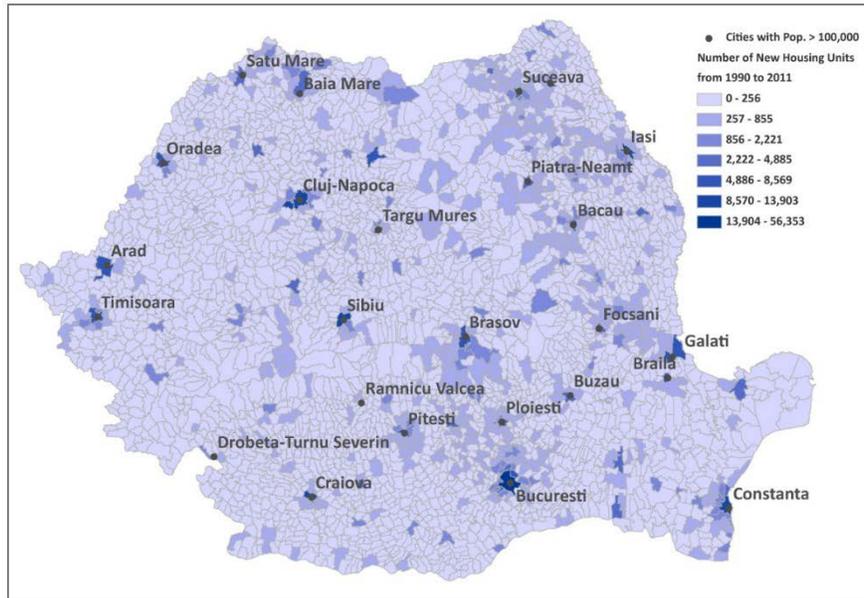


Data sourced from EDIL Imobiliare and National Institute of Statistics

The construction of new housing after 1989 was sluggish at best. Data from the National Institute of Statistics indicates that between 1990 and 2004 less than 10 new housing units were built annually in the majority of localities in Romania. Moreover, only a few large cities have seen an average of over 100 new housing units built per year. For the most part the housing sector was stagnant during these years. After 2004, following an upswing of the economy, the housing sector has taken off. However, most new housing units have been developed in a small number of cities and vacation spots (e.g. Valea Prahovei).

Although the population of Romania has declined by around 3 million people since 1989, and although it is expected to continue this decline in the coming years, there are a number of key factors that will continue to drive housing development in the future: a reshuffling of the urban hierarchy, a continued change in the demographics, and as the economy grows, a growing appetite for larger homes.

Figure 3.17 New housing units built in Romania after 1989



Source: Competitive Cities: Reshaping the Economic Geography of Romania, World Bank, 2013

3.3.3 Sprawl

Romania’s housing problem is inextricably linked to the morphing of urban areas into regions that now sprawl at a significant cost to the central city. As an example of morphing geography, Bucharest has added an area to its developed territory greater than the land area of nearby Ploiesti in recent years.

Sprawl in Romanian cities is an unintended consequence of government policy that, rather than incentivizing compact development and penalizing sprawl, has been rewarding urban areas to ‘spread out’. State budget transfers to local authorities are based on the size of the built-up area. Per Law 273/2006 on local public finances, budgetary transfers to local authorities are based on the following criteria: the financial capacity of the local government, population, and percentage of the built-up area in the administrative-territorial unit. After financial capacity of the administrative-territorial units, what remains is split 75:25 between the population and the built-up area. A well-planned built-up area would be proportionate to the population and the land necessary for housing or economic activities. However, in the case of Romanian cities, this legislative provision has been continually misused by local authorities, and manifested into abusive sprawl.³¹

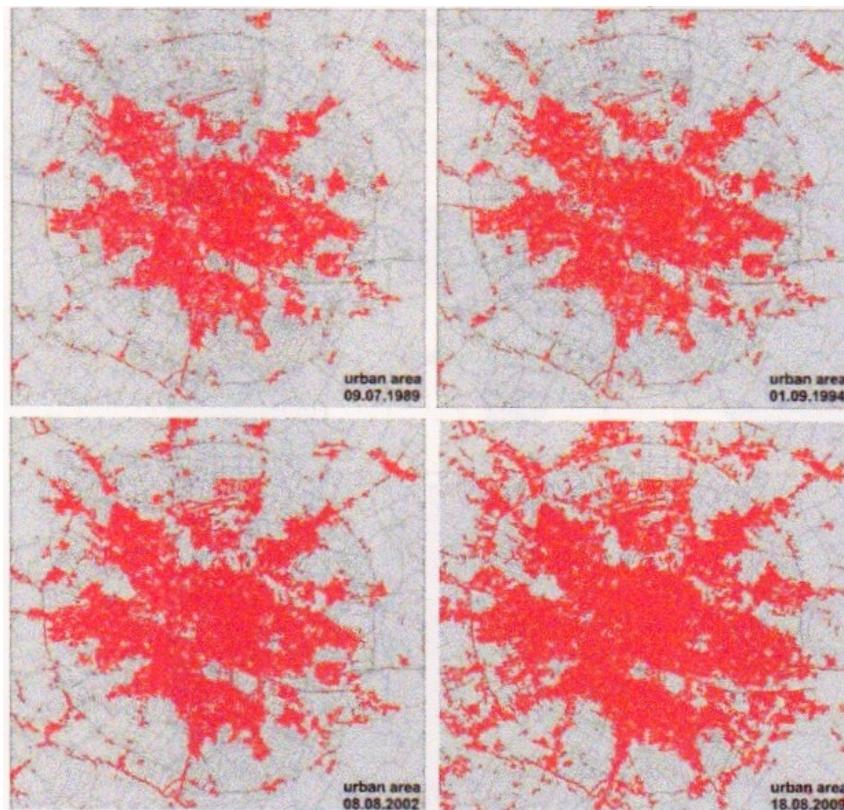
Statistical data regarding the built-up area of the localities during 1990-2008 confirm the remarkable dynamics of the built-up surfaces, both in terms of reduction as well as expansion. In some cases, there has been shrinkage of the built-up area (e.g. Anina, Făgăraş and Solca) due to the modification of the

³¹ Suditu B., 2012, Urban Sprawl – The Legal Context And Territorial Practices In Romania, in *HUMAN GEOGRAPHIES – Journal of Studies and Research in Human Geography*, 6.1 p.75 (http://www.humangeographies.org.ro/articles/61/6_1_12_9_suditu.pdf)

territorial-administrative limits of the localities, which led to the administrative transfer of the old brown fields to the neighbouring communes. However, there has been a significant increase in the built up area in the vast majority of cities: 209 cities (83.6% of all cities in Romania) have an increase of up to 60% of their initial surface, and 33 cities have expanded between 60% and 200%. Excessive urban sprawl was registered in 8 cities (Întorsura Buzăului 297%, Vișeu de Sus 289%, Dragomirești 316%, Tăuții-Măgheruș 317%, Șomcuța Mare 492%, Borșa 527%, Miercurea Nirajului 479% and Măgurele 872%), due to their proximity to important urban centres and suburbanization processes but also as a result of some excessive public practices meant to attract more money from the national budget.³²

In the bigger cities like Bucharest and Cluj-Napoca, the expansion has been dramatic. In 1992, Bucharest occupied 20,251 Ha. By 2012, Bucharest's built-up area included 23,955 Ha, marking a total increase of 18%. Likewise, Cluj-Napoca's built-up area increased by 25% over the same period.

Figure 3.18 Sprawl of Bucharest between 1989 and 2009



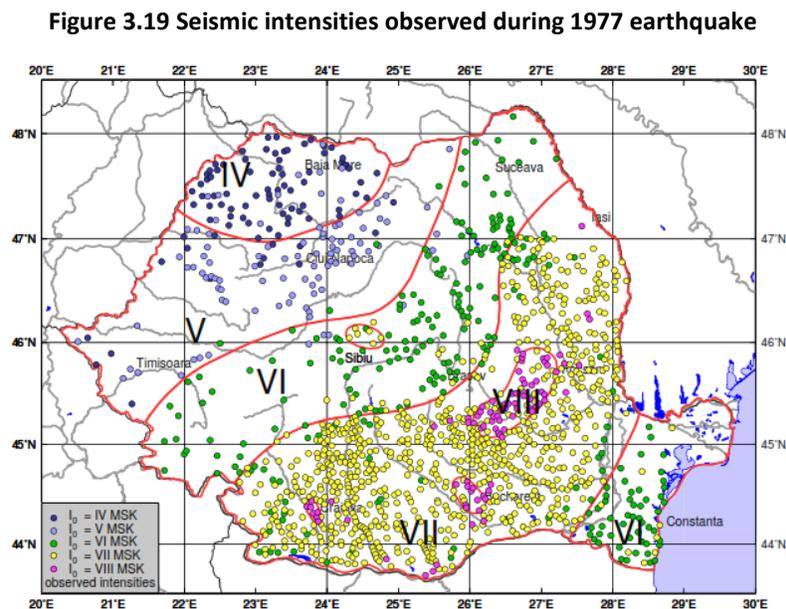
Source: Enhanced Spatial Planning as a Precondition for Sustainable Urban Development, World Bank, 2013.

³² Suditu B., Ginavar A., Muică A., Iordăchescu C., Vârdol A., Ghinea B., 2010, Urban sprawl characteristics and typologies in Romania, *HUMAN GEOGRAPHIES – Journal of Studies and Research in Human Geography*, 4.2, p.85 (http://humangeographies.org.ro/articles/42/4_2_10_7_Suditu.pdf)

3.4 Exposure to natural hazards

3.4.1 Seismic Risk

Bucharest and the South-East of Romania are most vulnerable to seismic activity due to their proximity to the Vrancea fault line. According to the World Bank (2004), Bucharest is at the highest seismic risk of all capital cities in Europe, and is one of the 10 most vulnerable cities in the world. Other urban areas are at risk too; in fact 65% of the country's urban population is exposed to seismic hazards. Major earthquakes are a regular occurrence in Romania with events recorded in 1802, 1829, 1838, 1940, 1977 and 1986.

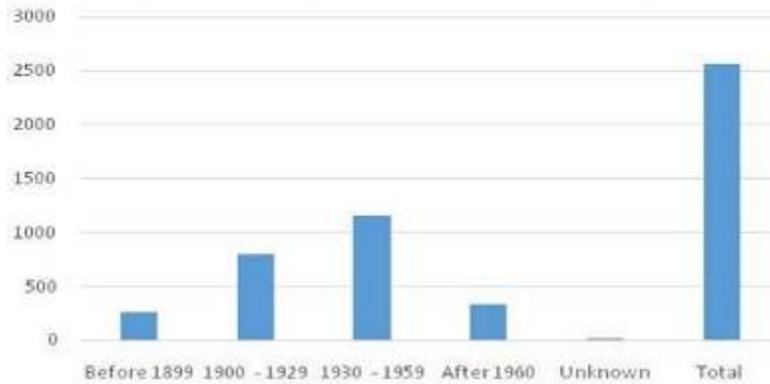


Source: Ardeleanu et.al. (2005)

Structural and other maintenance of the housing stock has become a very significant issue in the post-socialist period in Romania. The privatization of housing stock and restitution of nationalized housing have transferred the responsibility of maintenance to the owners, who usually do not have the necessary means to fund relatively expensive upgrades and structural strengthening projects.

Assessments of structural stability were conducted in the 1990s (although the assessment may need re-visiting as standards have been updated since then). In Bucharest, 2,563 residential blocks were identified as needing structural strengthening due to vulnerability in the event of a future earthquake. As seen in the figure below, many of these were built before 1960.

Figure 3.20 Number of buildings in Bucharest vulnerable to earthquakes, by period of construction



Source: Paraschivoiu (2014)

Table 3.3 presents the total number of buildings in Romania that are structurally unsafe, and present a threat in case of a seismic event.

Table 3.3 Structurally unsafe buildings by risk category

County	Class I (#bldgs./ #apts)	Class II (#bldgs./ #apts)	Class III (#bldgs./ #apts)
Bacau	-	31/784	5/219
Botosani 2008	26/172	22/64	-
Braila	29/193	1/45	-
Brasov	11/78	8/504	4/47
Bucuresti	186/5298 + 184/1182	307/10856	85/2141
Calarasi	-	1/40	2/30
Caras Severin	6/71	4/37	1/18
Constanta	40/304	9/125	3/405
Covasna	1/69	1/216	1/44
Dambovita	-	5/152	1/40
Galati	70/568	40/93	3/14
Ialomita	-	-	5/160
Iasi	2/216	12/654	6/408
Mehedinti	1/1	17/1310	-
Olt	6/232	-	-
Prahova	41/2105	23/732	2/45
Teleorman	1/20	-	35/1365
Timis	-	-	-
Tulcea	3/68	-	-
Valcea	-	1/90	1/44
Vrancea	-	5/415	18/110
Total	607/10577	487/16117	172/5090

Class I: present a public danger in the case of a seismic event with a high risk of collapse and damage to surrounding structures

Class II: constructions which, in the case of a seismic event, may suffer major structural damage without the loss of stability.

Class III: constructions which will suffer non-structural degradation though not significant structural damage in case of a seismic event.

Source: MRDPA³³

There are a total of 607 buildings in Class I of seismic risk in Romania, translating to 10,577 apartments. Of these, 370 structures are in Bucharest alone.

Table 3.4 Class I buildings in Romania

Area	Buildings	Apartments
Bucharest	370	6480
Romania, total	607	10577

Source: MRDPA³⁴

The Housing Law provides for provision of temporary housing for residents whose buildings are undergoing retrofit / whose houses or flats were severely damaged during natural disasters or are being demolished. Between 2008 and 2012, MRDPA implemented a program on *Emergency Housing Units* under which the Ministry financed two multi-story residential buildings in Bucharest (known as "the twin blocks at Natiunilor Unite Square") to serve as transitional shelter for residents of buildings that were undergoing seismic retrofitting. They are officially managed by the Real Estate Administration (Administratia Fondului Imobiliar). Even though such transition shelters are in short supply, occupancy has mostly been well under 100% as public perception of building and utility management here is poor – with many potential beneficiaries preferring to live with relatives.

3.4.2 Flooding

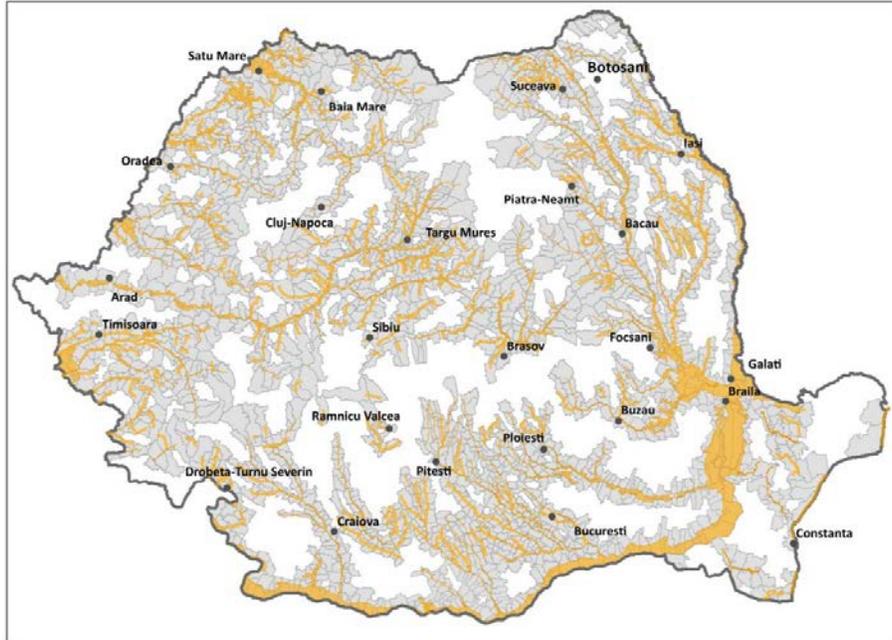
Approximately 1.3 million hectares are subject to floods caused by natural origins, affecting almost 500,000 inhabitants.³⁵ The main areas affected are located along the main rivers, Danube and the Romanian Plain (Siret, Buzau County; Arges, Olt, Jiu Rivers) and the Banat-Crisana Plain rivers (Somes Cris, Mures rivers). As the map below highlights, the large majority of administrative territorial units are within a flood prone zone. As the map below highlights, the large majority of administrative territorial units are within a flood prone zone.

³³ Source: <http://www.mdrap.ro/constructii/siguranta-post-seism-a-cladirilor/programe-de-prevenire-a-riscului-seismic/-8247/-9738>

³⁴ Source: <http://www.mdrap.ro/constructii/siguranta-post-seism-a-cladirilor/programe-de-prevenire-a-riscului-seismic/-8247/-9738>

³⁵ http://www.fonduri-ue.ro/res/filepicker_users/cd25a597fd-62/2014-2020/acord-parteneriat/PA_2014RO16M8PA001_1_1_ro.pdf

Figure 3.21 Localities in flood zones



Source: Competitive Cities: Reshaping the Economic Geography of Romania, World Bank, 2013

Substantial progress has been made with developing hazard and flood risk maps starting with the project 'Danube Floodrisk' which was initiated in response to the 2005-06 floods. Following the implementation of Directive 2007/60 / EC on the assessment and management of flood risk, flood risk maps were produced for areas designated as having significant flood risk. Plans are also being made for large-scale measures such as afforestation and infrastructure measures to store or divert flood waters. However, neighborhood-scale measures such as SUDS (sustainable urban drainage systems) would also help considerably especially in the reduction of flash flooding.

3.4.3 Landslides

Significant landslides have taken place in 1979, 1983, 1997 and 2000-2012. More than 35 municipalities, 80 small towns, 900 villages and 7 river basins cumulating 539,589 Ha (2.26% of the national territory) are assessed as being exposed to landslide risk.

IV. HOUSING MARKET

4.1 Housing stock

Romania is the largest country of South East Europe with 20.12 million inhabitants in 2011 living in 7.4 million households.³⁶ Romania's housing stock consists of 8,458,756 million units of which 16% are vacant, located across 5.3 million buildings.³⁷

As a result of large-scale privatization following the end of the communist regime, Romania has one of the highest home ownership rates in Europe. An entrenched culture of home ownership even among young segments of the population, a dysfunctional rental market, and unfavorable banking terms explain and help perpetuate the high degree of ownership in Romania where 96.6% of citizens own property compared with 70.7% in the EU-27 countries.³⁸ State property accounts for only 1.13% (2.1% in municipalities and cities and 0.7% in communes) of total stock.³⁹

Table 4.1 Key housing figures in Romania

Housing characteristics	1992	2002	2011
Population (1, 000)	22,810	21,680	20,121
Households in mill.	7.288	7.32	7.4
Household size	3.07	2.92	2.66
Housing stock in mill.	7.65	8.1	8.7
Housing buildings in mill.	4.49	4.84	5.3
Dwellings per 1 000 inhabitants	336	374	435
Average rooms per dwelling	2.5	2.6	2.7
Average floor space of a dwelling (m ²)	33.8	37.6	46.54
Average floor space per person (m ²)	11.6	14.3	20.38
Housing completions total (1,000)	49	27.7	45.4
Of which with public funds (1,000)	42	3	2,3
Housing completions (per 1,000 inhab.)	2.1	1.3	2.2

Source: National Institute of Statistics, 2011 (Census data of 1992, 2002 and 2011)

More than half of Romania's population (55.3%) lives in urban areas.⁴⁰ According to the National Institute of Statistics, Romania's population in 2011 was approximately 20.12 million residents,

³⁶ National Institute of Statistics, Census 2011, <http://www.recensamantromania.ro/rezultate-2/>

³⁷ National Institute of Statistics, 2014.

³⁸ National Institute of Statistics and Eurostat, quoted by CBRE, Bucharest Area Residential MarketView, H1 2013.

³⁹ National Institute of Statistics, 2014.

⁴⁰ National Institute of Statistics, <http://www.insse.ro/cms/files/statistici/comunicate/alte/2012/Comunicat%20DATE%20PROVIZORII%20RPL%202011e.pdf>

indicating a 12% decline (approximately 2.69 million people) since 1992. The number of households decreased by 7.5% (572,286 households) over the same period. In addition, the increasing difference between the total housing stock and the number of households indicates a high vacancy rate or people owning multiple dwellings. The difference stood at 1.3 million dwellings in 2011, representing 15% of the housing stock.

4.2 Market trends

Main indicators for housing supply in Romania plummeted following the global financial crisis of 2008, though some areas of the country have witnessed stabilization or even an upturn in housing supply in the last two to three years. The supply prior to the financial crisis consisted mainly of large developments at the edges of cities catering to middle and upper income households. The demand for large, new units plummeted following the crisis, with buyers now more inclined to buy old construction closer to the city center.

The drop in demand following the crisis prompted the Government of Romania to create the Prima Casa mortgage guarantee program, offering mortgages to first-time homebuyers on favorable conditions. A buyer may apply for Prima Casa when buying a home under EUR 60,000, which in the current market, directs buyers to older, cheaper housing stock because a new house of comparable size is much more expensive. Prima Casa loans comprise 90% of all mortgages since 2009 and have largely re-activated the mortgage market.

While the Prima Casa program helped re-vitalize the mortgage market, developers have continued to have difficulty selling their pre-crisis stock and are reluctant to undertake new projects to cater to lower income buyers. This is due to a host of issues, including: lack of market incentives, the absence of government facilitation, a lack of consideration for private rental housing development, the absence of developer finance, and the lack of affordable land in cities. Private supply of new affordable housing is, therefore, suppressed. At the same time, public sector programs for housing purchase -- inadvertently directed at the middle and upper income segments -- has led to a general shortage of housing that is adequate or affordable for the lowest income households.

4.2.1 Permits issued and new completions

4.2.1.1 Permits issued

The number of permits issued for residential units remained the same from 2012 to 2013, demonstrating market stabilization, though only at half the level seen in 2008.⁴¹ The total number of building permits issued at a national level was nearly 38,000 and the total built-up area approved for construction increased by 3% from 2012 to 7 million m².⁴²

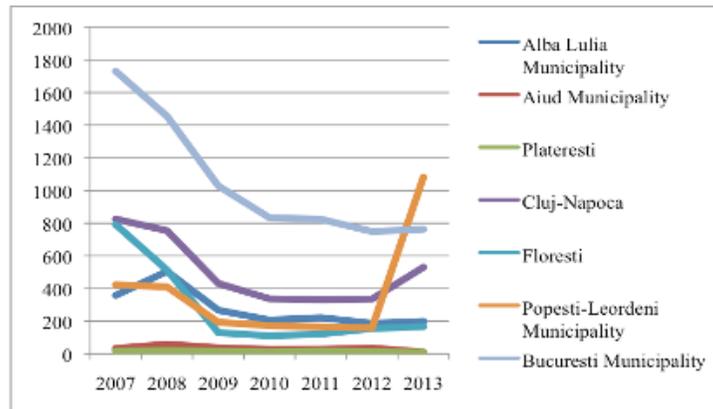
However, some secondary towns in the vicinity of major cities like Bucharest and Cluj-Napoca have witnessed a much higher rate of recovery in the number of building permits issued per year. For

⁴¹ EuroBank. Residential Market Report: Romania. June 2014. 1.

⁴² EuroBank. Residential Market Report: Romania. June 2014. 3.

example, Popesti Leordeni (Ifov County), a suburb of Bucharest, saw an increase of over 500% in the number of building permits issued in 2013 compared to 2012. Floresti, a suburb of Cluj, registered a climb of almost 40% in the number of building permits issued in 2013 compared to that in 2011. This is augmented by a 173% increase in the number of permits issued in Cluj-Napoca itself from 2012 to 2013.

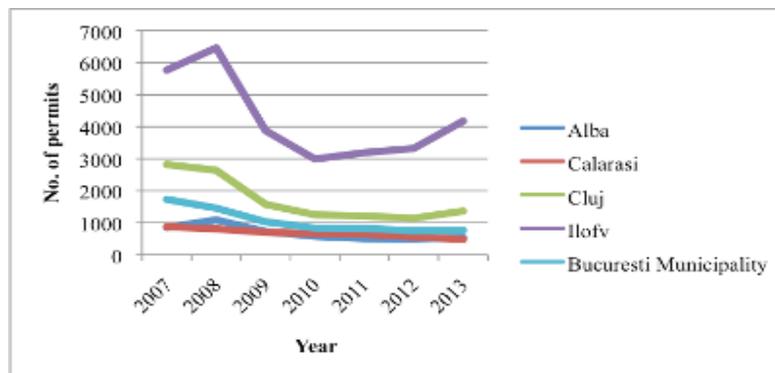
Figure 4.1 Building permits issued per year in case study towns



Note: Data sourced from National Statistics Institute (2013)

At the county level, Ifov boasts the highest rate of recovery among the case study counties since the financial crisis with the number of permits issued on the rise since 2010, in contrast with other major counties that have largely stagnated (see Figure 4.2). In 2013, 4,175 building permits were issued in Ifov County compared to 1,989 in 2010. Much of this is attributed to Popesti Leordeni which is a fast-growing suburb of Bucharest, as is evidenced by the fact that the number of permits in Bucharest, lying at the heart of Ifov County, has steadily decreased in recent years. This trend has contributed to urban sprawl. Cluj County began to see an increase in the number of permits issued in 2012 with a total of 1,365, up from 1,140 in 2011.

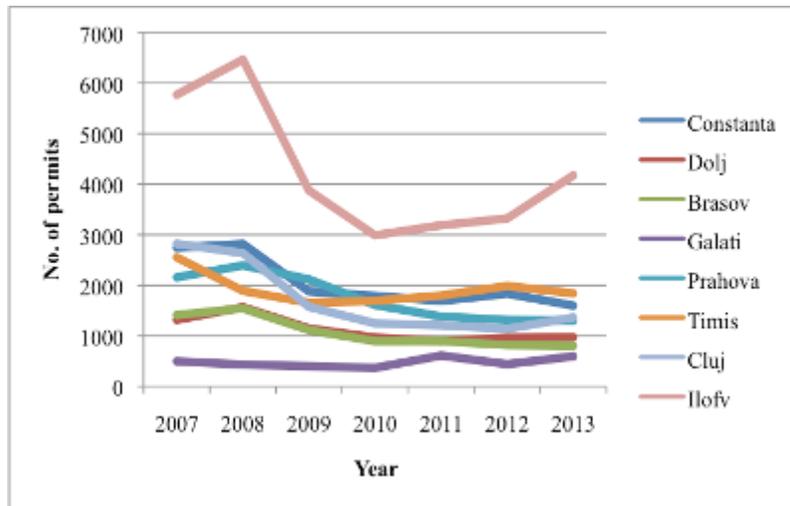
Figure 4.2 Building permits issued per year in case study counties and Bucharest Municipality



Note: Data sourced from National Statistics Institute (2013)

Major counties, characterized by the presence of at least one second tier city with over 200,000 inhabitants, displayed mixed prospects in their recovery following the financial crisis of 2008. While Ilfov took both the largest plunge and showed the greatest recovery, Galati County and Cluj County are the only others to have shown any significant gains from 2012 to 2013, modest as they were (up 35% and 20%, respectively). As such, the rise in building permits issued seen in Ilfov County is by no means representative of other major counties in Romania in recent years with the disparity growing as one looks towards the smaller counties.

Figure 4.3 Number of building permits issued per year in major counties



Note: Data sourced from National Statistics Institute (2013)

4.2.1.2 New completions

The rate of new housing construction is less than 1% of total stock per year. This slow rate is mostly influenced by lack of 'effective' demand caused by a host of reasons addressed in the preceding sections. However, even with this low level of construction, new housing built on the outskirts of existing towns and cities has potential to cause urban sprawl, as evident from the experience of large cities like Bucharest and Cluj-Napoca during the pre-crisis years.

The number of completed dwellings continued to decrease in 2013. The 40,000 units completed in 2013 signified a 40% drop since the prime market of 2008 (67,000 units completed). However, the data from 2013 is still above historic levels, boasting a 38% increase over the completed housing stock in 2003 (29,000 units),⁴³ and the trend is positive. All cities with over 300,000 inhabitants have continued to witness new housing development even through and after the economic crisis.⁴⁴ In fact, new developments in second and third tier cities sometimes have larger market share than those seen in

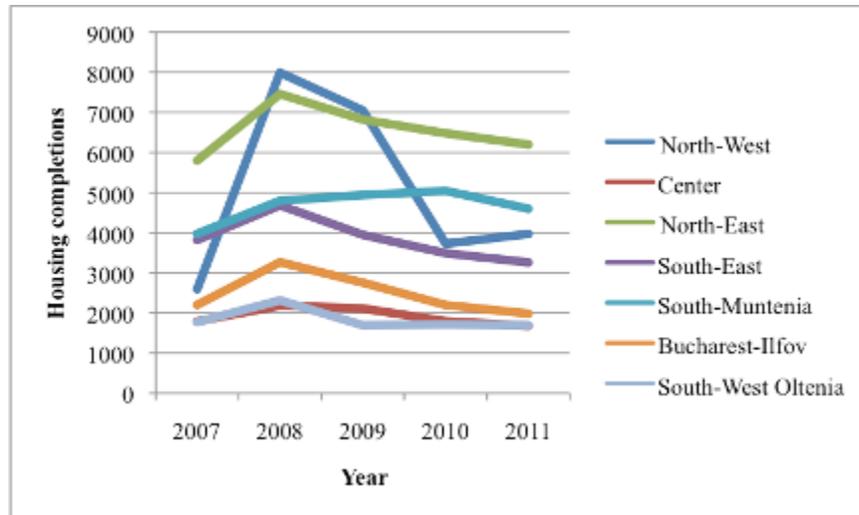
⁴³ EuroBank. Residential Market Report: Romania. June 2014. 3.

⁴⁴ EuroBank. Residential Market Report: Romania. June 2014. 7.

Bucharest in recent years. Cities with population between 100,000 and 200,000 residents are also seeing new housing projects.⁴⁵

In contrast, tertiary and smaller cities throughout the countryside have seen the sharpest decrease in the delivery of housing stock in Romania. The delivery of units in rural areas has decreased to varying degrees in different regions, increasing only in the North-Center region by 6.5% from 2010 to 2011 after a precipitous drop of 47% from 2009 to 2010.⁴⁶

Figure 4.4 Number of rural housing completions per year by region

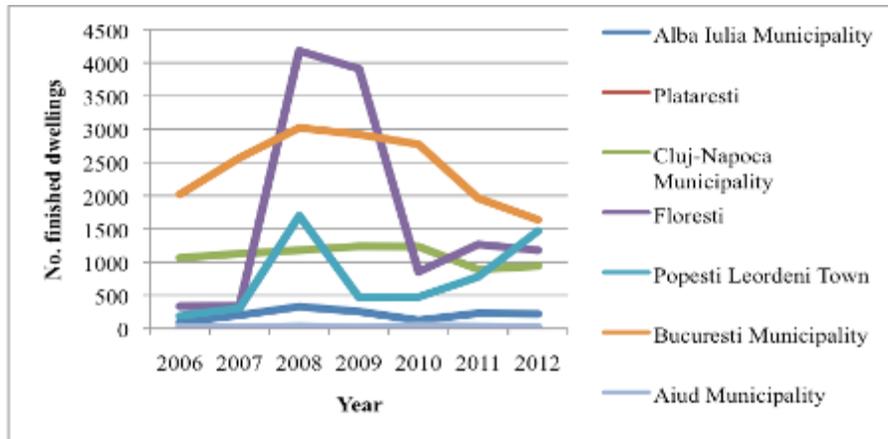


Note: Data sourced from National Statistics Institute (2013)

Figure 4.5 Number of finished dwellings per year in case study towns

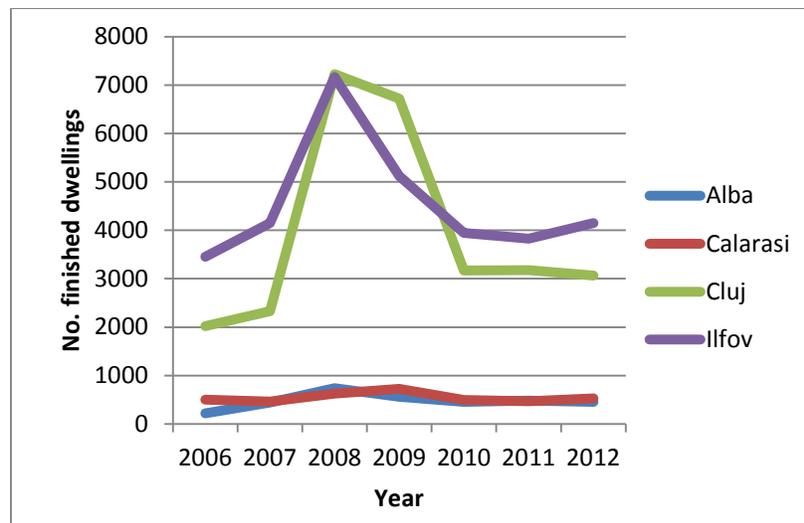
⁴⁵ for example, the Avantgarden development in Sibiu (EuroBank. Residential Market Report: Romania. June 2014. 9)

⁴⁶ EuroBank. Residential Market Report: Romania. June 2014. 3.



Note: Data sourced from National Statistics Institute (2013)

Figure 4.6 Number of finished dwellings per year in case study city counties



Note: Data sourced from National Statistics Institute (2013)

4.2.2 Housing market in major cities

4.2.2.1 Bucharest

In Bucharest, some 27,000 new units were built after 2006, according to estimates from CBRE, one of the leading real estate service providers in the country. These units are spread across 115 residential developments with over 20 units each. About a third of this stock (i.e. roughly 9,000 units) is in Ilfov

County, where about 4,000 apartments in 31 residential developments are still under construction and will be delivered to the market in 2015.⁴⁷ The most attractive area for new development is the South of Ilfov County where land is less expensive and there is access to public transportation; 44% of recent development occurred in this area after 2006.

Bucharest and other large towns contain brownfield sites (ex-industrial) where basic utility connections are either existing or easy to provide, and are also served by existing public transport networks. These sites are mostly privately owned, making it difficult for government to plan or intervene in new development. Unlike other countries, compulsory purchase order (CPO) powers do not seem to be widely used in Romania for regenerating urban land. Some of these sites are being brought into use as commercial and retail parks by large, typically international companies as business and retail parks, which is a good outcome relative to leaving the sites unused. However, this ad-hoc development could be improved if sites were identified and infrastructure was developed to make for a high-density mixed-use urban area with proper provision of utilities, public transport access and services.

Box 4.1 Private developments in progress around Bucharest

Electrotehnica: Spain's Gran Via Group is undertaking a mixed-use development in West Bucharest (Strada Lujerului) on a 43,743 m² plot of the former electrical equipment producer Electrotehnica. Construction was started in 2008 but halted in 2009 due to the economic crisis. The 90 apartments in the development will be between 47 and 65 m² and sell for between 60,000 and 65,000 EUR, primarily targeting recipients of Prima Casa mortgages. Gran Via has indicated that it will continue development of the other mixed-use spaces after selling the apartments, symptomatic of the lack of financing for private developers to undertake whole projects.

The Adora Urban Village (developed by Tagor in partnership with Patron Capital and Commercial Bank Carpatica): The development is located 10 km from central Bucharest is designed for Prima Casa buyers. The developers also offer the option of a "mini room" that can be added to the one, two, or three room apartments. The developer's website explains that the extra room can be a bedroom, a kids' room, or a guest room, catering to the cramped Romanian market. The developers offer a free consultancy for buyers interested in using Prima Casa.

Indeed market participants in general and private developers in particular complain that there is not enough strategic thinking about how city halls would like to see development take place, or how publicly-led infrastructure development can guide development. Further, their perception is that town halls do not engage or communicate adequately with the market even when strategic decisions are being made.

4.2.2.2 Cluj-Napoca⁴⁸

Cluj-Napoca is one of the seven second-tier cities designated as growth pole in Romania. As compared to the other growth poles, it is the only one that is registering a steadily increasing population over the

⁴⁷ CBRE. Bucuresti Rezidential MarketView. S1 2013. 1.

⁴⁸ While other second and third-tier cities are relevant to this analysis, Cluj-Napoca is the only city in Romania with comprehensive data on real estate transactions, as referenced in footnote 72.

last years. The city also hosts each year approximately 80,000 students, the majority of which are relocating from surrounding regions, adding extra pressure to the housing market.

A recent study on real estate transactions⁴⁹ found the average price of apartments in Cluj-Napoca (dwellings in multi-family buildings) to be EUR 821/m². The price varied among different neighborhoods, but half of the neighborhoods registered average prices in the range of EUR 800-900/m², while most of the flats in the remaining neighborhoods were in range of EUR 700-800/m² band.

The largest number of housing transactions occurred in the neighborhoods of Mănăştur (604 transactions), Gheorgheni (410 transactions), followed by the Central area (323 transactions) and Mărăşti (288 transactions). These roughly represent the neighborhoods with the largest housing stock but also with a significant dynamic of new housing construction. Mănăştur, for instance, is situated in the south-west part of the city, where new developments have sprawled on the hills bordering the city.

However, the most significant new construction is registered in the south (areas such as Borhanci or Bună Ziua), which add pressure on the local authorities to supply utilities. Mobility is also a significant challenge, as public transit is not adequate or efficient in some of these areas and is likely to remain that way until the density – and underlying demand for transit – increases. In the meanwhile, more residents use cars, causing significant traffic bottlenecks during peak hours.

House prices in the suburb of Floreşti are about half of that compared to Cluj-Napoca, dipping to below EUR 400/m². In terms of distance, the drive from Floreşti to Cluj-Napoca is about 15-20 minutes. This, together with the availability of relatively cheaper housing, made it an attractive alternative, and many people relocated to Floreşti. However, this has resulted in major traffic congestion on the single one-lane road connecting it to Cluj-Napoca, and the commute time has increased dramatically.

There were 3,324 real estate transactions recorded from May to December 2013 in Cluj-Napoca. These included 296 transactions for land, 181 transactions for houses (land and structure), 2,455 transactions for apartments, and 392 transactions for other types of real estate (see Table 4.2). An overwhelming proportion (80%) of transactions were self-financed. The average price per m² of properties in Cluj-Napoca during this period financed by banks was approximately 10% higher than the average price per m² for transactions financed privately (EUR 879/m² versus EUR 800/m²).

Table 4.2 Structure of real estate transactions in Cluj-Napoca (May-December 2013)

Type of real estate transaction				Financing		Total
Land	House	Apartment	Other	Self	Bank	
296	181	2,455	392	2,656	668	3324

Source: Cluj-Napoca real estate study, Mayoralty and Local Council, 2013

⁴⁹ A study counted 3324 real estate transactions in Cluj-Napoca from May through December 2013, out of which 2455 were apartment blocks, and the remaining land parcels.

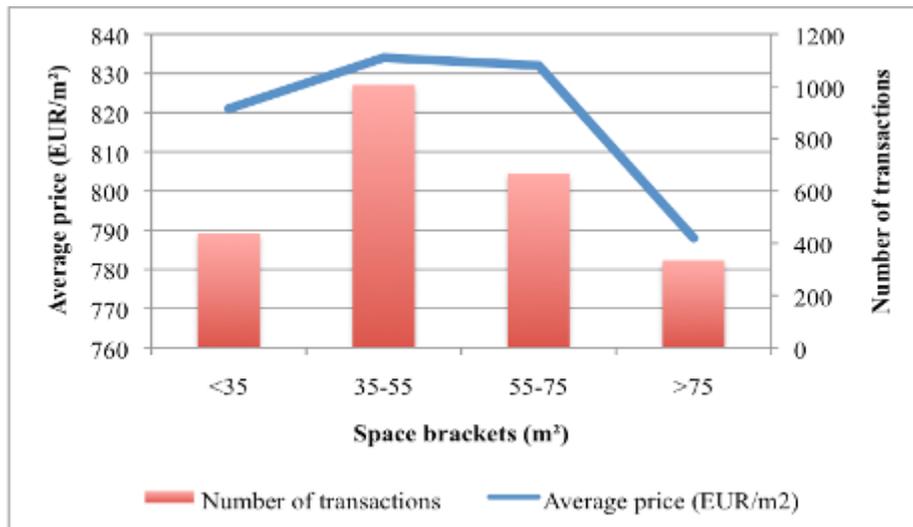
Within the market for apartments, the demand peaks for units of 35-55 m², totaling 1,006 transactions, followed by 667 transactions for the next largest space bracket of 55-75 m², reflecting limited movement in the market for small 1 and 2 room apartments in the city, as is the case also in Bucharest and presumably in other Romanian cities and towns.

Table 4.3 Apartment transactions in Cluj-Napoca (May-December 2013)

	Area				Financing		Year of construction		Total
	<35 m ²	35-55 m ²	55-75 m ²	>75 m ²	Bank	Self	before 2000	after 2000	
Number of transactions	437	1,006	667	335	622	1,833	1,449	1,006	2,455
Average price (EUR/m ²)	821	834	832	788	879	800	794	857	821

Source: Cluj-Napoca real estate study, Mayorality and Local Council, 2013

Figure 4.7 Number of transactions and average price per m² for houses in different size ranges



Note: Data sourced from Cluj-Napoca real estate study, Mayorality and Local Council, 2013

Single-family houses that featured in these transactions, mostly built after 1990, were 45% larger in size than the apartments that were predominantly built before 1990. While 79% of transactions were self-financed, the average built area of bank-financed transactions was marginally larger than that of private transactions.

Table 4.4 House transactions in Cluj-Napoca (May-December 2013)

	Age		Financing		Total
	<1990	>1990	Bank	Self	
Number of transactions	59	65	26	98	124
Average built area	174	253	225	213	215
Average price (EUR/m ²)	621	546	634	558	575

Source: Cluj-Napoca real estate study, Mayoralty and Local Council, 2013

On one hand, the prices in Cluj-Napoca are comparable to those in Bucharest, but they are relatively higher considering that average wage level in second tier cities is lower than in the capital city. Several factors have contributed to this, a major one being a severe underestimation of demand for housing in these second-tier cities by both the private and the public sectors. Further, land availability in Cluj is also limited: Land with clear title is hard to come by, and the city is surrounded by hills that are susceptible to landslides, which increases the cost of construction.

In contrast, in the suburb of Florești, there is plenty of available agricultural land, which has been bought by speculators and developers at very low prices. However, in the absence of coherent urban planning, the new developments are practically devoid of public social services, such as parks, educational and health facilities.

Rental market in Cluj-Napoca. Real estate agents report significant demand for rental housing, particularly from students. The demand-supply ratio, especially at the beginning of the university year, is typically 10:1.⁵⁰ As a result, it is common for several students to share a single apartment, even the very small ones, from among the limited number that are available. Most of these rental arrangements are done without a formal lease contract.

The demand for rental housing in Cluj is so high and the market so lucrative that many residents of Cluj-Napoca have begun to buy second houses in order to rent them out. This is often done by selling their apartments in Cluj in the range of EUR 60,000-65,000, and buying a three room apartment in Florești for as low as EUR 30,000, which leaves sufficient budget to invest in a second house - either for renting out or for their children.

4.3 Housing finance

4.3.1 Mortgage debt and trends

Overall Romania has the lowest residential debt per capita (over 18 years) among the EU 27 states at EUR 500. By contrast, Bulgaria stands at EUR 1,100, Poland at EUR 2,500, and the United Kingdom at EUR 30,700.⁵¹

⁵⁰ Interview with Welt Imobiliare, 27.09.2014

⁵¹ HYPOSTAT, Key Figures 2012.

The housing finance sector in Romania, saw rapid growth up until 2008 and then a steep crash. The market has been dominated by foreign currency loans until recent reforms combined with a fall in local currency interest rates have shifted the balance back to loans denominated in RON.

Romanian housing credit stood at EUR 8.4 billion at the end of 2012; 95% of mortgage loans were foreign currency-denominated. This foreign currency lending was fuelled by the differences in interest rates: the EUR rate of 5.87% in 2013 was lower than the RON rate of 6.11% in 2013, down from 14.76% in 2009.⁵²

In October 2013, a decision was taken by the Romanian government mandating that all mortgages taken out through the Prima Casa program be denominated in RON as opposed to EUR.⁵³ This was intended to protect RON-earning home buyers against exchange-rate swings, such as when the RON plunged 12% against the EUR at the end of 2008, driving up EUR-denominated loan payments. The assumption was that borrowers in the European Union's second-poorest country will accept higher payments in exchange for local currency loans that will not jump in cost if the RON plunges against the EUR.

As of December 2013, the rate of RON lending grew at a record annual pace of 90%. This trend was seen across the non-Euro economies in 2012 with an increasing Year-on-Year rate of outstanding mortgage loans in local currency. Romania led the non-Euro economies with a rate of +19.2% compared to Sweden at +4.5%, Denmark at +1.6%, and Poland at +1.0%.⁵⁴

At present the housing finance market is largely supported by the guarantees of the Prima Casa program. It is uncertain if or when this program might end.⁵⁵ If the program were to end in 2015 or 2016, the market might re-establish itself without the need for government intervention. However, given the ongoing affordability constraints, it is still likely that some form of government assistance may still be required for those on lower incomes. The charts below show the current market situation together with some of the dynamics over the past few years.

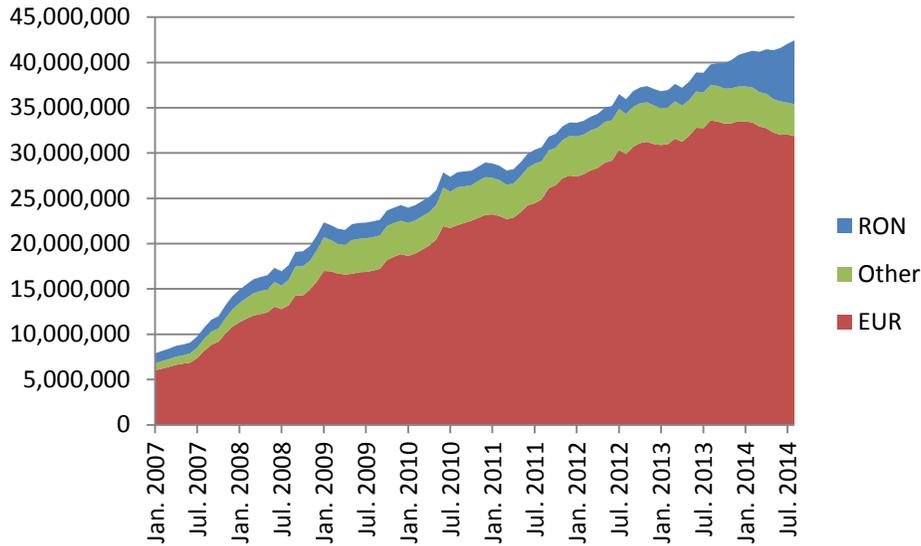
⁵² Irina Savu and Andra Timu, Romanians Reject Euro Loans After Hungary Disaster: Mortgages, Bloomberg Business News, Feb 3 2014.

⁵³ Ibid.

⁵⁴ HYPOSTAT, "A Review of Europe's Mortgage and Housing Markets", November 2013, 9.

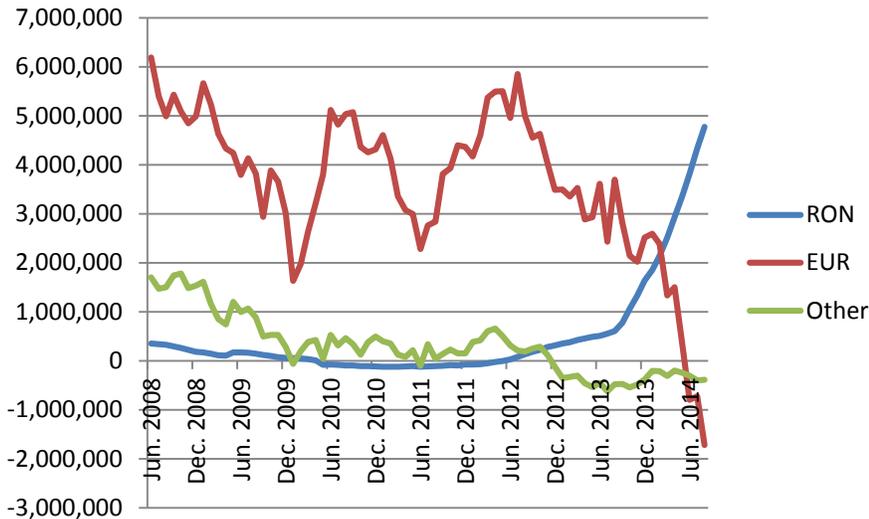
⁵⁵ Banking sector stakeholders expressed in August 2014 that the Prima Casa program would likely end during 2015, but as of August 2015, the program is still running.

Figure 4.8 Total housing loans outstanding - (RON Thousands)



Source: HYPOSTAT 2013

Figure 4.9 Net new lending (annualized) - (RON Thousands)



Source: HYPOSTAT 2013

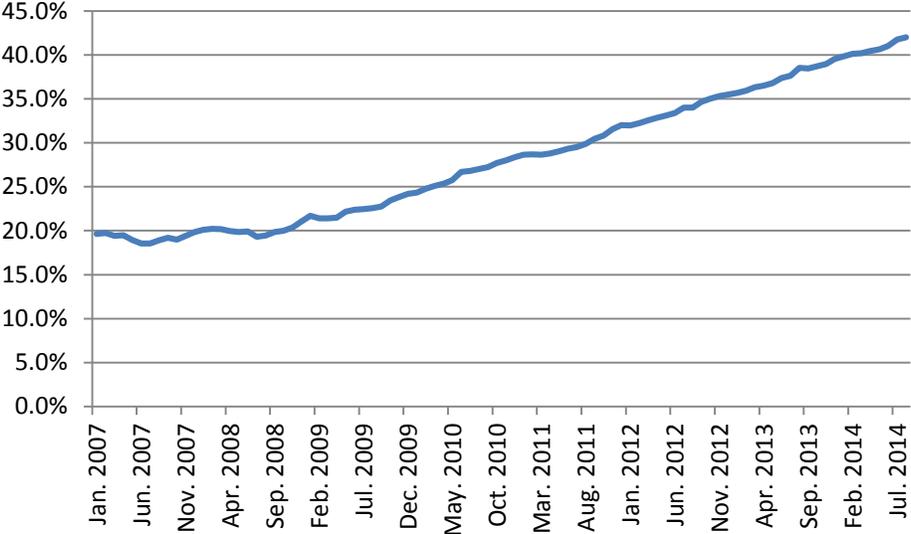
The figures above clearly show the drop-off in foreign currency lending since July, 2013 and the concurrent rise of local currency housing loans. This is due to the combination of Prima Casa guarantees only applying to local currency loans and also the drop in local currency interest rates, which mean the differential between a RON loan and a EUR loan is now negligible.

4.3.2 Non-Performing Loans

The share of non-performing loans (NPLs) in Romania increased to 21.7% in December 2013, up more than three times its rate in 2009 (7.8%). In 2012, the average loss-given-default (LGD) for loans stood at

around 20%, and for real estate and consumer loans around 30%. At that time, Romania’s NPL rate of 22% was the sixth-worst in the world, according to the World Bank. Local banks initiated mass foreclosures beginning the summer of 2013 after repeatedly restructuring their NPL portfolios to delay the process.⁵⁶ Romania’s NPL ratio subsequently fell to 8% after the government encouraged banks to sell off non-performing portfolios. Volksbank Romania sold EUR 495 million worth of NPLs in July 2014.⁵⁷

Figure 4.10 Housing loans as a proportion of total credit to households



Source: National Bank of Romania (NBR)

The figure above shows that despite the downturn, Romanian households are gradually increasing the proportion of housing loans as part of their overall debts. To put this in context, overall debt to households has not changed since end 2008 when it stood at RON 100 billion. However housing loans continued to grow even during the crisis, the annual rate of growth fell from 60% at the end of 2008 to a more sustainable 10% currently.

4.3.3 Prima Casa Guaranty

The Prima Casa program represents 90% of all new mortgages since 2009. As such, the program designed to stimulate the Romanian mortgage and real estate markets following the 2008 financial crisis has been successful.⁵⁸ The NPL rate for the Prima Casa program is low at 0.2%. The program has benefited approximately 100,000 borrowers since its inception in 2009 with the state guaranteeing

⁵⁶ Ioan Bejan interview.

⁵⁷ Reuters. “Volksbank Romania sells 495 mln euros of non-performing loans.” July 28, 2014.

⁵⁸ Ibid.

mortgages totaling EUR 4 billion. This means that the program has only generated around 200 NPLs over its five-year lifespan.⁵⁹

4.4 Rental housing

Official figures on housing indicate that 98% of the housing in Romania is privately owned. This, however, does not translate into 98% owner-occupied housing. The official figure for rental housing is 3% of total stock; however, unofficial estimates put the figure at 7-15% nationwide, and 15-20% in larger cities like Bucharest and Cluj.⁶⁰ Most rental transactions happen informally, which is exacerbated by several factors. Even if a contract is registered, it is often the case that the rent stipulated in the rental contract is much lower than the actual rent paid by the tenant to the landlord.

Rental contracts are subject to 24% VAT, and rental income is subject to income tax of 16%. While 25% of income from rent is tax free, this still means that there is effectively a 12% income tax on total rent collected. As per the Fiscal Code (252), individuals who own two or more buildings are taxed an extra 65% for the first building (apart from the primary residence), an extra 150% for the second building and 300% for the third and more buildings. While this level of taxation may be common practice in countries with mature rental markets, it serves as a pure disincentive for any systematic development of the private rental sector in Romania's infant rental market.

Currently, public rental housing stock consists of the following categories of housing:

- Housing units built by the NHA
- Social housing (Housing Law 114/1996) and housing units for evicted tenants (per GEO 74/2007)
- Other housing units in the property of the state/ local authorities: Housing units built per GO 19/1994 on investment incentives for the development of public works and housing
- Housing purchased on the open market housing by local authorities
- Nationalized housing which were not returned to former owners
- Other dwellings owned by public institutions (e.g. ministries of security and defense) and RAPPs (Autonomous Administration of State Patrimony)

Rent for public housing stock is strictly determined in accordance with the following regulations:

- Social housing as per Housing Law no. 114/1996 – rents stipulated in the same law
- State housing stock: rents stipulated based on GEO no. 40/1999 on the protection of tenants and determining housing rents
- Youth housing built by NHA, as per Ordinance no. 6/2014 amending and supplementing Article 10 of Law no. 152/1998 on the establishment of the National Housing Agency

Policies and regulations in Romania's residential rental sector lean strongly in favour of the tenant. While some clauses in GO 40/1999 refer the protection of rights of former tenants of restituted properties, which may well be justified, they also spell out strict guidelines on rent-setting and eviction of tenants of private properties that lean heavily in favour of the tenant, especially those earning less

⁵⁹ Irina Savu and Andra Timu, Romanians Reject Euro Loans after Hungary Disaster: Mortgages, Bloomberg Business News, Feb 3 2014.

⁶⁰ Interview with Colliers

than the national average income (see Box 4.2). While the regulation might be intended to facilitate the provision of affordable rentals for those earning below the national average, requiring a private landlord to, in effect, 'subsidize' the tenant discourages landlords from renting freely in the market. This most impacts middle and lower income groups who might be most in need of rental housing (especially those who are unable to access a mortgage loan to purchase a house, or for that matter, afford a mortgage payment). As a result, many landlords choose either to rent their houses in the black market, or keep their properties vacant.

Box 4.2 Rental Regulations (Government Ordinance 40/1999)

Public housing. Per GO 40/1999, the rent and its payment for the housing units belonging to the state and to its administrative-territorial units is computed on the basis of a monthly basic tariff and are differentiated depending on locality categories (municipality, city, and commune) and areas inside the locality (A, B, C, D) by the local councils. The differentiation is done by applying a certain coefficient to the basic rent tariff (RON/m²), which is updated yearly according to the annual inflation rate.

Within the same housing unit, the basic monthly rent tariff (RON/m²) differs according to the type of living area: the m² of the living area (habitable rooms, including halls and passage rooms) is more expensive than the m² of the dependencies (vestibule, entrance hall, porch, kitchen, pantry, bathroom, toilet, laundry, dryer, cellar, basement, balcony, patio, storeroom etc.). The basic tariff of the living area may be reduced for certain types of rooms/dwellings (less comfortable usually). As for courtyards and gardens pertaining to the housing units, the basic tariff varies according to the locality category (RON 50 /m² – communes; RON 75 /m² – cities; RON 100 /m² -- municipalities) and according to the areas inside the localities (with different coefficients added to the basic tariff).

Restituted properties. Government Ordinance (GEO) 40/1999 establishes certain protection measures of tenants who live in housing units which they have to leave due to restitution. The owner has to sign at the request of the lessee, a lease contract for a stipulated period – 3-5 years depending on the specific situation. Lease contracts may be renewed if the parties agree to do so. However, the owner may only refuse the renewal of the contract for one of the following reasons: the house is needed for the owner (and/ or spouse, parents, children - only if they are Romanian citizens residing in Romania) to live in; the housing unit is to be sold; the tenant has not paid the rent for at least 3 consecutive months etc. The person(s) for whom the house is needed has to occupy the dwelling in 60 days from the date it was vacated by the tenant and for at least one year. In case the owner wants to sell it, the tenant has the right of pre-emption to buy the house.

Housing Exchange. The Ordinance regulates housing exchange in the case of a rental contract, i.e. the right of the owner to request and to obtain a tenant's consent for relocation from his/her dwelling in exchange for another housing unit that the owner makes available. The minimum living area of this replacement housing unit should be 15 m² per person in the tenant's household. The tenant is not obliged to move in the offered dwelling if the standards of living do not correspond to the ones stipulated in the Ordinance.

Rent Setting by Private Landlords. With regard to the dwellings owned by the private individuals, the rent is established through negotiation between the owner and the tenant. If the monthly average net income *per family member* is lower than the national average income, the rent cannot exceed 25% of the tenants' household net income.

The owner may request a higher rent, but only if the tenant extends his/her stay beyond a year or the initial contract period. In the latter case, the owner is obliged to provide a written request for the increase of the rent, which must be motivated by: (i) the need for repairs or other works for the housing/building or (ii) the increase in the tenant's monthly net income per family member beyond the national average. The tenant then must give his/her consent in writing within 60 days of the notification, failing which the owner may take legal actions to increase the rent.

However, the Ordinance forbids the annulment of the lease contract or the eviction of the tenant because of a disagreement on the increase in rent. The tenant may only be evicted if, after the court rules that the tenant must pay a higher rent, the revised rent is not paid for at least three consecutive months.

The massive differential between public (e.g. the NHA's youth housing scheme) and private market rental rates, together with the lack of a rental housing supply, 'locks' tenants of public housing into their units without incentives or opportunities to move, thus inhibiting turnover and recycling of units within the public rental program.

The provisions of GO 40/1999 on rents also apply to formerly nationalized housing that have not been demanded for restitution and which are managed as public housing for rent. However, the rental scheme of such housing is regulated under a set of 'special' rules. For example, in June 2014, all lease agreements were extended by 5 years, without taking into account the characteristics of the occupants (income, ownership of other properties etc.).⁶¹

4.5 Heritage buildings and neighborhoods

There are a significant number of residential buildings of high heritage value in towns and cities, which are in a state of disrepair. In some cases, the buildings have been abandoned for years, and the owners cannot be tracked; in others, they are simply neglected because the cost of repairing them is unaffordable to the owner; and in some extreme cases, there are reports of vandalism, whereby these buildings are willfully destroyed so that a new modern block can go up. As a result, there has been limited investment in the restoration and rehabilitation of these buildings, made worse by the high incidences of unauthorized modifications, which compromises both their historic value and structural integrity. Some of the publicly owned historic structures are used for social housing for the poorest households, and are typically in a state of disrepair due to unavailability of funds or lack of opportunity for a meaningful return on investment.⁶²

Plate 4.1 Historic buildings owned by the public sector in a state of disrepair and neglect



There have been attempts by local authorities to upgrade some historic centers in their cities. Some of this experience has been positive - for example in Bucharest and Sibiu, many of these areas are now

⁶¹ OUG no. 8/2004 regarding the extension of leases; OUG no. 44/2009 regarding the duration of leases for residential areas destined for dwellings; Emergency Ordinance no. 43 of 26 June 2014 on the duration of lease agreements for residential areas destined for dwellings

⁶² Nistor S., (2000) Romania's Urban Architectural Heritage: between Neglect and Revitalization.

vibrant public spaces of historic value and economic activity. Notwithstanding this success, social housing in the historic center of Bucharest is in an advanced state of degradation; these units need to be renovated using public revenues gained from the economic vitalization of the surrounding area.

Smaller cities are still facing challenges in restoring and revitalizing such areas. For example, in Slatina (a small city of about 70,000 in population), the city hall invested a significant amount into improving pavements in its historic center. However, this effort was not enough to incentivize homeowners to improve the buildings (both structurally, and in terms of restoring the facades) or attract private sector investment. There are also cases where the owners are not traceable, and the buildings are in very poor condition and at risk of collapse but the city halls are unable to acquire the properties for rehabilitation.

Plate 4.2 Historic center of Slatina



Box 4.3 Historic Center of Timisoara

The rehabilitation of the historic center in Timisoara was undertaken to target heritage buildings used as residences. Law 422/2001 allows public administrations to support the owners of historical heritage patrimony for the maintenance and restoration of the buildings. The project fund was established with the resources provided by a long-term credit (30 years) of EUR 5 million, provided by the German development bank KfW. EUR 2 million are allocated to grants and EUR 3 million to medium-term credits (10 years) to the beneficiaries.

- The subsidy is part grant and part loan. The share of grant money is decided by a technical commission established by the municipality, considering various factors: The cost of the restoration works needed (especially in case of expensive artistic works, the grant component is higher)
- The economic capacity of the resident owner (low income families receive a higher grant amount and reimburse a smaller share of the investment cost)

In case of the restoration of houses owned by individual households, the Municipality assumes the legal role of Beneficiary, and takes care of the implementation of the project, from the design to the construction phases. In this case the owner signs a contract with the municipality for the reimbursement of the costs not covered by the grant, with a 10-year reimbursement plan. The guarantee is provided by a partial mortgage on the house for the value of the loan.

Source: Case study included in the 2nd report of the JASPERS Project, Development of an Investment Programme for the rehabilitation of historical city areas- Romania, 2013

4.6 Private developers

4.6.1 Impact of the financial crisis

Until the financial crisis of 2008-09, there was an active private sector building houses for the upper income groups. Prices were generally in the region of EUR 1,000-1,500 per m², and good profits were made. The global financial crisis caused major problems in both the supply and demand side because bank-financed liquidity disappeared for both developers and buyers. There are many ‘incomplete’ private housing developments that were started just prior to the financial crisis (2007-10) and could not be completed given the economic climate at the time. Many developers became bankrupt, and their properties/ assets seized by the banks.

Of the few developers that survived the crisis, many are still saddled with the completion or sale of their old inventories. Two reasons account for this: (i) Many banks have shied away from construction lending, and (ii) many of the housing projects started prior to 2008-09 targeted high income households and property investors, and are too large and too expensive for the average buyer, especially in the current economic climate. Some developers have reportedly split apartments to make 2-room units out of 4-room units and also downgraded on finishes.⁶³ Still, prices stay elevated because land and labor was bought expensively when the construction of most of these units was initiated in 2008-09.

A large number of developers have been forced to slow or stop new construction. As a result, central cities like Bucharest are now surrounded by incomplete and unoccupied construction projects without a clear sense of when or if these projects will be completed. Completion and sale of the properties is made more challenging given the lack of public transit, lack of road and utility infrastructure, and the distance to the central city. Hundreds of units are reportedly in this limbo-status at the periphery in some neighborhoods. This type of development crisis and pattern are not sustainable.

Plate 4.3 Incomplete and unoccupied housing projects in the periphery of Bucharest



⁶³ EuroBank. Residential Market Report, Romania, January 2011.

4.6.2 Construction finance

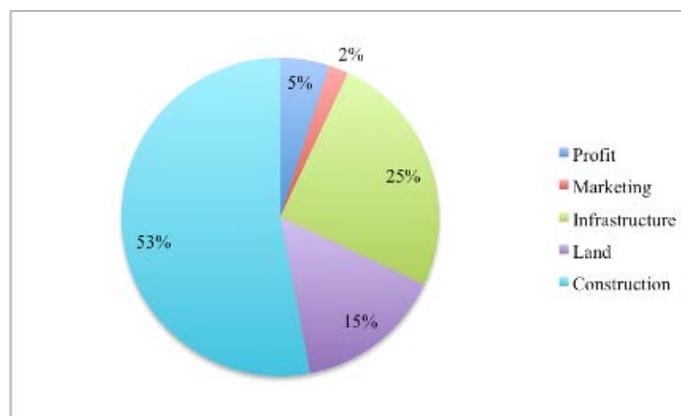
The lack of construction finance is problematic in Romania's housing development sector. Many developers over-extended themselves during the boom period and still carry large unresolved debts. Likewise the banks also have large amounts of bad loans on their books, which makes them risk averse, or extremely cautious to re-enter the sector.

According to the National Bank of Romania, construction companies generate the highest rate of non-performing loans (39.7% as of August, 2013), as compared to an average of 25.7% of non-performing loans for the overall crediting of companies. These rates have seen a significant increase in the past few years from a level of 22.1% in 2011. Real estate companies record a lower rate of non-performing loans of 22.7% (as compared to 13.6% in 2011), but a quarter of the exposure (representing RON 4.6 billion) on these companies have been rescheduled.⁶⁴

4.6.3 Cost of construction

Construction costs have skyrocketed in recent years. This is, in part, because skilled labor has become more expensive and scarce (this is attributed to the emigration of workers to Western countries as well as the Gulf States), and also because the cost of construction materials has gone up significantly between 2008 and 2013. With this rise in basic costs of labor and materials, combined with the high cost of providing infrastructure, most developers – particularly the small ones – face the predicament of either cutting their profit margins or going out of business. The buyers, on the other hand, in addition to the already high basic price, pay a VAT (5% for houses less than EUR 86,000, and 24% for those costing EUR 86,000 or more), which makes the 'ideally' designed and configured house out of reach for the vast majority of the population.

Figure 4.11 Rough break-down of costs for new housing developments in suburbs of Bucharest



Source: Interview with Ozone Homes, CEO

⁶⁴ Report of the National Bank of Romania, Semester I of 2014

4.6.4 Cost of trunk infrastructure

The absence of either technical or financial capacity of local authorities to lay the trunk infrastructure in a timely manner means that developers typically bear the upfront cost. The effort, time and money to install infrastructure (water, electricity, heating etc.) for housing developments on greenfield sites outside the city boundaries imposes a heavy cost burden on the developer, who then passes this on to the homebuyer.

The trade-off between the developer's pricing and the buyer's affordability is made typically by building in the outer suburbs (peri-urban areas) with little or no transport networks, where land is cheap. Unlike pre-crisis construction in outer neighborhoods of major cities, these new developments are going up in smaller villages around the major cities. This has led to uncontrolled sprawl, particularly in the larger urban centers like Bucharest, where land is hard to come by or very expensive within the city boundaries.

In Bucharest, for example, there are an estimated 4,000 newly completed housing units on the market for sale. A developer can expect to sell one unit per week, which is slow compared to pre-crisis rates of sale. Some developers have sold a significant part of their portfolios at a loss, or perhaps, at a price that does not meet the expected returns so as to start to undertake new developments. But they are few: most developers are not able to internalize the huge losses, and some developers have again pursued development inside cities, with an aim to reduce infrastructure costs.

4.6.5 Space standards

Developers report that the rewriting of the space standards in 2003 made apartments with more than one or two rooms unaffordable for many households. According to the regulations outline in Housing Law 114/1996, a studio apartment must have a minimum area of 50 m² with a usable area of 37 m².

Table 4.5 Housing standards per Housing Law 114/1996

Persons/ family	Rooms/ House	Living room	Bedrooms	Dining area ⁶⁵	Kitchen	Baths	Storage	Useful area	Built area
No.	No.	m ²	m ²	m ²	m ²	m ²	m ²	m ²	m ²
1	1	18	-	2	5	4	2	37	58
2	2	18	12	3	5	4	2	52	81
3	3	18	22	3	5	6	2	66	102
4	3	19	24	3	5	6	3	74	115
5	4	20	34	3	6	7.5	4	87	135
6	4	21	36	4.5	6	7.5	4.5	93	144
7	5	22	46	5	6.5	9	5	107	166
8	5	22	48	6	6.5	9	5.5	110	171

⁶⁵ The terminology used in Law 114/1996 is "area for having lunch".

With a current average price of EUR 885 per m² for new construction, a studio for EUR 44,250 remains out of reach for most single- or two-person ‘starter’ households, and does not provide a suitable configuration for families with children who need more than one bedroom.⁶⁶

4.6.6 Impact of the Prima Casa threshold

The Prima Casa program offers loan guarantees to buyers purchasing completed dwellings under EUR 60,000 or dwellings under construction/ planned for construction under EUR 70,000 (with minimum 5% down payment), thereby orienting beneficiaries to affordable (often older) two-bedroom units of approximately 50-55 m². If a household participating in the Prima Casa program wishes to buy a unit in a new development, it will be limited to a dwelling of two rooms under 60 m² given the spatial requirements outlined in section 4.6.5 (a 52 m² two-room dwelling built for two people costs EUR 68,850 considering a total area of 81 m² and average selling price of EUR 850).⁶⁷

The Prima Casa guarantee program has greatly enabled the average household to access an affordable mortgage loan to purchase a house, but has directed the bulk of market turnover to older units of one or two rooms. This has had a distortionary effect on the housing market because Prima Casa loans are open to all income groups, meaning that even better-off households able to take out market-rate financing are biased towards smaller units, steering developers in the same direction. More importantly, the program as it currently stands allocated public budgets towards non-poor households, some of whom are very wealthy. Three quarters of all Prima Casa loans to date nationwide have gone into purchasing old apartments in old buildings.

Some modifications in the Prima Casa program might help resolve some of these problems: for example, by better targeting towards households that otherwise would not be able to take out a mortgage, some of the distortionary effects could be mitigated because the beneficiaries’ household incomes would match the prices of smaller housing units, and public expenditure would be appropriately targeted to lower income households.

4.6.7 Permitting process

The process of obtaining building permits and development permission is highly complex, inefficient, time-consuming and dysfunctional – for instance, it requires 14 procedures, 255 days, and 2.3% of property value to obtain a construction permit in Romania.⁶⁸ Consequently, such process impacts the housing supply at individual level but also deter the private developers/builders to assemble parcels of land for housing development.

4.6.8 Small scale developments

Of the current stock of 15,700 apartments in larger housing complexes in Bucharest with more than 200 units, 64% were delivered in the first two post-crisis years. The peak years of residential real estate

⁶⁶ Interviews with developers in Bucharest.

⁶⁷ BRD Prima Casa guidelines. <http://www.creditulprimacasa.ro/>

⁶⁸ World Bank. Doing Business Report, 2015. <http://www.doingbusiness.org/data/exploreeconomies/romania#dealing-with-construction-permits>

development between 2005 and 2008 saw average sales of 25-30 units per project per month. From 2008 to 2011 the sales averaged 2-3 apartments per project per month. Projects targeting low-income buyers averaged 4-6 units per project per month.⁶⁹

Since the financial crisis in 2008-09, most developers are undertaking smaller projects in single low-rise buildings. Owing partly to an over-supply of houses in Romania's secondary cities in the pre-crisis years, developers are refraining from large scale projects.⁷⁰ In Cluj-Napoca, for instance, developers are waiting for the existing units to be taken up before beginning new major projects.

4.6.9 Absence of private developers in smaller cities

In smaller cities like Slatina, the government (local authority) is the only developer and doing very little in housing because of very small budgets. This could represent a real opportunity for local growth and jobs. The central government, for instance, could consider supporting a program to help local developers/ builders in partnership with local government.⁷¹ Depending on the exact arrangement of such support, the NHA's role or the provisions of GEO no. 34/2006 regarding the attribution of public procurement contracts, public works contracts and service contracts might need to be reviewed. In Slatina, for example, plots of land are being provided for sale for buyers to build their own housing. However, this could have been done more effectively if the land was provided in strategic areas (brown field sites) and allocated to local developers as part of a PPP scheme – for example, a Development Agreement mandating the production of a certain number of affordable units.

4.7 Property valuation and taxation

While there is consistency across tax rates, there are variations across cities as to how properties are valued and taxed. Examples of collection rates across some cities are outlined in Table 4.6. The formula by which housing, commercial, and industrial properties are assessed and taxed for 2014 were decided through local council decisions. The formula respects the provisions of Law 571/2003 and its application norms established through Government Decision 44/2004.

The property tax for individuals is calculated by applying the tax rate of 0.1% on the taxable value of the building's value that is adjusted according to the rank of the city and to the city area in which the building is located (i.e., A, B, C, D). For each area, the values are corrected based on some correction coefficients established by Law 351/2001.

The property tax for individuals is calculated as 1% of the building value, with the following exceptions:

- In the case of a building which was not re-valued after 01.01.2011, the property tax amounts to 10% of the inventory value of the building, as recorded in the accounting books of the legal persons, until the end of the month in which the first re-evaluation has been done

⁶⁹ Colliers. Research and Forecast Report, Romania, 2012. 16.

⁷⁰ EuroBank. Residential Market Report, Romania. January 2011.

⁷¹ Depending on the exact arrangement of such support, the NHA's role or the provisions of GEO no. 34/2006 regarding the attribution of public procurement contracts, public works contracts and service contracts might need to be reviewed.

- In the case of a building which was not re-evaluated after 01.01.2009, the property tax amounts to 30% of the inventory value of the building, as recorded in the accounting books of the legal persons, until the end of the month in which the first valuation has been done
- If a building used as a dwelling exceeds 150 m², its taxable value is increased by 5% for every 50 m². Individuals who own two or more buildings pay an over-tax on buildings as follows: a) 65% (of the base tax) for the first building outside of the primary home address; b) 150% for the second building outside of the primary home address; c) 300% for the third building and following, outside of the primary home address.

The collection of tax revenues varies from city to city, but indicates need for improvement in most cities. The funds collected from property taxes are gathered in the local budget and further distributed according to the needs. They do not have a predetermined destination.

Table 4.6 Collection rate (%) 2008-2013

Locality	2008	2009	2010	2011	2012	2013
Bucharest	88.58	89.30	91.70	92.15		
Cluj-Napoca	87.29	102.65	100.26	99.30	90.01	98.00
Alba Iulia	73.00	84.00	76.15	68.25	81.62	78.12
Aiud	77.00	81.00	65.84	72.15	72.00	73.49
Popești Leordeni	84.00	90.00	90.00	58.00	59.53	64.87
Florești	86.28	103.58	79.51	85.45	95.86	100.00
Plătărești	70.00	77.00	91.00	56.90	81.00	77.20

Source: MRDPA

The revenue obtained from the property tax is rather low, both because the taxes are small, and because the collection rate is about 70%. As a result, the property tax is not invested, but rather used to supplement the monies received from the state budget for the payment of the staff wages and for the utilities used by the local administration.

4.8 Land markets and property registration

Housing markets cannot properly function without functional land markets in place. Unfortunately, land markets still have some ways to go before they can actually form the bedrock for housing markets. Currently, less than 50% of properties are registered in the national cadastre, and less than 15% of properties are verified and registered in the eTerra electronic database. eTerra's coverage of rural properties is below 9%.

Land parcels on the outskirts of major cities, where many new housing developments are located, are overly fragmented and hamper larger scale developments. Because the transaction costs required to deal with several land owners are very high, new housing developments in suburban areas follow unsustainable patterns. For example, new housing developments in Florești, near Cluj-Napoca, follow thin strips of former agricultural land, into which developers pack as many housing units as they can. The end result is that housing developments are often of poorer quality than the Communist apartment blocks, with buildings packed tightly together, with a lack of public spaces allocated for schools, dispensaries, parks etc., and no connectivity to public transport.

**Plate 4.4 Urban expansion of cities on slivers of agricultural land
Florești, Cluj County**



Source: Google Earth

4.9 Housing restitution

The restitution process, although instituted more than two decades ago, still presents significant challenges and is steeped in bureaucratic processes, including a lack of financial and human resources for processing and verification of documents. Despite concerted efforts of the Government, there are many unresolved claims (of former owners) under evaluation at national and local levels of the government. The European Court of Human Rights (ENhCR) has urged GoR to expedite the process of compensation to former owners whose properties had been taken away or lost during the socialist regime. At the same time, there is inadequate social housing or funding for tenants living in houses that were restituted to the former owners.

4.9.1 Unresolved cases of former owners/ claimants

The local authorities are mandated to initiate cases of restitution of properties within their jurisdiction. This is a time-consuming tedious procedure, and often very contentious, with multiple claimants, disputes and pending court cases. The cases, once cleared by the local authority, are forwarded to the ANRP for final processing. The ANRP has reportedly resolved only 30,000 out of 80,000 cases so far, amounting to EUR 4 billion in compensation.

Part of this is attributed to the lack of funds available, but in large part, the administrative and logistical capacity of both the local authorities and the ANRP to handle so many contentious claims. Further, the absence of a digitized system for claims and files means that all records are still handled manually, which reduces the speed, and increases the risk for all both intentional and unintentional errors.

Plate 4.5 Archives of ANRP where all the case files are stored



4.9.2 Inadequate social housing for evicted tenants

According to law 74/2007, local authorities must ensure that there is adequate housing stock available to house tenants evicted due to restitution of formerly nationalized housing. GEO no. 68/2006 provides for priority houses from the rental stock to be distributed by the administrative territorial unit to evicted tenants. However, they do not necessarily have such housing available, and often do not have the funds to invest in new housing for these evictees.⁷² Some local authorities have criticized the change of policy by MRDPA/ NHA, which encourages and even requires the sale of youth housing units built by NHA, as these could potentially provide the much-needed public housing stock to house restitution evictees as well as other needy groups.

4.9.3 Untapped potential of frozen real estate

Properties that are contentious or under active dispute are effectively 'frozen' from transactions in the housing market. The risks associated with disputed properties deter potential buyers and banks for financing loans for such units. While it is difficult to access the actual number of such properties due to absence of data, there is evidence of many such vacant publicly owned houses in the city core of Bucharest. These constitute a potentially valuable stock of real estate that is currently lying vacant and deteriorating over time.

⁷² Following the inventory made by DGDR, out of the 849 territorial administrative territorial units that answered (from a total pool of 3200 administrative territorial units), only 31 administrative territorial units requested the building of social houses for evicted tenants, totalling 14,623 units.

V. HOUSING AFFORDABILITY

5.1 Cost of living

Out of 119 countries, Romania ranked 94th for its cost of living in mid-2014.^{73,74} Despite this ‘low’ cost of living and improving standards of living, many Romanians say, “we earn in Romanian RON but spend in Euro”; in other words, while the costs resemble other European cities where the incomes are much higher, Romanians earn much less

The prevalence of households not paying mortgages or rent is evidenced by the prevalence of private property residences in urban areas, which were most likely obtained as privatized dwellings during the transition years.

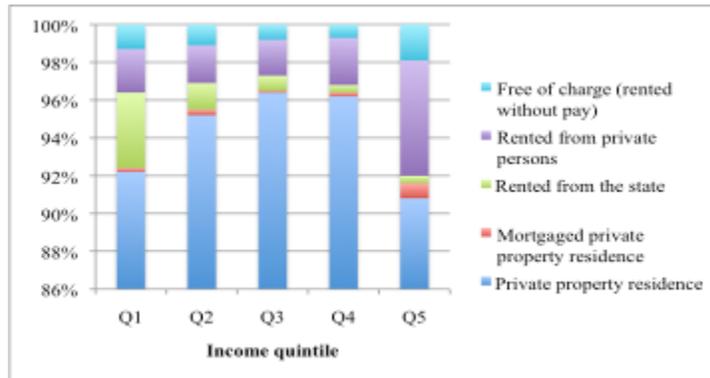
- The overwhelming domination of private property residences in rural areas (above 99% across all income quintiles) indicates that few rural households are likely paying for their dwelling.
- The proportion of urban dwellings owned through mortgages (under 1% across all income quintiles) is negligible.
- Rental from the state for the lowest income quintile (4%) and rental from private persons for the highest income quintile (6.1%) represent the most significant group of households actually paying for their housing at, as will be shown below, a very high price.

However, while only limited sectors of the population may face high rental and mortgage costs, high utility costs across all types of ownership outlined in Figures 5.1 and 5.2 below represent a general burden on the affordability of housing in Romania.

⁷³ Cost of living indices are indicators of both the standard of living and the quality of life. The cost of living index compares the amount of money needed to sustain a household in one city or country when compared to others. The indices include, among other items, the price of housing, groceries, restaurant prices, transit or transportation, taxes, and healthcare. (Source: Numbeo, http://www.numbeo.com/cost-of-living/rankings_by_country.jsp)

⁷⁴ Among 161 European cities ranked for their cost of living, Timisoara ranks 153; Cluj-Napoca, 151; Brasov, 146; Iasi, 142; Constanta, 132; and Bucharest, 130. (Source: Numbeo, http://www.numbeo.com/cost-of-living/region_rankings_current.jsp?region=150)

Figure 5.1 House ownership by urban households



Source: Data sourced from Household Budget Survey, National Statistics Institute (2012)

Figure 5.2 House ownership by rural households



Source: Data sourced from Household Budget Survey, National Statistics Institute (2012)

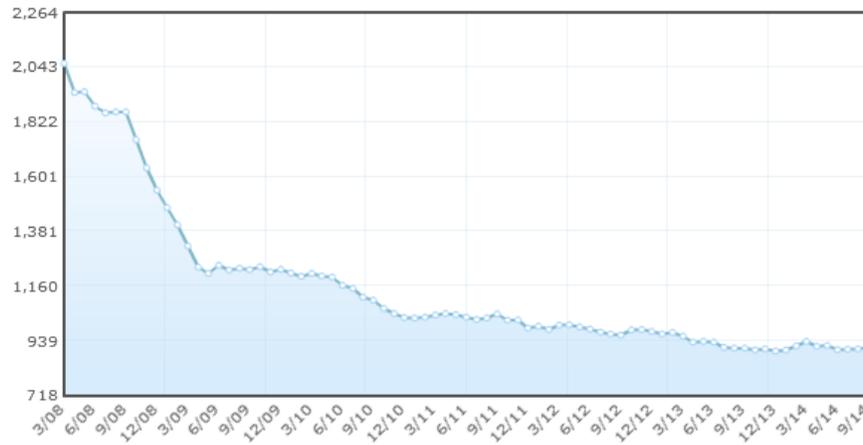
5.2 Price

There is limited data available in Romania on house prices. House prices can only be properly assessed at the point of transaction; in a slow market with low mobility rates and limited means of tracking and collecting data, the information output is limited. This is a common problem in former-communist countries where rapid en masse privatization resulted in a high home-ownership rate.

In Romania, the one exception might be the Cluj-Napoca Mayorality's 2013 data collection of real estate transactions, which highlighted significant trends in the housing market (discussed below). The following affordability analysis is based on data taken from a realtor that publishes a monthly series of price/m² for Romania across geographies and types of housing, as well as the Cluj-Napoca real estate data from 2013.

As an index from property listings website and consultancyimobiliare.ro shows, the average apartment price in Romania plunged to EUR 898 per m² at the end of 2013 from more than EUR 2,000 in 2008.⁷⁵

Figure 5.3 Price per m² for all apartment types in Romania



Source: consultancyimobiliare.ro

The price of old apartments is generally 10% less than that of new apartments in Bucharest. There appears to be a narrowing gap between the two in recent years, which may reflect the lack of supply of new apartments, which is putting increased price pressure on the older stock.

Table 5.1 below further illustrates price points of houses in Romania to provide some context. The prices shown are approximately what one would pay for purchasing either an older house in a decent location within the city, or a new house in a good suburb with convenient transportation networks. The floor space areas are approximations derived from interviews with real estate companies in Romania and align with the spatial requirements outlined in Housing Law 114/1996 (See Table 4.5).

As shown in Table 5.1, a two-room apartment costs approximately EUR 50,000 in good locations in Bucharest, which fits the Prima Casa loan ceiling as well as the Romanian average net monthly salary of EUR 380 in 2014.⁷⁶ It thus comes as no surprise that the highest demand in the market is for two-room apartments consisting of a living room and bedroom of 50-55 m². Three room apartments are generally 70-75 m² and priced between EUR 70,000 - 80,000 for new stock in Bucharest. One would expect that families with children would opt for these larger apartments. However, there is a lower demand for these units because they are expensive and exceed the Prima Casa threshold.⁷⁷ The cheapest units are studio apartments with prices as low as EUR 35,000 in Bucharest. In secondary and smaller cities prices can go low as EUR 7,000-10,000 for old two-room apartments, though in Cluj-Napoca the lowest price

⁷⁵ Before the crisis in 2008, a central Bucharest dwelling averaged EUR 159,223, while in the Bucharest ring the average was EUR 151,300 and nationally EUR 79,901. In the third quarter 2013, an average dwelling in central Bucharest was EUR 77,298 while in the Bucharest ring it was EUR 67,737 and nationally EUR 48,142. (source: <http://www.romania-insider.com/average-romanian-house-price-falls-by-1-6-in-the-third-quarter/109455/>)

⁷⁶ Interview with ANEVAR.

⁷⁷ Interview with ANEVAR.

for such a unit was between EUR 26,700 and EUR 29,370.⁷⁸ These units appeal to single persons or young households. This demographic would benefit greatly from the opening of the private rental market as an alternative to home ownership.

Table 5.1 Housing price estimates for different locations and floor areas

Location	Price (EUR): 1 room or studio (40-45 m ²)	Price (EUR): 2 room (50-55 m ²)	Price (EUR): 3 room (70-75 m ²)
Bucharest	30,000-40,000	50,000-60,000	70,000-80,000
Cluj-Napoca	33,360- 37,530	41,600- 45,760	55,160- 59,100
Bulgaria neighborhood of Cluj-Napoca ⁷⁹	21,760- 24,480	26,700- 29,370	36,680- 39,300

Note: Data sourced from transaction statistics maintained by the Cluj-Napoca Mayoralty, presented in “Tranzactii Imobiliare Cluj-Napoca in Mai-Decembrie 2013” 23 September, 2014.; CBRE. Bucuresti Rezidential MarketView. S1 2013.

In the absence of exact data on housing prices except for in Cluj-Napoca, the cost per square meter has been derived from evidence and available numbers from Bucharest to present an affordability analysis of housing in the following sections. Some 69% of modern housing stock in Bucharest is priced at under EUR 1,000 per m²; this is divided equally between units that cost less than EUR 800 per m², and those that cost between EUR 800 and EUR 1,000 per m².

Approximately 35% of modern stock in the Bucharest area is quoted to be under EUR 800 per m².⁸⁰ Most of these units are located in the South of Ilfov County where cheap land and proximity to public transportation have encouraged development projects including Comfort City and Metropolitan Residence.

The 34% of the stock priced between EUR 800-1,000 per m² lies mostly in sectors 3 and 4 of Bucharest as part of the Asmita Gardens, New Town Residence, and Evocasa Optima developments.⁸¹

Some 23% of the stock is priced between EUR 1,000-1,200 per m² and is located in District 3 (InCity Residences) or in District 6 (Orchid Gardens). The highest end units priced at EUR 1,200 or over constitute only 8% of total new stock, about half of which is located in northern Bucharest.⁸²

⁷⁸ Interview with ANEVAR.

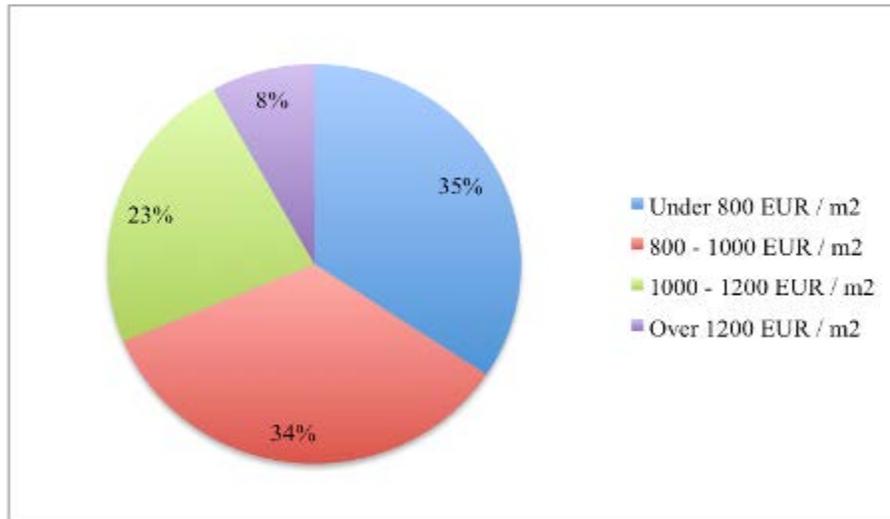
⁷⁹ The Bulgaria sector in Cluj-Napoca had the second lowest average price per m² in the city, according to data collected by the Mayoralty for May-December 2013.

⁸⁰ CBRE. Bucuresti Rezidential MarketView. S1 2013. 1.

⁸¹ CBRE. Bucuresti Rezidential MarketView. S1 2013. 2.

⁸² CBRE. Bucuresti Rezidential MarketView. S1 2013. 2.

Figure 5.4 Share of new construction by price from 2006-2013 in Bucharest



Source: CBRE Research, T2 2013.

5.3 Housing affordability

5.3.1 Defining 'Affordability'

Housing affordability is generally defined as a relative standard, taking into account the cost of housing in relation to GDP, purchasing power, or other economic benchmarks. The economic standard is applied to a particular population segment and a minimum acceptable housing standard in order to paint a full picture of affordability.

This analysis adopts the most widely accepted measure of affordability as a threshold of the percentage of net income that a household spends on housing costs. Unaffordable housing is defined most commonly defined as that which is beyond the housing cost overburden rate of 40% of net household income spent on housing costs; Eurostat defines a household to be 'overburdened' when total housing costs represent more than 40% of net income. However, because the most common threshold for housing affordability as measured by the percentage of net income spent on housing costs is 30%, this report will use both the 40% and 30% standards as illustrative benchmarks.⁸³

⁸³ The average housing cost for the EUR-27 population was 22.5% of net income in 2012, up from 20.4% in 2000; for households at risk of poverty, housing costs were marked at 41% of net income. In 2010, 10.1% of European households and 36.9% of households with income below 60% of median equalized income spent more than 40% of their net income on housing. The general perception among Europeans is that housing has become less affordable over the last five years, with an average of 33.8% of Europeans reporting in 2013 that they were facing disproportionately high housing costs. (Alice Pittini. Housing Affordability in the EU: Current situation and recent trends. CECODHAS, Jan 2012. 2.)

'Housing costs' in this report are taken to match those in Eurostat, and include: Mortgage payments, housing loans, interest payments, rent payments, as well as utility costs, maintenance costs, and structural insurance costs.⁸⁴ The Household Budget Survey (HBS) used in this report includes all costs except for maintenance and structural insurance costs.

While the litany of household budget items can lead to exorbitant housing costs, it is to be noted that different costs hit different proportions of the population. The affordability analysis is therefore broken down into three sections to reflect the way these different costs are structured across the population, namely the affordability of buying a dwelling, renting a dwelling, and paying only utilities. As discussed earlier, most Romanians pay neither mortgage payments nor rent and are burdened only with maintenance and utility costs. Only the lowest urban income quintile has a prevalence (4%) of households that rent from the state and only the highest urban income quintile has a marginal prevalence of households that rent from private persons (6.1%) and pay mortgages (0.8%).

The analysis on housing affordability in Romania is therefore centered on the affordability of home purchase due to the recent prevalence of the Prima Casa mortgage program. The analysis also examines the affordability of home ownership given the high rate of private ownership in Romania. Sitting homeowners do not bear rent or mortgage costs. Finally, the analysis examines the cost of rental to demonstrate the gap between renting and buying, especially for middle-income households.

5.3.2 Calculating affordability

Section 5.3.2.1 examines the affordability of housing purchase using a mortgage, section 5.3.2.2 introduces utility costs as part of the affordability picture (especially for sitting homeowners not making mortgage payments or paying rent), and section 6.3.2.3 compares rental pricing to mortgage payments to demonstrate the preference of middle income households to buy and the disadvantage lower income households experience given the limited supply of rental housing. The Prima Casa loan terms will be used to illustrate the affordability of purchase due to the prevalence of this product and the recommendations to modify the Prima Casa program contained in section IX.

5.3.2.1 Affordability of house purchase

Multiplying the house prices discussed earlier by the average floor space in 1-room, 2-room, and 3-room apartments shows that many units fall within the price threshold of the popular Prima Casa program. Green highlighted boxes indicate that the unit is over the EUR 60,000 threshold of the Prima Casa program for individual beneficiaries buying completed housing units.⁸⁵

⁸⁴ Alice Pittini. Housing Affordability in the EU: Current situation and recent trends. CECODHAS, Jan 2012. 2.

⁸⁵ A beneficiary who is part of a company of at least two beneficiaries may receive a loan to buy a house up to EUR 71,250, while beneficiaries buying completed or uncompleted houses, in various stages of construction, for acquisition after completion, are limited to EUR 57,000. BRD Prima Casa guidelines. <http://www.creditulprimacasa.ro/>

Table 5.2 Price of units calculated for different typologies by m² price breakdown in EUR (Bucharest)

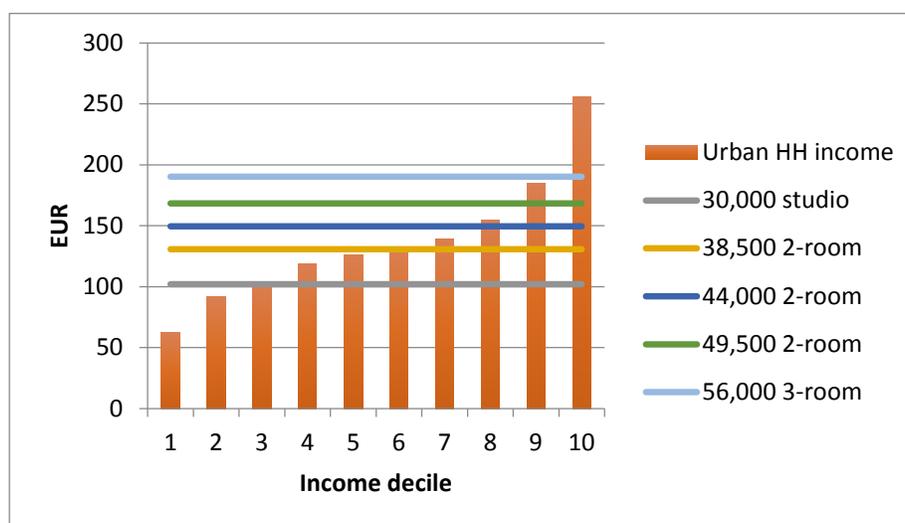
Price / m ²	Price characteristic	Percentage of market in new construction (*)	Studio (minimum of 50 m ²)	2-Room (55 m ²)	Small 3-Room (70 m ²)	Large 3-Room (75 m ²)
600	Minimum price	34%	30,000	33,000	42,000	45,000
700			35,000	38,500	49,000	52,500
800			40,000	44,000	56,000	60,000
885	Market average	34%	44,250	48,675	61,950	66,375
900			45,000	49,500	63,000	67,500
1,000			50,000	55,000	70,000	75,000
1,100	Maximum price	23%	55,000	60,500	77,000	82,500
1,200			60,000	66,000	84,000	90,000

Note: (*) The 12% of the market not represented in the 3rd column is the very high end of new construction prices and out of the working range of this report.

Note: Data sourced from Colliers; CBRE. Bucuresti Rezidential MarketView S1, 2013; field interviews with realtors and developers in Bucharest.

But for a few units in the higher ranges, most old and new housing options meet the requirements of the Prima Casa program for individual buyers of completed dwellings. Figure 5.5 shows that the monthly mortgage payments on a Prima Casa loan (5% down payment, 30 year loan term, 5% interest) is affordable down to the 3rd income decile for the smallest units (EUR 30,000) in Bucharest. That said, slightly larger units (a 2-room unit for EUR 38,000) is affordable only for the middle income deciles and higher.

Figure 5.5 Urban household monthly income compared to monthly Prima Casa mortgage payments on different types of units



Source: Income data from Household Budget Survey, 2012. House price data from Data sourced from Colliers; CBRE. Bucuresti Rezidential MarketView S1, 2013; field interviews with realtors and developers in Bucharest.

Another way of presenting this affordability picture is to show how large a loan each income decile can afford if 40% of monthly household income is dedicated to mortgage payments on a Prima Casa loan. These mortgage amounts allow for the affordable house size to be calculated as well as the maximum price per square meter for a household to be able to afford a 50 m² dwelling.

In Table 5.3, column (vii) shows that only income deciles 8 through 10 can afford to purchase a house 50 m² or large at the market average sale price of EUR 885/m². That said, column (vi) shows that all income deciles can afford a 50 m² flat at lower square meter prices (the cutoff being the market minimum of EUR 600/m², according to CBRE). Only the first and second lowest income deciles are unlikely to afford any standard product in the market with a Prima Casa loan, and hence would resort to self-building or other cheaper alternatives. Specifically, the first income decile is unlikely to find any affordable market solution, and include people currently living in slums and 'ghettos'. Such households will need major support in the form of public subsidies.

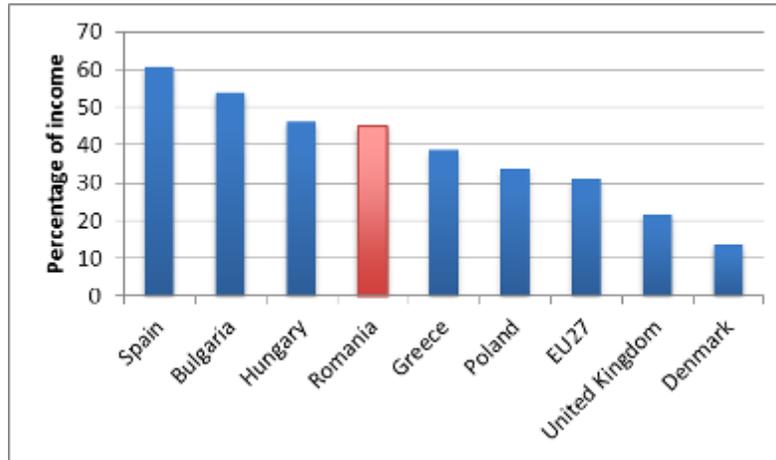
Table 5.3 Affordability, based on a Prima Casa loan (EUR)

(i) Income Decile	(ii) URBAN HH income (EUR)	(iii) 40% HH income (EUR)	(iv) Affordable mortgage	(v) Affordable price point (assuming 5% down payment)	(vi) Affordable price per m ² for a 50 m ² flat	(vii) Area (m ²) affordable at market average of EUR 885/m ²
D1	156	62	17331	18243	20	20
D2	229	92	25717	27071	31	31
D3	259	104	29072	30602	612	35
D4	298	119	33264	35016	700	40
D5	315	126	35221	37076	742	42
D6	325	130	36339	38253	765	43
D7	346	139	38856	40901	818	46
D8	387	155	43328	45609	912	52
D9	463	185	51714	54436	1089	62
D10	641	256	71562	75328	1507	85

Note: Data sourced from Household Budget Survey, National Statistics Institute (2012); Colliers; CBRE. Bucuresti Residential MarketView S1, 2013; field interviews with realtors and developers in Bucharest.

From a regional perspective, Romania lies in the upper-middle end of European countries in terms of the burden borne by households in account of paying off mortgages and other types of housing-related loans.

Figure 5.6 Financial burden rate of the repayment of debts from house purchases or loans



Source: Eurostat, Economic strains linked to dwelling, SILC

Based on the above analysis and previous review of government programs and subsidies, a fuller picture of the affordability constraints may be achieved for different income groupings when purchasing a house. Figure 5.7 outlines attainable housing options by income quintile as well as relevant government programs in cases where private sector housing is not affordable.

Figure 5.7 Housing options by income quintile

100% >EUR430	NEW: 3-4 RM (75-150 m ²) >EUR 75K
80% EUR335-430	NEW: 2-3 RM (60-90m ²) EUR 45K - 55K OLD: 2-3 RM (50-70m ²) EUR 45K - 55 K
60% EUR310-335	NEW: 2 RM (40-65m ²) EUR 35-45K; OLD: 2-3 RM (35-60m ²) EUR 35-45K YOUTH HOUSING (30-50m ²) EUR 10-30/m
40% EUR245-310	OLD: 1-2 RM (30-50m ²) EUR 30-35K SOCIAL HOUSING: 1-2 RM (10-30m ²) EUR 10/m
20% <EUR245	SOCIAL HOUSING: 1-2 RM (10-30m ²) EUR 10/m INFORMAL HOUSING

5.3.2.2 Affordability of housing after factoring in expenditure on utilities

Expenditure on utilities constitutes an important part of the affordability picture, especially due to the high rate of homeownership and the relatively few households paying rent or mortgage payments. Housing costs (utilities) are calculated as a percentage of income.

Table 5.4 Other housing costs as mean percentage of monthly income (midpoint) for rural and urban households

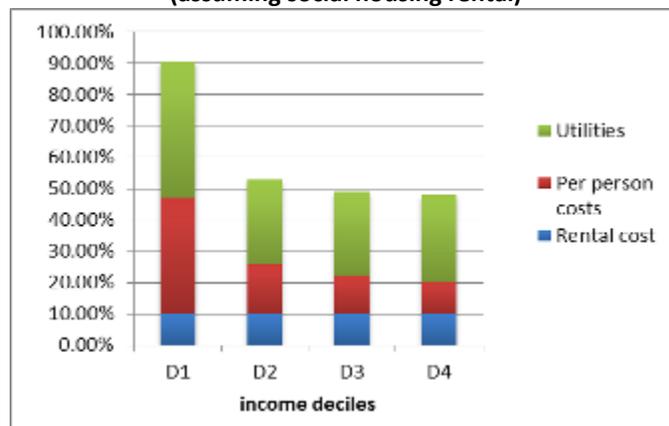
Income decile	Water sewage sanitation	Electricity	Thermal energy	Natural gas	Firewood, coal, petroleum	Total
D1	2.2	11.7	12.1	14.4	3.3	43.7
D2	1.6	7.5	5.7	8.3	3.8	27.0
D3	1.7	7.0	4.6	7.7	5.5	26.0
D4	2.1	6.4	5.3	7.4	6.6	27.8
D5	2.3	6.0	6.0	7.3	6.8	28.5
D6	2.7	5.7	5.6	6.8	7.6	28.4
D7	2.7	5.4	6.5	6.2	7.7	28.6
D8	2.8	4.8	5.9	6.0	7.0	26.4
D9	2.7	4.3	5.3	5.4	8.3	25.9
D10	2.4	3.3	4.0	3.9	6.7	20.2

Note: Data sourced from Household Budget Survey, (2012)

The poor live in the worst conditions and pay a much larger share of their incomes on housing (43.7% of household income on utilities alone). Thus, while social housing rents are capped at 10% of monthly income, low-income households in fact struggle to afford even this option due to public rental per-person costs and the burden of utility costs.

Based on interviews with low income households, the per-person rent in social houses is estimated at RON 80 per month per person. Figure 5.7 shows how the added costs of utilities far outweigh the savings of the 10% subsidy offered in social housing, especially for the poorest households.⁸⁶

Figure 5.8 Housing costs as percent of monthly income for lowest four income deciles (assuming social housing rental)



Note: Data sourced from Household Budget Survey, (2012)

⁸⁶ Figure 5.7 multiplies the estimate of RON 80 by the nationwide average number of individuals per household (2.857) in 2013. Because lower income deciles have a higher number of individuals per household, this number can be considered a conservative estimate. Exchange rate: RON 1 to EUR 0.23.

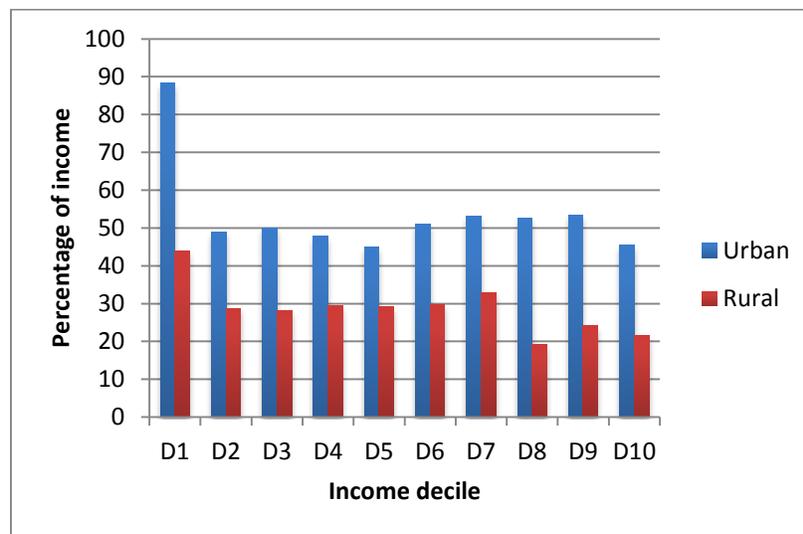
The European Social Housing Observatory reported in 2012 that housing costs hit the poor the hardest, representing 41% of income for people at risk of poverty. In 2010, 36.9% of those with an income below 60% of median equalized income reported spending more than 40% of income on housing costs, compared with the average 22.9% of disposable income spent on housing costs for the EU-27 population of all income deciles.⁸⁷

5.3.2.3 Affordability of rental

The uncertainty involved in renting units on the ‘grey’ rental market together with the inflated prices on the ‘formal’ rental market pushes middle income households to purchase homes. Monthly rental payments are often similar to monthly mortgage payments. This is an incentive for many to purchase a house rather than rent. That said, for the lower income households, the marginal difference in buying a house, lack of financial literacy, the difficulty in obtaining a loan, and the malfunctioning rental market leave such households with few options.

While the mean percentage of income spent on housing costs in rural areas is a fraction of those in urban areas, rural areas suffer a lack of adequate housing due to old stock and general underdevelopment. Moreover, the rural housing picture may not be as affordable as it seems, as households meet many needs without the expenditure of income but rather by subsistence local economies. For instance, many rural households do not pay rent of any sort, and some survive on self-grown crops and alternative sources of fuel.

Figure 5.9 Household expenses (including rental cost) as percentage of monthly income midpoint for rural and urban households



Note: Data sourced from Household Budget Survey, (2012)

⁸⁷ Alice Pittini. Housing Affordability in the EU: Current situation and recent trends. CECODHAS, Jan 2012. 2.

VI. HOUSING FOR THE POOR AND VULNERABLE

6.1 Overview on Social Marginalization and Housing Deprivation

6.1.1 Policy Approach to Social Marginalization

6.1.1.1 Definition of Concepts

Combating poverty and social inclusion is both a priority of the Romanian Government and is framed by targets set in the Europe 2020 strategy. The European platform against poverty and social exclusion, as part of the Europe 2020 strategy, aims to reduce the number of people at risk of poverty and social exclusion from by 20 million people by 2020.⁸⁸ The Government of Romania aims to contribute to this target by reducing the Romanian population at risk of poverty and social exclusion by 580,000 people out of a total at-risk population of 4.99 million (2008 figures).

As part of this commitment, the Government of Romania has undertaken extensive strategic and legislative acts that both define and set the framework for action on this critical issue. Concepts such as vulnerable groups, deprived groups, and categories at risk of social exclusion and marginalization each require clarifications and harmonization among different national, local and European institutions, to allow targeting of funds and customized actions. Once different groups are legally defined, measuring poverty will require a complex methodology, based on several types of indicators harmonized on the national and EU levels, which ensure comparability for monitoring progress towards pre-determined targets.

The following definitions underlie the framework of policies and monitoring of poor and marginalized communities in Romania. These policies are driven primarily by a body of laws passed by the Government of Romania, including:

- Law no. 116/2002 on the prevention and combating social marginalization with associated methodological norms (approved by GD no.1149/2002);
- Youth Law no. 350/2006;
- Law no. 292/2011 on social assistance;
- Law no. 197/2012 on quality assurance in social services; and
- GO no. 137/2000 on the prevention and sanctioning of all forms of discrimination.

Poverty is defined, by Law no. 292/2011 on social assistance, as the state of a person/ family/ group/ community manifested by lack of resources necessary for purchasing goods and services that ensure a minimum standard of living, during a certain period of time, based on the prevailing socio-economic conditions of society.

⁸⁸ European Commission, "European platform against poverty and social exclusion"
<http://ec.europa.eu/social/main.jsp?catId=961>

Minimum standard of living is represented by the minimum quantity in RON needed for an individual to cover basic needs such as food, clothing, personal hygiene, sanitation and housing maintenance. This minimum quantity in RON is calculated relative to the poverty line based on methodology used throughout all Member States of the European Union.

The **poverty line** represents a quantification of resources below which individuals are deemed to not be able to achieve a minimum standard of living as defined by poverty. The quantification of the poverty line is determined in part by the cost of living as. Individuals and families who lack the resources necessary to meet a minimum standard of living are entitled to social security benefits and social services, distributed according to the identified needs of each person or family.

Social marginalization, according to Law no. 116/2002 on preventing and combating social marginalization, is defined as a peripheral social position which isolates individuals or groups in terms of limited access to economic, political, educational and communicational resources. Social marginalization is associated with membership to a vulnerable group or a group at risk of social exclusion. Although, poverty and social marginalization represent different legal meanings, the social realities and characteristics of groups and individuals affected by these two phenomena are similar. Measures to prevent and combat poverty and social marginalization should work to provide opportunities and resources necessary for vulnerable groups to fully participate in the economic, social and cultural spheres of society. This will enable them to take decisions concerning their life and their access to fundamental rights.

Vulnerable groups, according to Law no. 292/2011 on social assistance, are individuals or families who are at risk of losing their ability to afford the minimum standard of living due to disease, disability, poverty, dependency on drugs or alcohol, etc. The legal framework clearly sets out categories of vulnerable groups that demand public support, harmonized with EU policies in the field.

The main vulnerable groups in Romania, as laid out by the National Strategy on Social Inclusion and Poverty Reduction (2014-2020) include:

1. Poor persons, under the following sub-groups: poor children, especially those living in families with many children or single-parent households; employed poor, especially low skilled workers (mainly in rural areas); self-employed persons in agriculture or other fields; youth and people who are unemployed and are not educated or participating in any form of training; persons aged between 50 and 64 years who are not employed and excluded from social assistance programs; and poor elderly people, especially those living alone or with dependent family members.
2. Children and youth lacking parental care and support, under the following sub-groups: children abandoned in health facilities; children living in large or poor-quality orphanages; youth leaving residential care; children and youth living on the streets; children whose parents are working abroad, especially those with both parents abroad and those experiencing long-term separation from their parents; children deprived of their liberty; and teenage mothers.
3. Single or dependent elderly persons: elderly people living alone and/ or in complex needs of dependency.
4. Roma: Roma children and adults at risk of exclusion from families that lack sustainable income.
5. Other vulnerable groups: People who suffer from addictive substances; persons deprived of their liberty or under judicial control; homeless people; victims of domestic violence; victims of human trafficking; refugees and immigrants.

6. Marginalized communities: poor rural communities; marginalized urban communities; poor and marginalized Roma communities.

The harmonization of policies intended to raise awareness about – and prevent and combat the underlying forces causing – poverty and social exclusion must be realized collectively by key stakeholders, including central and local public administrative authorities and representatives of civil society. The legal framework established by these stakeholder gives rise to the provision of social services, which are designed to address individual, family, and group needs in order to overcome difficult situations, prevent and combat the risk of social exclusion, promote social inclusion and improve quality of life (Law 292/2011 on social assistance, art. 27). Social services are provided under the national social assistance system but also as part of other areas such as employment, education, health, justice and housing. The National Strategy on Social Inclusion and Poverty Reduction (2014-2020) emphasizes that the development of social services has been a strategic objective of the Government since 2006, and is expected to remain so under the framework of the current Strategy as well. In order to prevent and combat poverty and the risk of social exclusion through public policies, the state commits to ensure that vulnerable persons have access to fundamental rights, such as the right to housing, health and social care, education and employment (as per Law 292/2011 on social assistance, art. 53, as well as Law 116/2002 for combating social marginalization).

The social assistance system builds mainly on the target groups defined above; however, other categories (new or narrower) are subject to different regulations. In contrast, target groups for social housing include newly-weds below 35 years, youth from social protection institutions who have reached the age of 18, invalid people (I and II degree), disabled people, retired, veterans and war widows, beneficiaries of Law no. 42/1990 (republished), and the Decree-Law no. 118/1990 (republished), as well as other entitled persons or families. Social or Necessity Housing can also be allocated to evicted tenants or individuals/households whose housing was affected by a hazard (floods, earthquakes, etc.).

6.1.1.2 Overview on Poverty in Romania

In Romania, the relative poverty rate has not varied significantly since 2008. Although the poverty rate fell by 2.3 percentage points between 2008 and 2010, it showed an upward trend between 2010 and 2013 (see table below). As a result, the decline in the poverty rate between 2008 and 2013 was 0.9 percentage points (representing 211,000 people who came out of poverty, as compared to the national target of 580,000).

Table 6.1 Relative poverty rate, 2008-2013

	2008	2009	2010	2011	2012	2013
Rate of relative poverty	23.4	22.4	21.1	22.2	22.6	22.4

Source: EU-SILC, 2008-2013. Eurostat

Most people in relative poverty in Romania live in persistent poverty. Among those living in relative poverty in 2012, 81% lived in persistent poverty (a person is in persistent poverty if his/her income is below the poverty line in the year of reference as well as in at least two of the last three years).

Poverty is three times more prevalent in rural than in urban areas. In 2012, while only 11% of people living in urban areas were at risk of poverty, 38% of those living in rural areas were at risk. This

difference can be explained by the structural characteristics of a typical rural settlement with an aging population, with few sources of monetary income.

There are large regional disparities within the country in terms of poverty rates. The lowest percentage of people at risk of poverty was recorded in Bucharest-Ilfov region, where only 3% of the population was at risk of relative poverty. Percentages lower than the national average are also recorded in the North-West (16%) and Central Region (19%). The regions with the highest share of people at risk of poverty are the Northeast (33%) and Southeast (30%) Regions.

Between 2008 and 2012, the incidence of severe multiple material deprivation decreased slightly from 32.9% to 29.9%. Although the general indicator value decreased, this decrease was not uniform in all its sub-components. In fact, for three key sub-indicators (those who can afford a meal containing meat/ relevant substitutes; those who cannot cope with unexpected expenses; and those who cannot keep their homes adequately heated), the situation worsened. Severe deprivation of housing affects 23% of the population (mainly rural populations) which implies living in overcrowded housing and being affected by at least one aspect of inadequate housing (e.g. the roof is badly insulated, lack of bathroom/ toilet/ shower, inadequate light, etc.). This problem is more prevalent among the poor (49%), youth (43.3%) and children (37%). The most severe deprivation reflects sanitary facilities (35% of people do not have indoor bathrooms or showers, and 37% have no indoor toilet for the single use of that respective household). The level of severe housing deprivation in Romania is over four times higher than the EU-27.⁸⁹

In 2012, according to the National Strategy on Social Inclusion and Poverty Reduction (2014-2020), Romania is among the top five countries in Europe in terms of housing costs, with 16.5% of the population overburdened by housing costs.⁹⁰ In the same year, over 41.4% of people at risk of relative poverty faced overcrowding, slightly more than the 38.9% for the same indicator in the EU-27 states. Over a quarter of the population – and a third of the population living in households with dependent children – had unpaid utility expenses for the previous year; less than 10% of the EU27 average had such debts. During the same year, 14.5% of Romanians were affected by fuel poverty, which is defined as the inability to afford adequate heating; the same indicator was 10.8% for the EU-27.

6.1.2 Vulnerable Groups in Focus

6.1.2.1 Roma

There has been much emphasis in recent years – both by the Romanian Government and the international community—to address the needs of the Roma population in Romania,⁹¹ who are among the most marginalized groups in the country. A disproportionate number of Roma are poor (84% at-risk-of-poverty),⁹² and face the worst living conditions nationwide. Their poverty is an outcome of centuries

⁸⁹ As per GD no. 24/2015 on approving the National Strategy for Youth for the period 2015-2020

⁹⁰ Eurostat defines the overburden rate for housing costs as 40% of net monthly income.

⁹¹ The official/ self-declared Roma population is 619,007 persons.⁹¹ The unofficial estimate is about 3 times that, at 1.8-2.2 million. The share of the Roma living in urban areas (37%) is therefore about 250,000 according to official estimates, and about 800,000 according to unofficial estimates.

⁹² Persons with a disposable income below 60% of the national median income equivalent.

of discrimination and marginalization and, similarly their current sub-standard housing conditions are a consequence of policies such as their forced 'settlement' during the communist era, followed by evictions resulting from the restitution of formerly nationalized housing.

Also, notably, a large majority of the Roma (over 60%) live in non-poor localities, but are not always well integrated into the economic fabric of the area. This implies that housing policies targeted at the Roma need not always be coupled with policies targeted at the poor in general. The highest concentration of Roma can be found in the North-West, Center, and South-West Regions. The large majority of poor localities with a high share of Roma are either rural localities or small towns.

Discrimination by Population Concentration and Segregation. About six in ten (56%) Roma households live in settlements where the dominant ethnicity is Roma, underscoring the high level of spatial segregation. In Bucharest, this ratio is nearly seven in ten. Ethnic segregation is stronger among Roma households living in ruined buildings/ slums than those living in other types of housing. More than half of Roma households living in slums also report living in predominantly Roma communities. This type of segregation potentially minimizes experiences of housing discrimination per se, because contact with the majority population is limited. However, it makes Roma communities more prone to forced eviction, as stated in a report by the European Agency for Fundamental Rights (FRA).⁹³

Abuse by Unlawful Evictions. There have been multiple instances of Roma communities being forcibly evicted under the pretext of "cleaning up" the city, or putting the land to more profitable use (see Box 6.1, below). The victims of such evictions are sometimes further harmed by aggressive police actions, resulting in the destruction of what little property they have, and relocation to unsuitable sites (e.g. adjacent to waste dump sites, or on land polluted by chemicals). An NGO, Romani Criss, has taken about 100 such eviction cases to court; currently, approximately ten are being heard by the Court of Human Rights in Strasbourg.

Roma remain prone to evictions given their history of landlessness, their lack of 'proper' documentation, and the technically substandard nature of much of their housing. The vast majority of Roma households have no property deeds on the land and buildings they rightfully possess. The absence of property papers, together with their lack of awareness of their rights, makes them susceptible to the whims and fancies of the local authorities. There are incidents where the same community may have been relocated multiple times, each time being told that they could live in the new location, but then moved again with a change in government that then decided that the land was needed for some other purpose.⁹⁴

⁹³ FRA (European Agency for Fundamental Rights). Housing discrimination against Roma in selected EU Member States - An analysis of EU-MIDIS data, 2009.

⁹⁴ Interview with Romani Criss, an NGO working on Roma issues

In such relocations – which are often essentially forced evictions since no consent is sought from the communities – there is little or no compensation, and no property papers given. The entire process is

Box 6.1 Forced evictions and actions by some local authorities that exacerbate segregation

According to a 2013 report by Amnesty International, local authorities continue to forcibly evict and relocate Roma to inadequate and segregated housing.

About 76, mostly Roma, families, who had been forcibly evicted from the center of the city of Cluj-Napoca in December 2010, continued to live in inadequate housing conditions on the outskirts of the city, close to the city's rubbish dump and a former chemical waste dump. In meetings with the evicted families, the local authorities made a commitment to start moving them from the area in 2013 as part of a project developed with the UN Development Program.

On 18 April 2013, the court of Cluj-Napoca rejected another request from the National Railway Company to remove approximately 450 people, mainly Roma, living in the settlement in Cantonului Street, in the city of Cluj-Napoca thus preventing a possible forced eviction. Many of the residents had been moved to the area by the municipality since 2002.

In April 2013, a Court of Appeal quashed the decision of the National Council for Combating Discrimination (NCCD) to fine the municipal authorities of Baia Mare for erecting a concrete wall separating blocks of houses inhabited by Roma from the rest of the residential area. The Court held that the wall was a proportionate response to the risk of traffic-related injury and that it did not ethnically segregate the Roma residents. The NCCD announced that it would appeal the decision.

In May and June 2013, the municipality of Baia Mare forcibly evicted about 120 Romani families from the town's biggest settlement of Craica. The families were moved to buildings that were not adapted for residential use, and equipped with limited infrastructure.

In August 2013, the municipality of Piatra Neamț relocated about 500 Roma living in housing units on the margins of the town to a completely segregated accommodation 2 km away from the nearest bus stop.

verbal and the communities are often unaware of their rights or have no way to prove the proceedings. There is, hence, there is no legal recourse. Most Roma communities refrain from challenging such unlawful actions by local authorities, not least of all because they are at their mercy; any such confrontation could result in the loss of their social benefits, allocated by the Mayoralties.⁹⁵

According to a report by the National Council for Combating Discrimination (NCCD), however, the vast majority of cases of discrimination against the Roma (that *are* reported) are related to employment and personal dignity.⁹⁶ Only two Roma housing-related complaints were filed in 2011 – one in Cluj, and the second in Baia Mare, both mentioned in Box 6.1.

⁹⁵ Interview with Romani Criss, an NGO working on Roma issues

In a survey conducted by the FRA on housing discrimination, only 3% of respondents in Romania indicated that they had experienced discrimination when looking for housing in the past five years. According to this survey report, “it is reasonable to assume that discrimination in relation to housing occurs on the whole more infrequently than other forms.” That said, some caution needs to be exercised in interpreting the relatively lower levels of discrimination experiences in housing in relation to other areas, because the Roma and other poor households may not frequently look for a house or an apartment to rent or buy.”⁹⁷ Also, there is no data to ascertain the number of housing-related cases that go unreported, the reasons for not reporting them is likely to be a combination of people’s lack of awareness of their rights and the ability to organize themselves to demand their rights.⁹⁸

Limited Access to Infrastructure. According to a recent analysis,⁹⁹ a third of Roma households in Romania have no contract (purchase or rental) for the housing in which they live and, as a consequence, they cannot insure their dwelling against risks. Many Roma dwellings are built of poorer quality materials (e.g. twigs and mud) and are not connected to utilities (water, sewer, or gas). Some 13% of Roma have no electricity compared to the 2% national average. The houses are generally over-populated, with poor furnishings and appliances.

- *Sanitation.* According to the UNDP Roma Regional Survey,¹⁰⁰ only 17% of Roma households have indoor sanitation (toilet, bathroom, sewage connection) while about 44% of nearby non-Roma families have these amenities. Among the lowest income tertile Roma households, fewer than 10% have toilets inside their homes. More than 80% of Roma in urban areas are not connected to sewage networks in the cities/ towns. This is a serious problem in urban areas due to the much higher densities and, not least of all, the underlying exposure to health risks associated with unsanitary conditions.
- *Water.* About 83% of Roma households do not have access to drinking water indoors as compared with 66% for nearby non-Roma comparator households. More than 70% Roma households lack access to indoor piped water while only 52% of the non-Roma households nearby do not have access to indoor piped water. When comparing data for Roma in Romania to those for Roma in other countries in the region, Roma in Romania are the worst off in terms of access to drinking water inside their dwelling.
- *Solid Waste.* Collection of waste is problematic for Roma households. Some 36% of Roma households report irregular or no collection of waste. Among nearby non-Roma comparator households only 18% report not having access to regular waste collection. Regionally, only Macedonia has lower waste collection rates than Romania.

⁹⁷ FRA (European Agency for Fundamental Rights). Housing discrimination against Roma in selected EU Member States - An analysis of EU-MIDIS data, 2009.

⁹⁸ Only a quarter (24 %) of all respondents stated awareness of laws that prohibit discrimination in relation to ethnicity when securing housing. In contrast, 35% did not know of any laws and further 41% of respondents were unsure or had no opinion. (source: Housing discrimination against Roma in selected EU Member States - An analysis of EU-MIDIS data, 2009.)

⁹⁹ Socioeconomic Analysis for Programming European funds for 2014-2020, GLT Social Affairs and Inclusion, Thematic Advisory Committee on Employment, Social Inclusion and Social Services, MMFPSPV, Bucharest, June 2013, pp. 22-25.

¹⁰⁰ Source: UNDP/World Bank/EC regional Roma survey (2011).

6.1.2.2 Youth

Youth, defined as those between 18 and 35 years of age (Youth Law 350/2006), are considered at risk of marginalization. This group is subject to a set of specially designated laws. Youth Law 350/2006 governs the legal framework ensuring adequate socio-professional integration of youth, based on their needs and aspirations. Law 116/2002 on combating marginalization places particular emphasis on youth, aiming to guarantee their access to fundamental rights such as the right to employment, right to housing, healthcare and education, thus introducing measures to prevent and combat social exclusion and mobilize institutions in the field.

While the quality of life enjoyed by this sub-set of the population bears on the future of any country, not all youth are at risk of poverty or marginalization. As such, it is important for government programs to define and target relevant sub-groups of youth as opposed to all youth, some of whom lie in the upper income brackets of the population and are not marginalized in the least.

The demographic structure of post-communist Romania has changed dramatically, as decreasing birth rates have led to a reduction in the share and total number of youth in the total population. A most significant decrease is registered for the age group of 0-19 years, whose share of the total population reduced by 3.5%, from 23.9% in 2005 to 20.4% in 2012.¹⁰¹ Although the decline in this segment of the population in Romania is more dramatic than elsewhere in Europe, the share of youth in Romania is still above the EU27 average. Eurostat projections show that this sharp decline is expected to continue in the following decades. The fertility rate in Romania stood at 1.3 in 2011, significantly below the 1.6 recorded in the EU-27 average for the same year. Perceived as a dwindling resource of Romania's future vitality, youth have been the focus of a body of strategies and social service programs.

The lack of adequate housing, for instance, is thought to be among the main determinants for youth to take major family decisions, such as marriage or having children, as well as an impediment to seeking employment in large or fast-growing cities. Romania is ranked last among EU countries in terms of the share of public housing (3% compared to the EU-27 average of 29.6% in 2012), which implies limited availability of social housing for active and professionally mobile youth. The limited offer of affordable rental housing available for youth in search of employment opportunities causes significant limitations to labor mobility but also limits the capacity of youth to take on an independent life by moving out from their family homes. As a consequence, nearly two thirds of Romanian youth (aged between 18 and 34 years) still live with their parents, as compared to an average of 48.5% in the EU-27 (Eurostat, 2011). Growing challenges for labor market integration as well as limited access to affordable housing are among the factors leading to the postponement of marriage or birth.¹⁰²

The difficulties youth face in mobility and access to adequate housing also precipitate other issues in the housing sector. The difficulties that youth face in establishing their own homes due to the lack of housing options, together with their economic dependency on elder family members lead to

¹⁰¹ (GD no. 24/2015 approving the National Strategy for youth policy for the period 2015-2020

¹⁰² Age at first marriage has increased between 1990 and 2010 from 22 to 26 years for women and 25 to 29.1 years for men. The average age at first birth has also increased considerably, from 22.4 years to 26 years in the same period of time (BOPT-2012, as cited by HG no. 24/2015).

overcrowding.¹⁰³ More than half of Romanians live in overcrowded houses, the largest percentage among European countries and three times higher than in EU-27 (16.8%).¹⁰⁴

Analysis conducted as part of the poverty strategy also reveals that the age group most affected by poverty is youth, with those in the 18-24 age band particularly worse-off.

Table 6.2 Poverty Rate based on age groups, 2008-2012

Age group	2008	2009	2010	2011	2012
0-17	32,8	32,3	31,6	32,6	34,0
18-24	24,4	25,6	25,6	28,5	31,4
25-49	20,5	20,6	20,1	22,0	21,8
50-64	17,4	16,2	14,8	16,1	16,4
65+	25,4	20,6	16,4	13,9	14,9

Source: EU-SILC, 2008-2012. Data processed by the World Bank and published in the National Strategy for Poverty and Social Inclusion

In this context, the National Strategy for Youth for the period 2015-2020 consists of particular measures and action lines designed to contribute to social inclusion of youth, highlighting particular sub-target groups among these: youth who have left institutions placement, youth living on streets, youth without access to housing and with little prospect of acquiring decent housing, Roma youth, youth living in particular territorially compact areas, youth with special educational needs, young victims of exploitation, youth affected by HIV / AIDS, as well as young victims of discrimination.

In addition to this, support measures for youth, as defined by other complementary legislative acts, also target other sub-groups:

- Law 116/2002 on the prevention and combating social exclusion, to ensure access to housing defines the sub-groups of youth coming from foster care (be it public or privately managed), young families aged up to 35 years with or without dependent children or other youth below 35 years.
- According to GD no. 669/2006 on the National Strategy for Social Inclusion of Youth Leaving the Child Protection System, youth leaving the child protection system are considered a vulnerable group, at risk of social exclusion and marginalization, as they lack housing (to rent or buy), and face difficulties in employment. They thus have little or no income, no means to subsistence, and often become victims of crime.
- GD no. 24/2015 approving the National Strategy for Youth the Period 2015-2020 defines several sub-groups: a) homeless children and youth who are in need of correlated and simplified social services as part of an integrated package (support for issuing ID documents, health care, social assistance allowances, access to pensions, access to shelters and social housing, access to education, access to employment opportunities); b) young people leaving foster care centers - which require assistance for the access to housing, education and health services.

¹⁰³ Overcrowding is also caused by the elderly living with the younger generations of a family in the same house.

¹⁰⁴ European Commission, 2010.

Youth have been indeed a prioritized target group in programs with regard to housing; many NHA programs target beneficiaries from this group. However, housing programs have not taken into consideration income levels, often providing subsidies in the form of reduced rent, free land, and favorable mortgage conditions to youth in the low-middle, middle, and even high income brackets. This highlights the need for government programs to better define and sub-groups of youth in particular need of help from the government.

6.1.2.3 Other groups

So far, a number of these vulnerable groups (with higher prioritization: Roma, youth up to 35 years, children, etc.) have been object to specific strategies or normative acts establishing concrete measures to improve their social integration and quality of life, including ensuring access to housing, etc. In addition to these groups, the Romanian legislation provides specific measures for homeless youth and children, disabled people, elderly in vulnerable situations, refugees and so on, including granting access to social housing.

Elderly people are a vulnerable group with an increasing population, as total number and share of population. While Romanians are aging, there is a growing demand for provision of social services specific to the needs and characteristics of this target group. The elderly benefitting from social assistance, including support for social or adapted housing, include people who are in vulnerable situations, namely those who: have no or insufficient income either entitled to themselves or to their legal caretakers (i.e. family members or legal supporters), reside alone and are unable to conduct the basic activities of daily life, need constant assistance and care etc. In this regard, the elderly are entitled to benefits of counseling, care and services for planning or adapting their housing, depending on the nature and degree of functional impairment. Residential care for dependent elderly is entitled whether home care is not deemed possible.

Disabled adults, according to the degree of disability can benefit from tax breaks and other facilities and loans whose interest is paid from the state budget for the purchase of vehicles and housing adaptation according to individual needs. Admission of disabled people in residential care is allowed only if their assistance, care, recovery or protection cannot be provided at home or in available day centers.

6.1.3 Housing Deprivation – A Cause and Result of Marginalization

Romania's poor and marginalized groups – in both urban and rural areas – face serious challenges in the housing sector, including houses of low quality, inadequate infrastructure, and lack of tenure security.

6.1.3.1 Legal and Conceptual Clarifications

Defining needs with regard to housing require clarifications of a number of concepts. Legislation specific to various fields (construction, urban planning, social protection, emergency situations etc.) propose different definitions, categories and standards relating to housing and dwellings.

- *Housing Law no. 114/1996* defines a **dwelling/ house** as a structure consisting of one or more rooms with dependencies, amenities and facilities necessary to meet the requirements of a person or family. The same law defines **convenient housing** as housing which, considering the needs of the user relative to characteristics of the dwellings, covers the essential needs for rest, food preparation, hygiene and education, complying with the minimum requirements set out in Annex 1 of the law. All housing units built after issuing of this law must comply with the minimum requirements stipulated. The law also defines several functional categories of housing: social

housing, housing for intervention, necessity housing, protocol housing, holiday housing and condominium.

- *Law no. 292/2011 of social assistance* defines the following categories of housing and associated aspects:
 - o *Housing of domicile or place of residence* refers to a dwelling owned or rented which meets the basic standard needs for rest, food preparation, education and hygiene as well as the standards stipulated in Annex 1 of the Housing Law no. 114/1996. Necessity housing and social housing can also be housing of domicile or residence.
 - o *Improper housing* refers to makeshift housing or housing structures that do not meet the minimum requirements referred to in Annex. 1 of the Housing Law no. 114/1996;
 - o *People with no shelter, or the homeless*, are a social category made up of single individuals or families who, for single or cumulative social, medical, financial, economic, legal or force majeure reasons, live in the streets, live temporarily with friends or acquaintances, are unable to support rental housing or are under risk of eviction, are in prisons from which they are about to be released and do not have a housing of residence or domicile;
 - o *A person without housing* is an individual who has not established a domicile or residence, in accordance with Government Emergency Ordinance no. 97 / 2005 on the records, domicile, residence and identity documents of Romanian citizens (republished).

A series of other types of housing are also present in other normative acts (though not always clearly defined):

- *sheltered housing ("locuința protejată")* as regulated by social assistance legislation,¹⁰⁵ designating residential centers as family housing which host, for a determined or undetermined period, under protection and assistance, different vulnerable groups having limited ability in movement and action. These include: youth over 18 with disabilities who leave foster care institutions, victims of domestic violence, people with disabilities whose assistance, care, recovery or protection cannot be provided at home or in day centers, dependent elderly, victims of human trafficking and homeless people etc.
- *assisted housing ("locuință asistată")*, as per the GD. 669/2006 on the National Strategy for social inclusion of youth leaving the child protection system, are housing units designated for post-institutionalized youth, for a limited period. These are aimed to facilitate socio-economic and professional integration, thereby creating a mechanism for integrated social assistance to foster the development of necessary skills and abilities for independent living.

In accordance with Law no. 292/2011 social assistance, these housing units are part of the care and support systems to ensure the basic needs of persons, for a fixed or undetermined period. This category also includes residential centers, homeless shelters, multifunctional complexes or complexes of services, hosting centers for emergency or recovery of victims of domestic violence, residential homes for the elderly, assisted apartments, transit centers etc.

¹⁰⁵ Law no. 292/2011 on social assistance, GD no. 669/2006 for approving the National Strategy for social inclusion of youth leaving the child protection system, Law 448/2006 on protection and promotion of disabled persons, Law no. 230/2010 amending and supplementing Law no. 678/2001 on preventing and combating human trafficking

Other types of housing classified in different normative acts:

- *Precarious housing ("locuință precară")* (as per the Methodological Standards of 19 February 2014 for the provisions of Law no. 197/2012 on quality assurance in social services);
- *Improvised or specialized living spaces or camps* for victims of hazards (as per GD no. 547/2005 on the National Strategy for Civil Protection)
- *Nonsalubrious or precarious housing ("locuință precară sau insalubră")*: barracks, caravans, shacks, trailers, cars abandoned on the streets or in parks, abandoned houses etc.¹⁰⁶

In view of the legal and terminology setting presented above, including technical and social conditions, the applicability of minimal standards stipulated in Annex 1 of the Housing Law no. 114/1996 - as threshold for decent housing - is questionable. It is also important to note that the technical standards of publicly funded housing built during the communist regime do not fully comply with the Housing Law standards, but not all of it is inadequate. Also, one cannot generalize that all rural housing built before 1996, without direct access to a water, sewage and waste water systems, built with traditional construction materials, or with a floor area less than 37 m² are automatically qualified as unfit for living. In many cases, the minimum standards of the Housing Law are too ambitious, and as discussed in the other sections of the Housing Report under this RAS, have contributed to making the 'legal' housing market unaffordable, in general (for construction, purchase, rent or administration).

There is a need to correlate housing with poverty, vulnerability and social exclusion, based on relevant indicators. A number of recommendations on vulnerable groups, stemming from the European Commission, establish categories of relevant indicators for monitoring implementation of poverty mitigation actions, some of which are specific to housing:

- *Severe material deprivation rate*: defines the share of people (on different age groups) who cannot afford at least 4 of the following 9 items: 1) to pay their rent, mortgage or utility bills; 2) to ensure proper heating of their dwelling; 3) to face unexpected expenses; 4) to eat meat or protein regularly; 5) to go on holiday; or cannot afford to buy: 6) a TV set; 7) a refrigerator; 8) a car; 9) a phone¹⁰⁷;
- *Additional costs for housing*: share of population living in households where the total cost of the housing (after deduction of housing allowances) represent over 40% of total available household income;
- *Insalubrious housing*: Percentage of population with housing showing deficiencies related to sanitation. The problems considered are: 1) roof insulation problems, walls / floors / foundation damp or mold on window frames or floor level; 2) no bath or shower in dwelling; 3) lack of an indoor toilet for the exclusive use of the household; 4) other housing problems: too dark, without enough light;
- *Overcrowding*: Percentage of population living in overcrowded households. A person is considered as living in an overcrowded household if the household does not have a minimum number of rooms equal to: - one room for family; - one room for each couple - one room for each single person aged over 18 years - room for two persons of the same sex aged 12 to 17 years; - room(s) for each person of the opposite sex aged 12 to 17 years; - a room for two people under the age of 12 years.

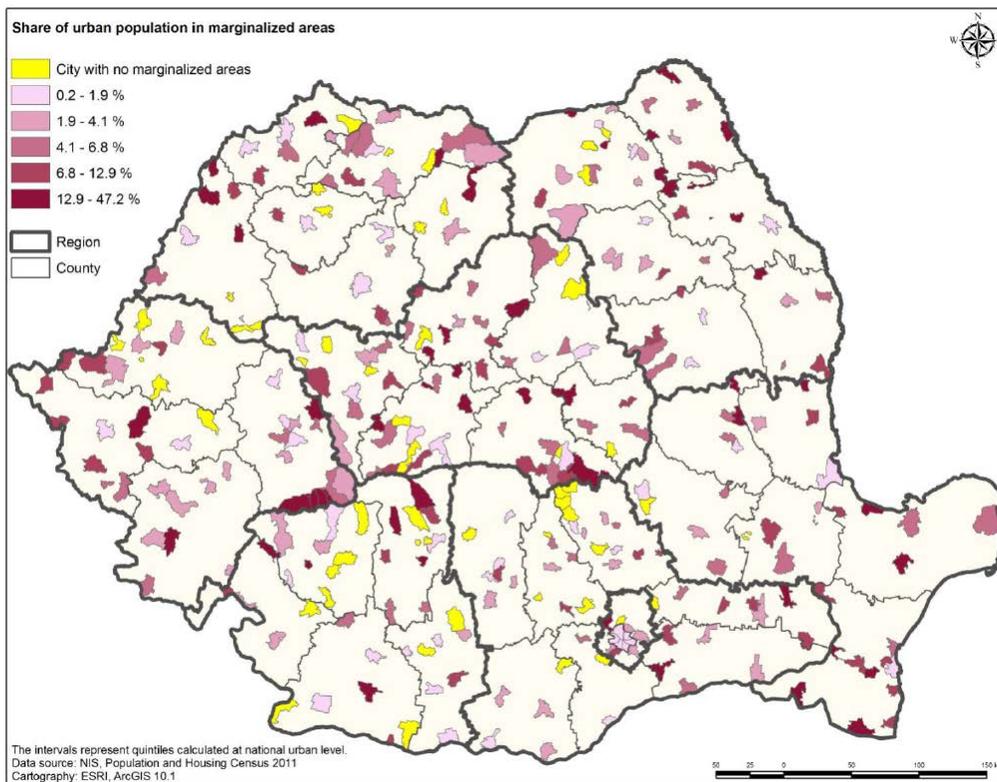
¹⁰⁶ As per Methodology of 4 May 2007 for standard recording and transmission of data provided in the personal emergency sheet for drug consumption, for admission to drug treatment etc.).

¹⁰⁷ As per Eurostat, according to GD24/2015

6.1.4 Housing Deprivation: Typologies and Characteristics

The situation in urban areas is considered more dire than in rural or peri-urban areas in several respects. Given their low incomes and the inability to access decent quality market-based housing on one hand, and having to compete for a very limited stock of public social housing on the other, poor households are often relegated to live in squalid and overcrowded conditions, either in slums, or old ‘blocks-of-flats’ (former workers’ housing, now privately owned and rented out), or poorly-maintained social housing units in the worst locations (former industrial sites, etc.). In contrast, in the rural areas, while the people may be poorer, overcrowding is not usually an issue: there is more space available, and people can practice subsistence agriculture.

Figure 6.1 Share of urban population in marginalized areas



Source: The Atlas of Urban Marginalized Areas in Romania, World Bank 2013.

Urban marginalized areas are defined as areas that have low human capital, low formal employment and poor quality housing (see Box 6.2). The map below highlights the urban areas with the highest share of marginalized people. This methodology is now in the process of being expanded to rural areas too.

In its 2013 regional yearbook, Eurostat’s analysis ranked Romania highest for countries with “severe housing deprivation” (SHD). SHD is a comparative measure between EU countries of households with

extremely poor living conditions, including leaking roofs, no bath or showers, no indoor toilets, trash-strewn lawns and common areas, and no electricity. In Europe, Romania ranked highest for severe housing deprivation and second highest for people at risk of poverty or social exclusion.¹⁰⁸

Box 6.2 Defining 'marginalization'

The World Bank has prepared a study for the MRDPA with the aim of defining urban marginalization. The purpose of the study was to help with a better targeting of funds, through both EU (through programs such as the Community Led Local Development) and State-budget programs. *The Atlas of Urban Marginalized Areas in Romania* identifies three major criteria for urban marginalization along with corresponding urban thresholds (see table).

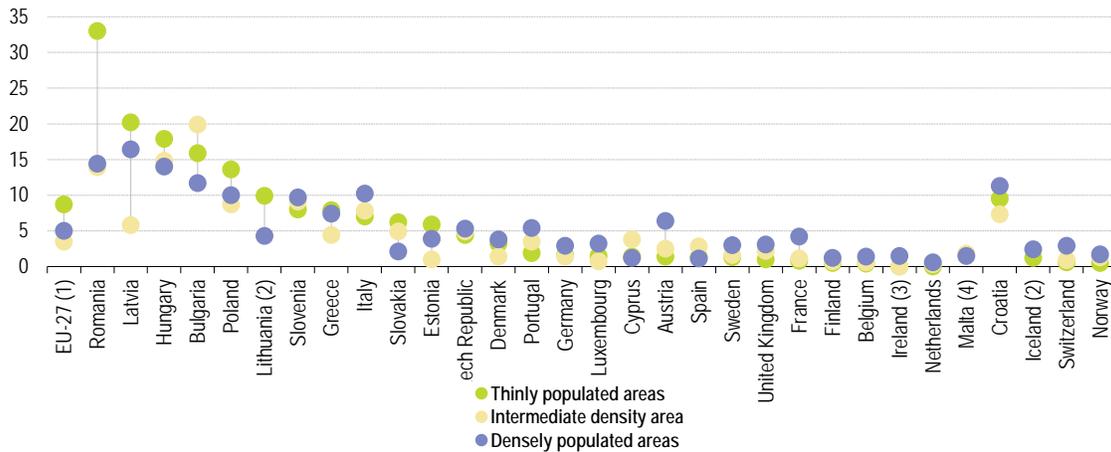
The three criteria of urban marginalization with indicators and their corresponding urban thresholds (%) (unit of analysis in the census sector) are shown in the table below.

Criteria/ Dimension	Key indicators	80th percentile = national urban threshold *)
Human capital	Proportion of population in the census sector between 15 and 64 years that completed only 8 grades of school or less	22.1
	Proportion of persons with disabilities, chronic diseases or other health conditions that make their daily activities difficult	8.0
	Proportion of children (0-17 years) in total population	20.5
Employment	Proportion of persons aged 15-64 years neither in formal employment nor in education	22.2
	Proportion of dwellings not connected to electricity	0.0 ^{**)}
Housing	Proportion of overcrowded dwellings (<15.33 square meters per person)	54.7
	Insecure tenure: proportion of households that do not own the dwelling	12.3

Data: NIS, Population and Housing Census 2011. Notes: *)Thresholds are calculated using only census sectors of households with between 50 and 500 inhabitants. **) Less than 1% of the urban dwellings are not connected to electricity and the 80th percentile is therefore 0%. Any census sector for which at least one dwelling is not connected to electricity (and thus the value is greater than 0%) passes this threshold.

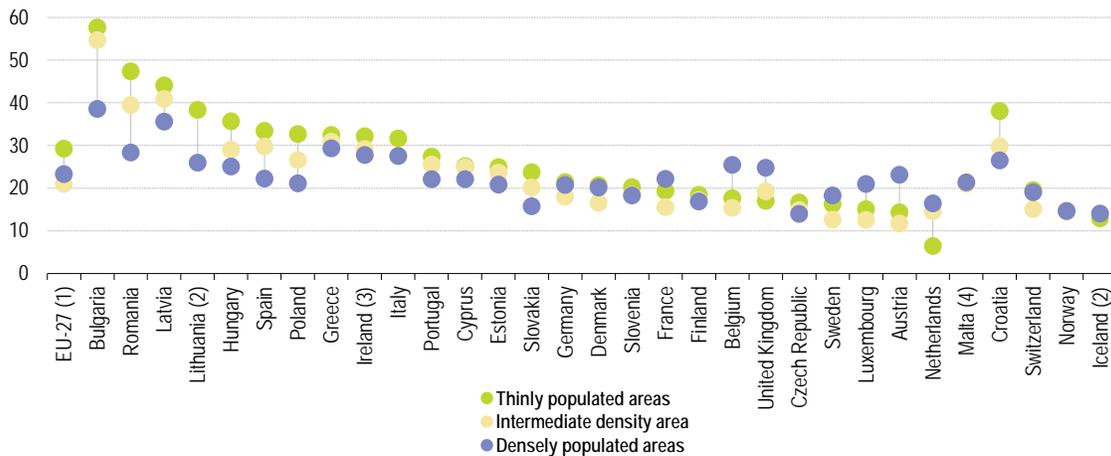
¹⁰⁸ Eurostat, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-HA-13-001-14/EN/KS-HA-13-001-14-EN.PDF

Figure 6.2 Severe housing deprivation rate, by degree of urbanization, 2011



Source: Eurostat, 2011. [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Severe_housing_deprivation_rate,_by_degree_of_urbanisation,_2011_\(%25\).png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Severe_housing_deprivation_rate,_by_degree_of_urbanisation,_2011_(%25).png)

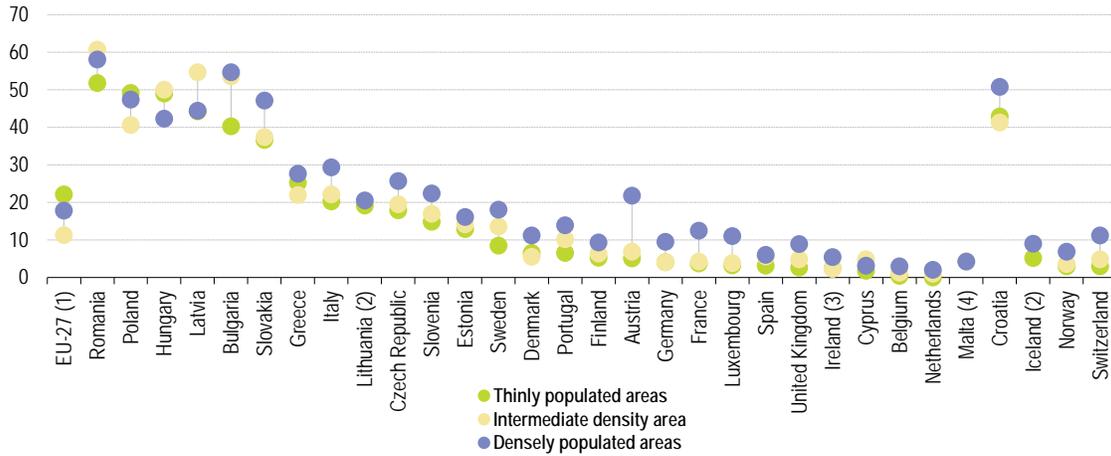
Figure 6.3 People at-risk-of-poverty or social exclusion, by degree of urbanization, 2011



Source: Eurostat, 2011. [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:People_at-risk-of-poverty_or_social_exclusion,_by_degree_of_urbanisation,_2011_\(%25\).png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:People_at-risk-of-poverty_or_social_exclusion,_by_degree_of_urbanisation,_2011_(%25).png)

Overcrowding is a main characteristic of housing deprivation in Romania, which has one of the highest overcrowding rates in Europe. According to field research, the areas most affected by overcrowding are those inhabited by low-income communities. This is especially the case in urban blocks-of-flats where a low-income family with multiple members might live in a one-room flat. For instance, a special situation reflecting this exists in the G2 block of flats in Alba Iulia, a ghetto in the center of the city where more than 330 persons each live in 105 one-room apartments of about 11 m². This translates to 3.5 m² per person on average. Of the 330, 45% are children.

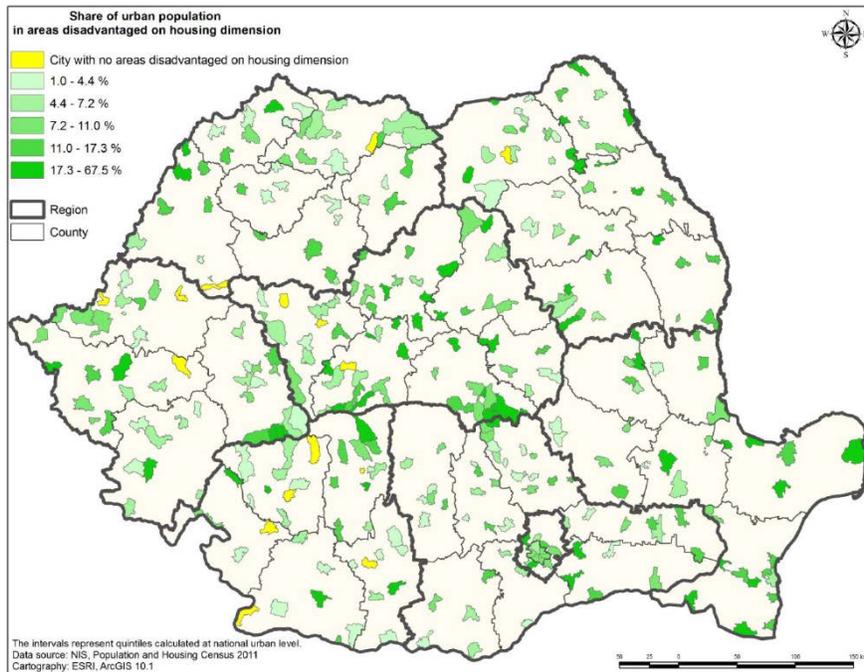
Figure 6.4 Overcrowding rate, by degree of urbanization, 2011



Data source: Eurostat, 2011. [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Overcrowding_rate_by_degree_of_urbanisation_2011_\(%25\).png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Overcrowding_rate_by_degree_of_urbanisation_2011_(%25).png)

The Atlas of Urban Marginalized Areas in Romania identifies urban areas in Romania with the highest share of people suffering from housing deprivation. This methodology is now being expanded to also capture housing deprivation in rural areas.

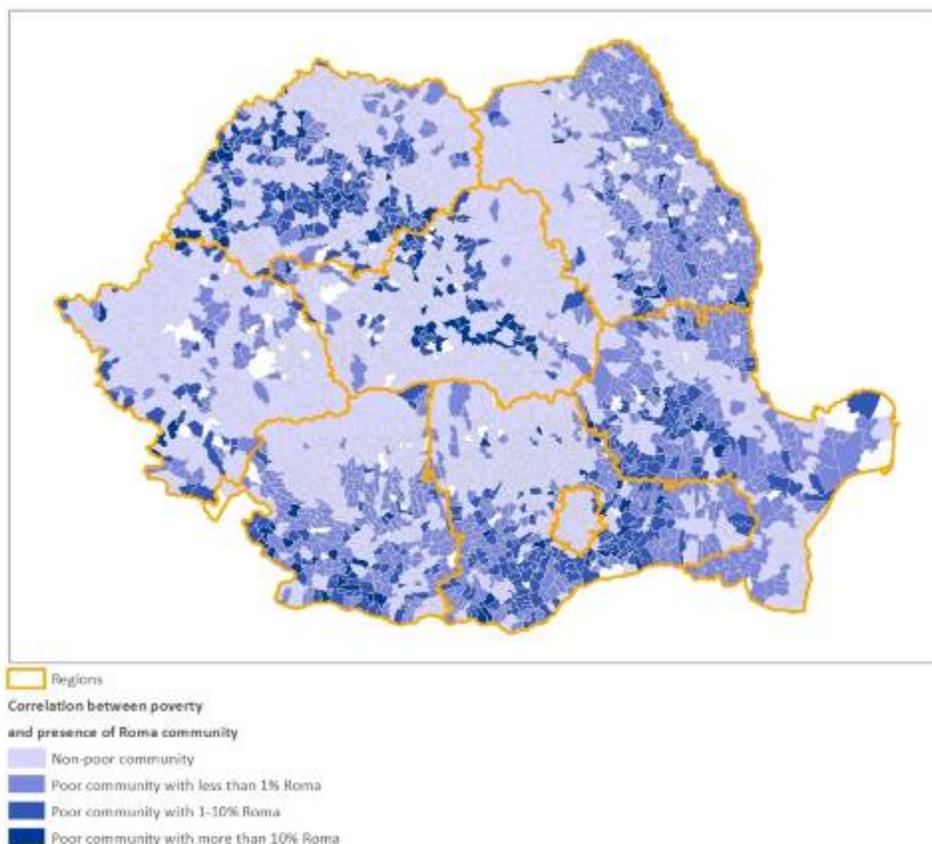
Figure 6.5 Share of urban population in areas disadvantaged on housing dimension



Source: *The Atlas of Urban Marginalized Areas in Romania*, World Bank, 2014

There are some 1,198 informal settlements in Romania of which 953 (79.54%) are located in rural areas, and 245 settlements (20.46%) in urban areas.¹⁰⁹ According to the 2011 Census, 63% of the Roma in Romania live in rural areas,¹¹⁰ mostly in a traditional village-type setting. The plots or their notional footprint is relatively large, and households often practice subsistence agriculture. The houses are relatively well laid out, although the quality of the housing structure is typically very basic and the infrastructure often inadequate. Housing for the remaining 37% of Roma living in urban areas, however, poses a more serious challenge, discussed below.

Figure 6.6 Correlation between poverty and the presence of Roma



Source: The Atlas of Urban Marginalized Areas in Romania, World Bank, 2014

In the last few decades, there has been a decrease in the number of Roma households living in apartment buildings, or more popularly called “block-of flats” – from 32.9% in 1992 to 21.3% in 1998 to 8.3% in 2006 -- and an increase in the number of “courtyard” type single family housing occupied by the

¹⁰⁹ “Analysis of informal settlements in Romania - Assessing the current situation and the formulation of rules and tools of intervention”, MRDPA, 2014

¹¹⁰ Toth & Dan, 2011 (p11)

http://www.undp.ro/libraries/projects/Economia_Sociala_si_Comunitatile_de_Romi_Provocari_si_Oportunitati.pdf

Roma. Most of the Roma live in rural areas or in informal housing on the outskirts of cities.¹¹¹ This movement away from apartment blocks in urban areas to singly family houses in rural areas could, at least in part, be explained by their social and economic marginalization. There are frequent reports of the Roma being evicted or harassed or moved out systematically by the Mayoralties, grounded on a political pitch of “cleaning up the city”.

While most urban Roma do not live in social housing, those that do usually live in the worst conditions, in some cases with no running water or electricity (due to non-payment of utility bills etc.). Below are some of the key typologies of housing used by the Roma and other poor population groups.

6.1.4.1 Rural Traditional Roma settlements

Some two-thirds of rural Roma houses, mainly located in traditional settlements, are of relatively decent quality, while the remaining third constitute dilapidated structures. Infrastructure (water, sanitation, electricity) in these settlements is very minimal or non-existent.

Plate 6.1 Traditionally constructed houses in old Roma settlements



6.1.4.2 Rural/ Peri-Urban Informal settlements

Informal settlement is a term used for a broad range of underdeveloped and illegal settlements, formed on land plots occupied by low income families, without having the permission from their rightful owners and/or independently from the central authorities responsible with the institutional or external control on the local building and planning mode (Turner, 1969, p. 508). These are houses having characteristic elements such as: uncertain tenure status, illegal occupying, low safeness and usually precarious housing conditions. Apart from these, one can add precarious transportation infrastructure, lack of access to the public infrastructure of running water, sewerage, gas and even electricity, elements contributing to the character of insalubrity and public danger to the population's health. The term can be also defined as a group of houses usually built on illegal lands, without building permits and following their own rules, often inhabited by individual or collective groups. They are housing types marked by illegal status: lack of ownership to the land, lack of safeness, lack of access to urban utilities etc.¹¹²

¹¹¹ Toth & Dan, 2011, p. 18

http://www.undp.ro/libraries/projects/Economia_Sociala_si_Comunitatile_de_Romi_Provocari_si_Oportunitati.pdf

¹¹² Suditu B., Vâlceanu D.G., 2013, Informal settlements and squatting in Romania: socio-spatial patterns and typologies, in HUMAN GEOGRAPHIES – Journal of Studies and Research in Human Geography, 7.2 (2013), p.67

In Romania, the informal settlements in rural and peri-urban areas constitute relatively smaller communities of 20-30 households. The houses typically have 1-2 rooms, and are of relatively poor structural quality, constructed with adobe, wood, and tin sheets. The sanitation is extremely poor: a single pit latrine may be shared by many households. Similarly, for water, there may be a shared well. These areas are mostly occupied by younger and larger families with several (>3) children each. Most young adults are unemployed, and live on social welfare allowance and sometimes the informal economy (mostly metal/ garbage collection) or as day laborers.

Plate 6.2 Peri-urban informal settlements



This community in the outskirts of Buzău had one well for the entire community, and no toilets. This is a relatively new settlement that has been established next to an old traditional Roma community.

Informality was initially correlated with the inexistence of a land planning and land management systems and further tolerated, in the absence of flexible and integrative operational solutions set by urban plans, in the context of new dynamics of urban and rural localities. In many cases, generations of urban plans approved in the last two decades did not suggest any planning solutions for the areas with informal settlements, except for few cases, leaving them outside the built-up areas. In fact, following the principle that what is not legal should not exist in reality or in documents as well, some groups of such houses - part of them located in areas of biological or natural hazards - are not even mentioned in urban planning documentations.¹¹³

6.1.4.3 Urban: New or improved housing

At the top end of the Roma income spectrum are those who have managed to extricate themselves from the vicious cycle of poverty. Their newly constructed houses are a symbol of (newly acquired) wealth acquired from overseas or from remittance money sent by a family member. This attempt to integrate with the rest of society has worked for some, but for others it has created more societal cleavages: while still considered 'outsiders' by the non-Roma, they are now despised by their poorer Roma neighbors.

¹¹³ Suditu B., Vâlceanu D.G., 2013, Informal settlements and squatting in Romania: socio-spatial patterns and typologies, in HUMAN GEOGRAPHIES – Journal of Studies and Research in Human Geography, 7.2 (2013), p.70

Plate 6.3 “Improved” Roma settlements



These photos were taken in various Roma settlements in Oltenița and Buzău, where new houses—some very elaborate—are sprouting up, reportedly with remittance money.

6.1.4.4 Urban: Traditional settlements

Traditional Roma settlements in urban areas are mostly located on the peripheries of cities and towns. The houses are of relatively decent quality: older houses are made of traditional adobe, and the newer or renovated ones of brick/ concrete. The plots are relatively large (400-800 m²), which some families use for planting fruit trees and vegetables, raising poultry, and keeping their horses and carts. Some are entrepreneurs with small metal workshops; many work as collectors of recyclable materials (scrap metal, glass bottles etc.), and sell to recycling centers.

These areas are not connected to the city water or sanitation networks, but there is typically one pit latrine and water point or well on each plot. In the old neighborhoods, most people inherited their houses from their parents or grandparents, so have *de facto* rights to the property but often do not have legal property documents. Most of these households are employed or self-employed in the informal sector. Although engaged in productive work, they typically cannot access financing: this is partly because of the banks’ low appetite for risk (the Roma are considered a high-risk group), and partly because of the absence of the property title as collateral – discussed later in the chapter). This limits their ability to improve their homes or expand their businesses.

Plate 6.4 Traditional urban settlement



These photos are from an old Roma settlement in Buzău. The Roma have been living here for many decades now, but often do not have legal property documents.

Left: A relatively newly constructed house on a roughly 800m² plot with a pit latrine and a water point. Many houses are either being constructed here or being improved by the owners.

Center-left, center-right, and right: This is a beautiful traditional Roma house, built of mud (plastered walls) and wood shingles. The compound is large, divided into three lots, and occupied by three siblings and their families. One of the households works in the public sector (school teacher), and another runs the traditional metal recycling business – collecting waste metal, and smelting and molding it into metal

pots for sale. Even in relatively well-off/ established households such as these, it is difficult to expand the business because of limited or no access to finance, and part of this is to do with the absence of land/ property title to use as collateral.

6.1.4.5 Urban: Social housing

The social housing units being occupied by the Roma are typically 10-15m², with a rent of EUR 10-15 per month, plus utilities. Most buildings, particularly the older ones, have common toilets on each floor that are poorly managed. These buildings are often old and dilapidated, or sometimes retrofitted or upgraded by the local authorities. The Roma compete with many other 'priority' groups for a very small stock of social housing; as a result, less than 2% of Roma households live in social housing. These are typically the smaller Roma households with 1-4 members, but there are also cases where more than 4-5 people live in a single-room unit (attributed to more children, inter-generational cohabitation, and extended family members).

One of the issues commonly raised by the residents of these building is that the utility fee is linked to the room in the accounting system; when a tenant leaves without paying, the debt associated with the unit is passed onto the next tenant. Cancelling of this 'historical' debt is administratively difficult and, therefore, new tenants often receive the room with a pre-existing debt. This becomes more complicated in buildings with mixed ownership, i.e. partly private and partly (government-owned) social housing. In most of these cases, an accumulation of debt affects not only the 'delinquent' tenant; the entire building runs the risk of getting disconnected from the public utilities due to accumulated debts of one or more households.

Plate 6.5 Urban social housing



These are social housing units in a old (historic) public-owned building in Brăila occupied mostly by Roma households. It is a dilapidated building, but the units are relatively bigger with high ceilings. Many residents have been living here for over 25 years. They complain about this place but do not want to leave because there is no other place they own or can afford to rent. The common toilets reportedly do not work (left photo); as a result, many households have resorted to building their own toilets in the units. Some better off residents have undertaken major renovations, including plastering/ painting walls and laminating the floors (right photo), but most live in squalid conditions.

Furthermore, and as mentioned before, the criteria for the allocation of units are established by local authorities, a process which is not always transparent, and has too much room for discretion. For

example, when the poorest households (i.e. those earning less than EUR 150 per month) compete with other poor but relatively better-off households for social housing, the chances are that the more 'livable' social housing units go to the latter, and the smaller (~10-15m²) units to the former.¹¹⁴ This means that for the most vulnerable households, which typically have more members (due to more children, inter-generational cohabitation and / or extended family), the chances of getting excluded are even higher.

For the Roma at the absolute bottom of the income pyramid (EUR 0-150 income range), the chances of getting access to social housing are even smaller due to biased reasoning on the part of the local authority, including consideration given to: (i) their 'lifestyle' ("the Roma living in slums cannot adjust to life in a multistory building"), (ii) their inability to make utility payments (since a large number of Roma are unemployed and surviving largely on social welfare benefits), and (iii) their large families (often 7-10 members) that would make them 'unfit' to live in the small 10-15 m² social housing units.

Services such as trash removal are clearly a problem in these areas, as suggested by the photo below, taken in a neighborhood in Bucharest.

Plate 6.6 Absence of trash collection in Ferentari neighborhood in Bucharest



6.1.4.6 Urban: Multi-story “blocks-of-flats” – former hostels for single workers

These are areas of low-quality blocks of multi-story flats. These buildings were typically built before 1990 for the workers of the former socialist enterprises. In most cases, they served as former hostels for single workers, but also include other types of buildings such as former workers' colonies. Today, these buildings are mostly privately owned (by a business enterprise, for example). Each building typically accommodates 150-500 inhabitants.

Referred to as “ghetto”¹¹⁵ both by their inhabitants and by other local people, these buildings house mostly ethnically mixed communities, but with Roma people statistically over-represented.¹¹⁶ The

¹¹⁴ The Roma and other poor households may in fact be currently living in larger dwellings averaging between 30 and 50 m² compared to these social housing units.

¹¹⁵ This report does not subscribe to the use of the term 'ghetto'. The term has been used to match the locally used terminology and to distinguish it from social housing.

¹¹⁶ The Roma became over-represented in the ghettos after 1990, because the households that became better-off moved to a better area, leaving the space to the poorest ones, among them mostly Roma.

apartments typically have only one room measuring about 9-15 m², are overcrowded – often with numerous families, and many children – and lots of furniture. There are only one to two bathrooms per floor, which are mostly shared. Common spaces are typically poorly maintained, and sometimes temporarily occupied by homeless people. Nevertheless, from the inside, some units are well organized and clean (as shown in the photos below).

Mostly, residents of these buildings do informal work, and supplement their income with child allowance and other social welfare benefits, MGI (Minimum Guaranteed Income), handicap benefits, illness pensions, and simply living from the garbage. Paying for utilities (electricity, water, sewage, garbage) is often a challenge. Typically, the larger the number of apartments with beneficiaries of MGI (EUR 20-65 per month), the larger is the number of rooms with unpaid utility bills - for example, during winter, the electricity bill alone may reach more than EUR 45. Hence, from time to time, the electrical power is cut off for the entire block of flats – due to historical debt, or due to non-payment by some residents.

Plate 6.7 Multi-story ‘blocks-of-flats’ occupied by poor households



Left: Old dilapidated workers’ housing block in Oltenița, now occupied by Roma and other poor communities.

Center and right: The interior of a 12 m² unit occupied by a 3-member Roma household – neat and clean from the inside. ‘G’, the head of the household, is a construction worker; his daughter ‘C’, is an 8th grader, and wants to become a doctor one day; and his wife is a cleaner. G has thermo-insulated his unit from the exterior, improved the door and window frames, and even added a toilet to his unit. G moved here as a single man 25 years ago, and has lived here since.

He says he would like to get a better place since this is a “ghetto” and people do not manage the building, but he has no access to finance to build or buy a house.

6.1.4.7 Urban: Informal settlements (“Slums”)

Most slums in Romania have little or no infrastructure – at most a shared tap and 1-2 pit latrines for the entire community. In others, the infrastructure may be developed along a main street but is not available in the rest of the area. Many are located in hazardous areas, for example, on or near landfills, in flood prone areas, and so on. As a result, many of these areas are insanitary and highly exposed to health and environmental risks.

Most residents of these areas do not possess identity papers or own any property. As discussed earlier, this is attributed largely to their history (inability to own land or property), and also to the restitution process post-1989: many of these households either lost their homes (evicted former-tenants) or gave up their dwellings (because they could not afford the rent). These families, being poorer and larger in

size, likely did not get past the long waitlist for social housing, and housed themselves in makeshift shelter in these precarious locations.

The households are relatively large, with several children each. Typically, most adults are unemployed, apart from 3-4 months in a year when they cross over to other European countries, to 'make money'. They take their children to 'work' with them, as a result of which many are not enrolled in schools.

Plate 6.8 Urban informal settlement



Left and center: Informal settlements in Buzău: 2-3 pit latrines in the entire settlement, water for drinking is often taken from a dirty stream nearby; many children not attending school, very poor quality houses.

Right: Informal Settlement in Brăila, located on an old dumpsite.

6.1.4.8 Size and Occupancy

Roma households have an average household size of 5.8 (ranging from 6.8 for the poorest Roma quintile to 4.8 for the top quintile), much larger than the 3.8 recorded for low-income non-Roma families (ranging from 4.6 to 2.9). The poorest income quintile of the Roma tends to live in smaller units with fewer and smaller rooms. Some two-thirds of Roma households live in dwellings with more than 2 people per room, only 25% of nearby non-Roma households experienced this level of occupancy (in 1998, 25% of Roma had occupancy of more than 3 persons per room.¹¹⁷) Overcrowding is a more serious problem in urban areas compared to rural, particularly those living in housing blocks or flats.

The share of Roma households in Romania with only one or two rooms in the dwelling is as high as 57%, whereas among their non-Roma peers, this is 32%. Roma in the lowest income tertile live in the most cramped conditions with an average of 30 m² per dwelling, compared to 50 m² for the richest income tertile. The average dwelling size of a Roma is 40 m² compared to 77 m² for a non-Roma. According to the Împreună Report, the average living surface area per person in Roma households is half that for a non-Roma.

The areas affected by overcrowding are overwhelmingly those inhabited by the poor and Roma communities. In the G2 block of flats in Alba Iulia, 105 one-room apartments each of approximately 11

¹¹⁷ Source: Diagnostics and Policy Advice for Supporting Roma Inclusion in Romania, (RAS) World Bank, 2013; and 2011 UNDP/World Bank/EC Regional Roma Survey

m²are inhabited by a total of 330 persons, of which 45% are children. This means that, on average, about three persons live in each apartment, which translates to about 3.5 m² per person.¹¹⁸

6.1.4.9 Access to Finance

Many lower income households in urban areas could be eligible borrowers and would like to take a loan and buy or build a house, but have no access to financing because they are informally employed or self-employed and have no property titles to provide as collateral.¹¹⁹ According to the 2011 Regional Survey, 99.7% of the Roma had no access to mortgage loans, and 96% had no access to microfinance. Although the microfinance industry in Romania has grown significantly since 2005, the focus has been largely on clients in rural areas (agriculture-related business loans).

The financial access situation in urban areas is more dire than in rural areas. Bankers perceive slum-dwellers and the informal sector workers, particularly the Roma, to be a high-risk group that “does not play by the rules”. Currently only one bank (Provident) offers loans for small business in urban areas, but the interest rate is over 90% compared to 15% in rural areas.¹²⁰ NGOs like Habitat for humanity (HfH) offer home improvement loans and aim to address around 1000 families in a year, but the scale of the operation is very limited. The lack of data on the current situation and infrastructure provision plan of local authorities, absence of statistics on the needs and requirements of target groups such as the poor, disabled and the minority groups have been some of the challenges HfH faces to strategize and plan for long-term for their intervention. HfH also experimented with a subsidized housing finance/ construction schemes, but the performance has been less than satisfactory (see Box 6.3).

Box 6.3 NGO experience with housing finance loans for Roma

Habitat for Humanity (HfH) offers home improvement loans in the range of Euro 750-1,500 at zero percent interest; the borrower must cover 24% VAT per the contract regulations. HfH also initiated a housing/ finance program called "New Builds" targeted to rural households including the Roma. However, the program did not perform well, and is likely to be terminated soon. It involved the construction of 64 m² houses for 3-4 member households, costing roughly Euro 25,000, but ‘sold’ to the poor households at a subsidized amount of Euro 16,000, supported by zero% interest loan contracts for 20 years. Loan repayment was about Euro 60 per month. Attributed partly to the way the program was designed and managed, it ended up creating disincentives for repayment, recording a 50% default rate. Some of the defaulters were genuine cases of financial distress, but mostly HfH reported a ‘perception’ issue amongst beneficiaries – of the NGO’s inability to take recourse in the event of mass non-payment by the borrowers. This has set a bad record in the industry, and now making it even more challenging to get banks interested to invest in this line of business (microfinance or housing microfinance).

In the absence of access to any loans, lower income households lack the ability to start a business or improve their economic situation, which might eventually help them graduate to the level of a housing loan and improve their living conditions.

¹¹⁸ Source: Diagnostics and Policy Advice for Supporting Roma Inclusion in Romania, (RAS) World Bank, 2013

¹¹⁹ Most MFIs require either a collateral in the form of a property title (for an individual loan), or a group guarantee (in a group loan).

¹²⁰ Interview with Good.bee Microfinance Institution in Romania on August 5, 2013. <http://www.erstestiftung.org/inside-the-foundation/mission-and-vision/good-bee/>

6.2 Strategic and Institutional Setting

6.2.1 Strategies Dealing with Poverty and Marginalized Groups

Romania has adopted, or is in process of finalizing several national sectoral strategies with relevance to housing. Such strategies are promoted by different bodies of the Government and include:

- National Strategy on Social Inclusion and Poverty Reduction for 2014-2020 (currently in public consultation stage);
- Strategy for Inclusion of Romanian Citizens Belonging to Roma Minority for 2015-2020;
- National Strategy for Social Inclusion of Youth Leaving the Child Protection System (GD. 669/2006);
- National Strategy for Youth for 2015-2020 (GD. 24/2015);
- National Strategy of Social Inclusion for Disabled People for 2014-2020;
- National Strategy for Territorial Development – Horizon 2035.

Although there is a well-developed regulatory and operational framework, not all legal provisions are followed or operationalized through action and public investment programs, as might be expected. For instance, in the case of some programs such as social housing, the priority associated *de jure* to a program endorsed by law is not translated into specific budgetary allocations. The lack of coherence between legal provisions, endorsed programs and budgetary allocations make that measures established by law lack implementation, and targets relating to the reduction of groups marginalized or at risk of social exclusion, as set by governmental strategies and action plans, cannot be met. This is further detailed in the other chapters of this report.

6.2.2 Institutional Framework

The main public stakeholders with responsibilities for housing for poor and marginalized groups are the central government, through the Ministry of Regional Development and Public Administration (MRDPA) and Ministry of Labor, Family and Social Protection (MLFSP), working with local administration bodies consisting of County Councils and Local Councils.

6.2.2.1 National stakeholders

MRDPA is responsible for developing and implementing strategies, policies and programs for urban and regional planning, housing, infrastructure and local development. MLFSP, both directly or through devolved structures, drafts and implements the social policy assistance to vulnerable groups. However, the approach to vulnerable groups are different, even though overall national targets are the same. The MDRAP manages investment programs to improve the living conditions of economically marginalized groups, while MLFSP manage social benefits programs (mainly payment transfers) for vulnerable groups.

The two ministries have complementary responsibilities and are governed by specific legislative framework. For this reason, there are a number of areas of regulation and action in which the two institutions need to ensure better coordination for granting the *right to housing* (as stipulated by Law no. 116 of 15 March 2002 on the prevention and combating social marginalization, whose implementation is governed by MLFSP), and *the free and unrestricted access to the right of every citizen to housing* (as stipulated by Housing Law no. 114/1996 of 11 October 1996, whose implementation is governed by MRDPA).

The design and implementation of social housing programs or programs targeting disadvantaged areas should be an area of concerted action and investment. However, a review of programs to date reveal limited coordination of the two institutions in this regard.

Consequences of this are manifested, for instance, in the way Roma marginalization is being addressed. The MLFPS emphasizes priority of interventions and support measures to integrate Roma communities by initiating and coordinating the implementation of the Romanian Governmental Strategy for Inclusion of Romanian citizens belonging to the Roma minority. In parallel, MRDPA initiated in 2008 a pilot program "Social Housing for Roma communities" which, so far, has recorded no completed dwellings and very little budgetary allocation. Also, improving the living conditions of Roma communities by increasing access to infrastructure (water, sewerage, roads) cannot be achieved, at present, for informal settlements.¹²¹ For allowing such investments, MRDPA would need to create the legal and technical framework whereby such areas can be identified, assessed, formalized, and supplied with utilities.

On the issue of social housing, the two institutions have distinct responsibilities and approaches. Strategic documents initiated by MLFPS stress the importance of social housing to improve living conditions, and on the social and professional integration of vulnerable groups. The National Youth Strategy for 2015-2020 and the National Strategy on Social Inclusion and Poverty Reduction for 2014-2020 contain specific sections on the design of new programs of social housing construction or development. More specifically, they outline legal provisions to ensure access to affordable housing of disadvantaged groups and to reach a target of a social housing stock covering 20% of needs by the year 2020. By promoting these strategies, the Government aims to develop programs for the provision of social housing, focusing on homeless and other people who cannot afford a house. Increasing access to housing is also key to achieving the Europe 2020 Strategy which aims to decrease the number of people at risk of poverty or social exclusion. There are many vulnerable groups who face extreme poverty, such as the homeless and people living in illegal settlements or improvised or inadequate housing conditions, who are currently not sufficiently covered by housing assistance programs.

According to the National Strategy on Social Inclusion and Poverty Reduction for 2014-2020, the Government aims to assess the need for social housing for vulnerable groups and to establish a national strategic framework specifically for housing policy involving inter-sectoral coordination and cooperation between central and local authorities. However, to date, government commitments for social housing construction MDRAP has been limited, as evident from the small budgetary allocations. By contrast, in 2011, social housing programs in Romania have been allocated SPS 2.66 per capita, whilst the average of EU-28 was over SPS 145.

6.2.2.2 Local administration stakeholders

As previously described, housing is a shared responsibility between the national government and the local authorities (city halls/ local councils). Local authorities, represented by city halls/ local councils and county councils, have the duty to provide social housing, as well as serviced land for other government

¹²¹ Every investment with public funds needs to be substantiated based on the number of households expected to benefit from such investments. Informal settlements do not show up in official statistics as number of housing units, therefore, technically, the application for funds is not possible.

housing projects. They may receive funds from central government to co-finance social housing, but funds for land and infrastructure are to be provided from their own resources. The local authorities play a role in the provision of housing by providing serviced land, and being responsible for the management of public sector housing, both social housing and youth housing. The local public administrations can apply through the county councils for funds from the central government for housing construction and provide with the land necessary for building the housing. A more detailed treatment is presented below on the responsibilities and legal framework for county councils and local councils.

6.3 Review of Past and Current Initiatives

6.3.1 Social Housing Stock

An overall assessment of the existing social housing stock is difficult, partly due to confusing terminology. Social housing can be used as necessity housing, and vice versa, as conditions require, youth housing built by NHA could also be used as social housing (a share of 20% of the total youth housing built, if the local authority determines it is needed). In addition, local authorities often have different other public housing stock (for instance nationalized housing units which have not been returned to their former owners) which they rent to low income groups, thus considering them as social housing.

During September-November 2014, a questionnaire was circulated to all Romanian urban administrative units (319 cities and 6 Bucharest sectors) to obtain an overview of the publicly owned housing units in Romania and to offer inputs into the National Housing Strategy as well as into the Social Inclusion and Poverty Reduction Strategy. The overall response rate was high at 93%, with highest response rates in South-East (97%) and Center (96%) regions and lowest response in Bucharest-Ilfov (79%).

The findings reveal interesting facts on the distribution of social housing as well as challenges of local authorities with respect to social housing. The data, however, needs to be interpreted with caution in the context of the varying interpretations of 'social housing' on part of the local authorities. There was a notable differentiation in the responses, whereby in many cases, "social housing" was perceived in the purely legal sense, that is social housing units built via specifically designated programs and complying with current legal regulations; in other cases, it was reported by local authorities to include all 'housing of social character' (i.e. public housing units rented to different vulnerable groups). And yet others counted, under the label of social housing, other types of public housing – such as youth housing, necessity housing etc. – which are legally or based on source of funds, not really social housing.

The reported stock of social housing in the responding municipalities is 29,167 social housing units (in legal terms), and 47,507 units, if also including public housing units with social character.

Less than two thirds of responding municipalities (57%) report having any stock of social housing. There are also significant inter-regional disparities, with a higher proportions of cities with social housing being located in S-E, N-W and Center Regions (62-68%) as compared to the S-Muntenia region (53% of cities).

Less social housing is registered in smaller cities. The share of cities with social housing increases from 39% in very small cities (under 10,000 population) to 49% in small cities (10,000-20,000 population), and 79% in medium cities (20,000-50,000 population). Virtually all respondent cities with 50,000 or more inhabitants report having some social housing stock.

The presence of social housing correlates with the level of development of the respondent cities. The share of cities with social housing increases incrementally from 25% of the least developed ones (the lowest LHD1 2011) to over 86% of the most developed cities. At the same time, only 30% of cities with high rates of poor population benefit from social housing, while the share reaches 81% in cities with low poverty among population. This reflects that social housing stock may be triggered more by implementation capacity (i.e. in more developed cities) rather than severity of need.

A large part of all social housing units (38%) is concentrated in two regions, S-E and Center, whereas small numbers are located in N-E, S-Muntenia, S-W (8%) and especially B-Ifov (5%). More than half (54%) of existing social housing are situated in cities with 50,000 or more inhabitants. Together, all 134 cities with less than 10,000 inhabitants constitute only 9.2% of all social housing units (2,693 units). Among the small towns, the 51 newly declared ones (between 2002 and 2006) are the most disadvantaged, and comprise only 0.5% of all social housing units (a total of 139 units). In the 65 cities with the highest income poverty in population, there are available only 2% of all social housing units in urban Romania (a total of 592 units).

Social housing registers, generally, full occupation (the total occupancy rate being 96-97%). Beneficiaries of social housing consist mainly low income households: 56-57% are rented to low-income families. However, the other 40% are rented to other target groups.

Some 87% of all local authorities that participated in the aforementioned social housing survey consider that more investment in social housing is necessary in their localities. The large majority offer also an estimation of the need, between 10 and 6,000 units, with an average number of 233 units. However, the average number of units varies widely from around 70 units in very small cities (less than 10,000 population) to almost 150 units in small towns (10,000-20,000 population), 230-250 units in medium-size cities (20,000-50,000 population), and approximately 900 units in large cities (more than 50,000 population).

The program of overdue debts is largely confirmed by the survey data. A share of 30% of social housing units are reported to have overdue utility bills. The percentage jumps to 45-48% in cities from the N-E region (poorest in Romania), as well as in the cities with the highest poverty rate, and drops to a low 23% in the Center region. Debts to utilities in social housing are estimated at about EUR 2.8 million.

The survey provided some valuable data in response to open-ended qualitative questions on the main problems in social housing management, most prominent among them being the poor quality of social housing. Most social housing units are apartments of 1-2 rooms, of 10-37 m² in area, and overcrowded with furniture and often multiple families or large households. Common spaces and installations (electricity, sewerage, water etc.) are typically damaged and/or ill-maintained. Utilities are often disconnected due to arrears. Massive overcrowding leads to a serious pressure on the block installations, which are not technically designed to support such a large number of users. As most installations are old and broken, the basements of these blocks-of-flats are usually flooded and dirty. As a result, the walls and roof are eroded and damp, which puts at risk the residents' health. Some of these social housing areas are at risk of becoming - or have already turned into - pockets of poverty and unemployment (termed locally as 'ghettos'). Local authorities typically run these buildings in the capacity of financial managers, and play little or no role in encouraging or requiring tenants to participate in the labor market or in education or to access other social services.

6.3.2 Ongoing Programs for the Poor

Only a few of all housing programs designed and implemented during the past decades specifically – and exclusively - target poor and marginalized groups.

The **Social Housing Construction Program** functions per the provisions of the Housing Law 114/1996 and is administered by the MRDPA. The program is aimed at building housing units with subsidized rents for the disadvantaged categories of people who cannot afford to purchase or rent a house on the market. This multi-annual program began in 1997 and it is funded from both the state and local budget. The program received very little, and often irregular, budget allocations from 2005-14, totaling RON 234 million.

The **Program on Social Housing Construction for the Roma community** is based on the GD no. 1237/2008. The program is implemented by MRDPA through its subordinated agency, the NHA, in line with the objectives of the Roma Inclusion Strategy, as approved by the Romanian Government under GD 430/2001. The program has received very limited budgetary allocations from its initiation, and registered no housing completions so far. More progress is expected to be registered in 2015, with a modest target of 280 housing units to be built nationwide.

More resources for housing the poor and marginalized communities have been mobilized based on the **Law 116/2002 for preventing and combating marginalization**. This law generates the framework for measures aimed at warranting access to fundamental rights, namely right to work, to housing, to healthcare, and to education. In contrast to the previously mentioned programs, this law does not provide for actual housing investments but for payment transfer to different vulnerable groups. Yearly budget allocations for this program ranged from RON 113 million in 2008 to RON 47 million in 2013.

Other housing investments for vulnerable groups consist of **protected houses** for disabled persons, the elderly, or victims of domestic violence, and **assisted houses** for youth leaving foster care institutions. Such investments are covered by local authorities or civil society organizations active in social services. However, there is no data available on the total number of such housing units.

An analysis of all government programs in the housing sector (mentioned briefly in Chapter 2 of this report, and in much more detail in the accompanying report on Program and project Prioritization) reveals, first, a striking under-funding in the housing sector. This refers not only to the limited budgetary allocations but also inadequate mobilizing of other available resources. This was confirmed by both the field work carried out as part by the team in October 2014, and the Social housing Survey of 2014. City halls, in many cases, have used land reserves for allocating generous individual plots (based on Law 15/2003) and invested in servicing them with infrastructure, but lack of available serviced land is often cited as the limited supply of social housing. Also, there have been many governmental and EU funded programs for thermal insulation which have largely ignored the social housing stock, thereby not tapping the potential to reduce utility bills and reducing pressure on local budgets for unpaid dues.

The social housing program has also been largely limited to investments (housing construction) or direct payment transfers to beneficiaries. More sustainable and higher impact interventions may require integrated interventions, complementing investments with community facilitation, legal assistance for illegal settlers, health and education as well as labor force integration. Such programs require more know-how and implementation capacity at the local level; therefore, assistance from central authorities

is necessary not only in terms of budgetary allocations but also in terms of capacity building and dissemination at the local level.

6.3.3 EU funds for 2014-2020

Housing for vulnerable groups will be funded under the Regional Operational Program under two priority axes, as follows:

- Construction and rehabilitation of protected and assisted housing units will be eligible under Priority Axis 8 in developing social and health infrastructure. The Axis is endowed a generous allocation of EUR 400 million. However, these are aimed at a wide list of eligible activities, ranging from building of regional hospitals and other medical infrastructure as well as other types of social services centers (community centers, day centers etc.). The beneficiaries of these funds will be local public authorities as well as certified private providers of social services.
- Construction, rehabilitation and modernization of social housing will be eligible under Priority Axis 9 on support for economic and social regeneration of vulnerable communities. These funds are aimed to support integrated local area-based development, based on a set of actions combining investment in health, education, counselling, and social housing development. The Axis has a budgetary allocation of EUR 90 million targeted to local action groups involving local authorities, providers of social services, and other civil society organizations.

Complementing this, a significant share of funds will continue to channel to thermal insulation. Social housing, and in general, the public housing stock could benefit from higher prioritization under these funding lines.

The limitation of funding from the ROP is that it targets only urban areas in Romania, thus leaving rural areas mostly uncovered. That said, the rural environment is funded based on the National Rural Development Plan, which builds on EU allocations from FEOGA, thus incorporating less focus on social aspects.

Another potential limitation of the ROP is that it builds mainly on ERDF allocations, thus implying mainly hard investments. As a consequence, the projects are expected to have a limited component consisting of soft measures (e.g. counselling, health and educational mediators, training etc.), which are generally covered by a different structural fund (namely ESF). Unfortunately, practice has showed that such investments can only be sustainable if they are complemented by consistent efforts for capacity building, education, public awareness etc. This may still be possible with a stipulation that local authorities use their own funds or other funding sources to design and implement these soft measures in parallel with the hard components.

VII. ENERGY EFFICIENCY AND ENVIRONMENTAL SUSTAINABILITY

Energy efficiency and specifically space heating efficiency in housing is among the highest-priority areas for GoR, and for good reason; housing accounts for the largest share, 36%, of final energy use in Romania.¹²² The sector is the second worst in Romania (after education) in terms of energy consumption per unit of floor area.¹²³ Energy efficiency potential is estimated at a considerable 41.5%.¹²⁴ Over 25% of the poor population, and over 10% of the population above the poverty line, are estimated to be unable to heat their homes to adequate levels; while over 20% of the population is in arrears over utility bills. Such issues will become even more serious as liberalization of the energy market continues and tariffs rise over the years ahead.

Mass thermal insulation works are being conducted with the aim to transform the energy performance of most of Romania's existing urban housing stock. There are serious challenges in provision of affordable heat through the old and inefficient district heating systems. Further country wide programs are due to begin in the coming years, as part of obligations deriving from European directives, such as smart meter deployment and near-zero energy requirements for new housing. This section examines current and planned efforts in environmental sustainability and energy efficiency in housing and identifies key issues.

7.1 Housing stock characteristics and energy consumption

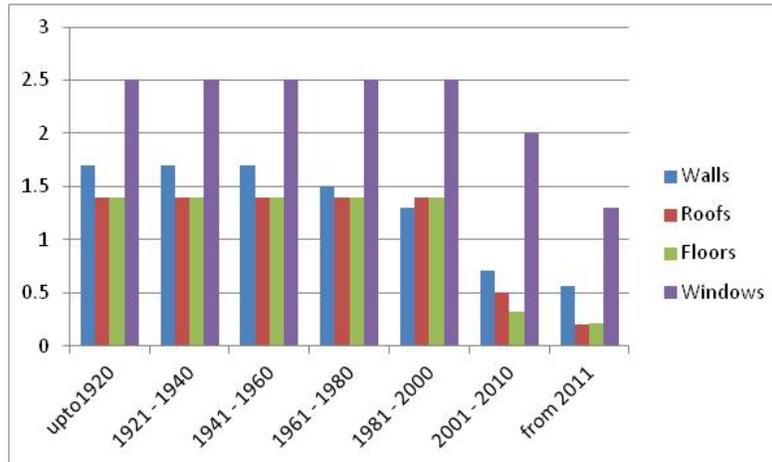
As shown earlier in this report, the majority of residential buildings in use today were constructed before 1980. As seen in the graph below, insulation levels in this period were much lower than current standards.

¹²² Odyssee (2012) – final consumption percentages for 2009-10. Industry accounts for 31%, Transport for 23% and Tertiary sectors account for 9%.

¹²³ BPIE (2014)

¹²⁴http://www.fonduri-ue.ro/res/filepicker_users/cd25a597fd-62/2014-2020/acordparteneriat/PA_2014RO16M8PA001_1_1_ro.pdf

Figure 7.1 Thermal performance standards by age band: ‘U-values’ – lower is better



Source: BPIE Data Hub (2014)

7.1.1 Urban “blocks-of-flats”

Mass urbanization occurred after the second war until just before the end of communism in Romania. The urban population has risen from 22% in 1948 to around 54% today. Some 72% of urban dwellings are in multifamily apartment buildings, or “blocks-of-flats”, especially constructed between 1950 and 1990 to cater for this mass urbanization. These blocks account for approximately 36% of total Romanian dwellings (approximately 3.1 million apartment dwellings). The most significant energy efficiency opportunities exist in this segment of the housing stock, and as such, a high proportion of this discussion is devoted to this issue.

Plate 7.1 Typical blocks-of-flats in Bucharest



The blocks typically vary in height from 5 to 11 stories, and can stretch for different lengths – an average block would contain around 36 dwellings, however some blocks can contain hundreds of apartments. The flats are a mix of studios, two room and three room units and the average useful floor area is 48 m². Usual construction materials and systems include:

- A reinforced concrete frame with prefabricated concrete panels for external walling - the latter consisting of two layers of concrete separated by a layer of insulation. As evident from the U-values described in Figure 7.1, the thermal resistance of such walling systems was not high. Further, due to wearing and poor maintenance in the years since their construction, there is risk of dampness in the insulating layer, and this reduces their insulating performance even further.
- Coupled metal frame windows, which were double frame with single pane of glass in each frame, coupled together such that both frames open and shut together. The thermal resistance of these windows compares poorly with today's standards. Many households have had their windows replaced after 1990 with uPVC windows, using their own funds.
- Individual loggias/ balconies for each unit, which are typically enclosed. As they were not originally enclosed, the quality of the enclosing fenestration varies considerably, and can add to the issue of air infiltration.
- Individual radiators were not fitted with thermostatic radiator valves (TRVs), making it difficult to control heat output and often leading to unnecessary heating. Many homes still do not have TRVs.
- Wall systems between dwellings are mostly not well insulated leading to heat loss to neighboring unheated dwellings. Indeed, it is quite common for some residents to not heat their homes, in order to benefit from unintended heat transfers from neighbors.

7.1.2 Rural Housing

Some 46% of the country's citizens live in rural areas, and mostly in single-family homes. According to the NIS 5.8 million citizens live in poor quality adobe or timber homes in rural and peri-urban areas – where the building fabric is leaky and where space heating requires four times the energy needed in a well-insulated dwelling. Space heating is usually achieved in rural areas using firewood and biomass as fuel, often in traditional stoves where efficiencies are low. Since biomass is considered a 'renewable' fuel, this is not an issue in terms of climate change. However, heating and cooking are often achieved through open flames which is a safety hazard; and as seen above, energy consumption for space heating in rural areas is extremely high and needs reduction in order to increase comfort and affordability for the rural population.

The existing National Rural Development Programme or NRDP should include measures to facilitate the supply of modern wood-burning cooking/ heating stoves and boilers to increase energy efficiency and increase safety. For very dispersed homes without access to the electricity network, business opportunities such as in mini-photovoltaic systems should be facilitated to allow for small requirements such as basic lighting, radio and mobile phone battery charging. These recommendations are in line with the National Strategy for Sustainable Development (2008) which has among its objectives: "To maintain and develop economic activities and to increase the number of jobs by diversifying non-agricultural employment and encouraging small-scale entrepreneurship in the countryside;... To increase the attractiveness of the rural areas and reduce the migration of young people to urban centers by developing modern physical infrastructure; to improve social, economic and environmental conditions".

7.2 Heating systems, tariffs, and “energy poverty”

7.2.1 District Heating

Romania has 4.6 million urban dwellings, out of which 1.4 million flats are connected to district heating (DH) networks¹²⁵ where heat is delivered mainly from combined heat and power (CHP) plants using natural gas (54%), coal (20%) or oil products (26%). The DH network market is estimated at EUR 1 billion with more than 50,000 employees and contractors.¹²⁶ The CHP plants are owned by the municipalities, while the distribution networks can be owned by public or private entities.

DH networks are typically highly inefficient due to outdated technology and poorly maintained equipment. It was estimated in 2011 that nearly 30% of thermal energy produced in Romania is lost before it reaches consumers, three times higher than in other EU countries.¹²⁷ This is due to chronic under-investment – where price regulation in the past has limited revenues while the state provides just enough subsidies to continue operation but not for investment.¹²⁸ Average subsidies have amounted to 40% of the approved distribution price for the operators per Gcal, which has led to a public budget liability of EUR 500 million. In spite of these high subsidies, most operators are running losses and have high debts, which prevent them from financing the much needed rehabilitation and optimization of the systems.

Due to their poor condition, the cost of heat from these systems is relatively high (estimated as 20% higher than other EU members) even with significant subsidies from the state and local budgets. Income levels of many residents are low and in the years when gas prices seemed affordable, significant numbers of householders chose to disconnect and install other means of heating – individual boilers, or even stoves. Consumption of centralized heat has decreased from 2.8 million tons of oil equivalent (Mtoe) in 1992 (30% of the total) to 1.1 Mtoe in 2010 (14% of the total). Since the 1990s, the number of towns and villages connected to the district heating system has fallen from over 300 municipalities in 1996 to just 100 in 2010. Overall, just 18.37% of the Romanian population now has access to thermal energy provided by district heating.¹²⁹

Blocks-of-flats connected to DH networks were typically only provided with one heat meter at the pipe’s entrance to the building; no individual heat meters were provided. This has led to challenges in the allocation of consumption and costs. The problem is further compounded by the fact that the current legislation allows for housing blocks to have some flats connected to the central district heating system, and some to their personal gas boilers. This has resulted in the remaining DH customers having a higher

¹²⁵ EBRD (2014), *Romania Energy Efficiency in the Residential Sector*

¹²⁶ ARPEE (2013), *Energy Efficiency in Romania: White Book*.

¹²⁷ Pwc (2011), *Challenges and Opportunities for the Romanian District Heating System*

¹²⁸ (MECC, 2013), *Romania’s Sixth National Communication on Climate Change and First Biennial Report*. Ministry of Environment and Climate Change of Romania. Accessed 17th July 2014 from [https://unfccc.int/files/national_reports/annex_i_natcom/submitted_natcom/application/pdf/6th_nccc_and_1st_br_of_roman_ia\[1\].pdf](https://unfccc.int/files/national_reports/annex_i_natcom/submitted_natcom/application/pdf/6th_nccc_and_1st_br_of_roman_ia[1].pdf)

¹²⁹ Pwc (2011)

liability as common infrastructure costs are now shared among fewer people. Further, there are technical issues such as loss of pressure and over-sizing resulting from too many disconnections.

When working efficiently and when sized properly to meet demand, DH can have 20-40% cost savings and significant greenhouse gas reductions when compared with individual heating systems.¹³⁰ Further, DH networks offer the opportunity to switch fuels much more conveniently than on an individual basis e.g. switching from highly polluting coal and oil to a lower carbon or renewable fuel such as biogas or biomass. Indeed, while Romania has been steadily decreasing its use of DH systems, other countries have been trying to create new ones. Urgent investment is required to increase the efficiency of the systems and create a long-term sustainable DH business model that will be beneficial for Romanian customers. Investment needs have been identified as EUR 5 billion, while recent investment levels have only been in the region of EUR 30 million per year.¹³¹

7.2.2 Tariffs

Tariffs for heat produced by cogeneration are set by ANRE while ANRSC sets tariffs for heat from boilers. Both ANRE and ANRSC set heat prices on a cost-plus basis, i.e. based on information on revenues and costs provided by DH operators.¹³² As such, there is no immediate imperative for DH operators to invest in increasing efficiencies and lowering costs for the long term. Local authorities may approve lower prices for their sections of the population but will need to cover the difference from their budgets.

Liberalization of the power and gas markets was agreed with the IMF and European Commission in 2011: the process began in 2012 and will be completed by 2018. Natural gas and district heating tariffs are rising as a result, and energy subsidies will be phased out by 2017.

Households are provided with heating subsidies from the central budget. This is applicable to all types of households and is differentiated by the energy carrier used for heating: hot water (district heating), gas, solid and liquid fuel and electricity. The income threshold for receiving subsidies for households with energy carriers excluding DH is RON 615 per person/month (EUR 140). This threshold for households using district heating is RON 1,082 per person/month (EUR 245). The reasoning behind this is that DH customers are especially disadvantaged due to low heat efficiencies and high costs.

Across Romania, an average of 35% of household heating costs are subsidized. Subsidies are stratified based on income categorization, as seen in the example below which shows the stratification used for customers using district heating.

Wood and coal subsidies were previously in force, mainly for rural communities. However, assessing income stratification in rural areas has been difficult as assets and incomes can be difficult to calculate. In order to arrive at household income stratification in rural areas, assets and associated revenues were previously calculated based solely on land ownership; however, this system of assessing relative

¹³⁰ Pwc (2011)

¹³¹ https://www.pwc.ro/en/Press_Room/assets/2011/Romanian_district_heating_system.pdf

¹³² Interview with ANRE, WB September 2014 mission, and EBRD (2014)

incomes has been replaced by a more sophisticated system of judging revenue generation potential from all assets.

Table 7.1 Low-income classes defined within the heat aid support scheme for district heating

Low Income Category	Monthly income band (RON/person/month)	Central Budget compensation (% of RON 500 –Reference Social Index)
1	Below 155	90%
2	155-210	80%
3	211-260	70%
4	261-310	60%
5	311-355	50%
6	356-425	40%
7	426-480	30%
8	481-540	20%
9	541-615	10%
10	616-786	5%
11	787-1082	0%

Source: Adapted from EGO 70/2011

7.2.3 Fuel and Energy Poverty

The EU does not have a common definition for Fuel or Energy Poverty. In the UK, a household is considered under fuel poverty if it has to spend more than 10% of its income for space heating in order to maintain an appropriate comfort level. The European Cohesion Fund (CF) has funded district heating investment projects in Romania where an affordability threshold of 8.5% was used, including both space heating as well as domestic hot water expenses. If this threshold were used, 60-70% of Romania’s urban population would be defined as being in fuel poverty. According to a detailed study undertaken in 2013,¹³³ implementation of a comprehensive package of thermal insulation measures (window/door replacements and insulation of walls, terraces, basement floors, heat pipes etc.) can reduce this extraordinarily high proportion to 10% – as shown in Table 7.2.

Table 7.2 Illustrative space heating affordability by household income decile (2011 prices)

Household Income Decile	Household Income (Urban Areas) RON/HH/month	% heating costs from HH annual income (using common representative apartment area)	
		Before EE investment	After EE investment
1	1044.1	17.4%	9.5%
2	1277.9	14.2%	7.7%
3	1435.4	12.7%	6.9%
4	1589.4	11.4%	6.2%
5	1794.5	10.1%	5.5%

¹³³ JASPERS (2013)

6	2031.5	8.9%	4.9%
7	2295.2	7.9%	4.3%
8	2667.4	6.8%	3.7%
9	3208.1	5.7%	3.1%
10	5156.4	3.5%	1.9%
Average	2250.0	8.1%	4.4%

Source: Adapted from JASPERS (2013)

7.3 Mass thermal insulation programs

The focus of government programs has correctly been on retrofitting blocks of flats constructed before 1990 as these offer greatest value for money: the density of dwellings is high and by retrofitting one building, a number of dwellings see the benefits; these buildings have some of the lowest insulation capacities in the housing stock. Heating consumption in buildings built before 1990 can be expected to be approximately 4 times higher than buildings built to the current building standard (C107/2010).¹³⁴ According to a study by the University of Timisoara, heat consumption in typical blocks in Timisoara is approximately 245kWh/m²/yr (and approximately 325kWh/m²/yr if one assumes that the initial thermal layer is now ineffective due to condensation over the years), while a building designed to meet the recommended standards of C107/2010 for insulated buildings would consume only 73.4kWh/m²/yr.

The thermal insulation programs are nothing short of a national urban transformation. Over 1.5 million dwelling units have been insulated under the current program and its predecessors. Approximately another 2 million units need to be retrofitted just to address this segment of the housing stock.

7.3.1 Insulation Program mandated by Government Emergency Ordinance (GEO) no. 18/2009

The most significant current program is that established by GEO 18/2009, which aims to increase energy performance of multi-family blocks of flats built between 1950 and 1990. The Act established the intervention works, the process, financing mode, obligations and responsibilities of public authorities and owner associations, and specified that the enhancement of energy performance for residential buildings must be done so that the specific annual energy consumption for heating falls under 100kWh/m²/year.

The program allows for the implementation of a range of insulation measures (walls, floors, roofs, pipes, window replacements, energy efficient enclosures of balconies/loggias) based on an initial energy audit for each block. Technical studies have established that a full package of measures can realistically result

¹³⁴ JASPERS study.

in space heating reductions of between 39 per cent and 45 per cent - from an assumed 175kWh/m²/yr to 95kWh/m²/yr.

Different **funding contribution** formulae have been used for thermal retrofit programs in multi-family blocks of flats. The current thermal insulation program offers the following formula - 50% from state budget; 30% from local authority budgets; and 20% from the owners' associations. Where EU funds are used, especially European Regional Development Fund (ERDF) funds, a slightly different formula applies:

- 60% from ERDF and state budget (82% of this is from ERDF funding)
- Between 10% and 30% from owner associations based on average income bracket of residents
 - o 10% of the cost where more than 50 per cent of the families-owners of the block have av. monthly net income per family member less than EUR150
 - o 20% when this is less than EUR350
 - o 30% when this is less than EUR500
- Remainder from local authority

The thermal insulation programs have not followed a systematic **targeting** method over the past 10 years. Different local authorities have used their own methods to 'sell' the program to owner associations (OAs), in some instances offering to cover the OA funding contributions.

The average **costs** per unit become lower as buildings become larger and more compact. For example, average cost of a basic package of insulation measures per m² of useful floor area is €57.20 for an 11-storey block as compared to EUR72.10 for a 5-storey block – when both blocks are of 'regular' shapes. Using an average of 47m² of useful area per unit, this would imply that the cost per unit would be EUR 2,688 for an 11-storey building but EUR 3,389 for a 5-storey block. If the owner pays 20%, the costs would range from EUR 538 to EUR 678.

Once the building 'shape' is factored in, it has been calculated that an 'average' building presents a cost for basic EE measures of EUR 65-75 per m² of useful floor area, excluding VAT and project preparation costs.

Thermal insulation programs have benefits outside of energy efficiency. EUR 1million of EE investment results in rehabilitation of 242 apartments on average with a CO₂ saving of 251 tons/year, job creation of 22.2 job-years in construction and 4.8 job-years in technical assistance (27 job-years in total). Analysis conducted to monetize the social and environmental benefits of such programs shows an IRR on Equity of 29.9% and a NPV of EUR 2,573 for every EUR 1,000.¹³⁵

7.3.2 Challenges with GEO no. 18/2009

7.3.2.1 Quality and 'completeness' of works within the program

External wall insulation, window replacement, roof/floor insulation and pipe insulation are normally provided as part of the works. However, common areas such as stairwells and entrance lobbies are not covered in the national programs. The Homeowners Association Law lays out the responsibilities for

¹³⁵ JASPERS, 2013

maintaining common areas; however, due to the inability of the HOAs to organize themselves, together with their lack of financing capacity, the maintenance and management of common areas is highly unsatisfactory. This lowers overall efficiencies, and can also result in very poor appearance. Some local authorities have created their own deals with HOAs to retrofit/ insulate the common areas.

According to some market participants,¹³⁶ the tender assessment system within the national thermal insulation program needs improvement. Currently, the cheapest qualifying tender is automatically awarded the contract for works. Market participants report that this leads to pressure on the implementing contractors to quote unrealistic costs and then have to cut corners to make the budget work. Further, a common practice is the sub-contracting of work at several levels, i.e. a subcontractor subcontracting to another subcontractor and so on, along with the associated distribution of management fees, such that the implementing contractor needs to cut corners even further in order to deliver the works within budget.

The local authority provides quality monitoring; however, the resources available for this are often stretched and this can lead to variable quality in the works. And although there has been no systematic assessment of quality so far, the industry as a whole appears to be concerned that a significant proportion of works are sub-standard.

7.3.2.2 Funding availability

Some local authorities, especially those in smaller towns, tend to find it more difficult to contribute their share of the funding. Similarly, some citizens find it very difficult to co-finance their portion of the cost. Romanian cities still have a major share of apartment buildings with a heterogeneous mix of income groups. This is especially the case in large cities with massive agglomerations of apartment blocks. Here, it is very likely that some homeowners – even if only a minority -- are unable to afford the heating bills or to invest in thermal rehabilitation of their apartments. In most cases, the failure to pay heating bills is followed by disconnection of the apartment from the DH network. However, investments in thermal rehabilitation are different: when the Home Owners Association proposes an EE investment, and the majority of members vote favorably to the project, the minority that does not want such improvements (likely because they cannot afford the additional cost burden) becomes liable against its will to provide contribution to the investment.¹³⁷

7.3.3 Insulation program mandated by GEO 69/2010

This scheme offers government guarantees and subsidized interest for loans contracted for the thermal rehabilitation of housing stock that is more than 10 years old. Homeowners' associations and owners of single-family housing are both eligible. Thermal insulation works such as window replacements, insulation and heating system replacement/ retrofit are eligible; some building repairs are also eligible. A loan cap of EUR 1,850 is applied per room for multi-family dwellings and EUR 7,400 for single-family housing. Local authorities may volunteer to finance up to 30% of the costs. Although this scheme has been operational since 2010, only 16 loans have been distributed, of which 3 have been single-family

¹³⁶ Interview with market focus group comprising representatives from Universitatea Tehnica de Construcii Bucuresti – UTCB, Vitistal Consulting SRL, QETICS, and HENKEL.

¹³⁷ The voting regulations are different for different thermal insulation programs.

households. This extremely low take-up implies that the terms of this program are unattractive to most homeowners.¹³⁸

7.4 Other relevant EU-related initiatives

7.4.1 “Near Zero Energy Buildings”

The recast of the Energy Performance of Buildings Directive (EPBD) introduced “nearly Zero Energy Buildings” (nZEBs) as a future requirement to be implemented from 2019 onwards for public buildings and from 2021 onwards for all new buildings. The EPBD defines a nearly Zero-Energy Building as a “building that has a very high energy performance....The nearly zero or very low amount of energy required should to a very significant extent be covered by energy from renewable sources, including renewable energy produced on-site or nearby”.

Acknowledging the variety in building culture, climate and methodological approaches throughout the EU, the EPBD does not prescribe a uniform approach to achieve nearly Zero-Energy Buildings (nZEBs), and each EU Member State has to elaborate its own nZEB definition. The EPBD also requires EU Member States to draw up specifically designed national plans for implementing nZEBs, which reflect national, regional or local conditions.

A detailed study¹³⁹ has been conducted to develop a definition for nZEBs in Romania, and a roadmap has been proposed. This includes proposals for energy efficiency standards; minimum considerations for renewable energy supply; a CO₂ metric for primary energy consumption in buildings; stakeholder engagement, pilot projects and data gathering and dissemination in the years leading up to 2020. This requirement is set to catalyze a massive transformation in new residential construction from 2021 onwards and early preparation is critical to ensuring compliance.

7.4.2 Smart meters and smart grid mechanisms

The Energy Efficiency Directive (EED) calls for rollout of smart meters, and where found to be cost-effective, targets 80% rollout of smart meters by 2020. The aspiration for a cost-effective rollout is also reflected in Romania’s Energy Efficiency Law. Smart meters are an integral part of ‘smart grid’ strategies, which can help integrate renewable energies, optimize demand and supply profiles, increase efficiencies and reduce costs in the long term. The main transmission operator in Romania, Transelectrica, is already upgrading its grid to incorporate renewable energy supplies. Other EU members (and other countries) have already begun smart meter rollouts in general and as part of smart grid pilots. Preparatory work needs to begin in Romania as well.

¹³⁸ Source: MRDPA

¹³⁹ BPIE (2012)

7.5 Financing for Energy Efficiency

7.5.1 EU funds

Between 2014 and 2020, EUR 3.9 billion is available for “supporting the shift to a low-carbon economy in all sectors”, and EUR 4.9 billion for “preserving and protecting the environment and promoting resource efficiency” as part of Romania’s partnership agreement with the European Commission. This includes:

- EUR 300 million for energy efficiency in public buildings (urban and rural)
- EUR 865 million for energy efficiency in the housing sector
- EUR 90 million, partially made available for construction/ rehabilitation/ modernization of social housing.

Bucharest Local Council has also been awarded funding from the ‘OP Big Infrastructure’ pot for energy efficiency in public infrastructure.

The main challenges to drawing down this funding include:

- Access to co-financing that is required from domestic public budgets, and
- Human resources to fulfil the technical and procedural requirements attached to the funding, as EU funding comes with very significant administrative and procedural requirements. While Romania was initially slow to absorb EU funding, the absorption rate has improved recently to 38.5% - however, there is still scope for improvement.

7.5.2 Bank finance

Banks have been providing financing to local authorities to pay their contributions to thermal insulation schemes. Banks view this type of lending as a good business line and are eager to lend more. However, they are less willing to offer similar loans to home owner associations, which would mean large numbers of small loans with, in their view, higher risks and higher transaction costs.

Raising co-financing for thermal insulation programs from homeowners is a serious problem, attributed largely to their low, or often disparate, income levels. Further, the general population is unwilling to take on bank debt for several reasons – their lack of confidence or trust in banks, their own financial insecurities in the current economic climate – and are unwilling to put their houses on the line as collateral for loans.

One prevalent solution is ‘pre-financing’, where banks lend to local authorities to cover HOA contributions, and HOAs pay the local authorities back over a number of years. Even so, analysis shows that most households participating in such insulation programs spend between 30% to 60% -- and sometimes more – of their annual income during the year of construction to cover the bills for heating and their co-financing share.¹⁴⁰

7.5.3 ESCO Finance

¹⁴⁰ JASPERS, 2013

Romania is only just beginning to explore the possibilities of the Energy Service Company (ESCO) model in the EE context. Legislative changes will be required such as amendment of the public procurement processes in order to allow such services to operate (see Box 7.1 for description of ESCOs).

Box 7.1 Energy Service Companies

An Energy Service Company (ESCO) is a company that offers, in many cases on a turnkey basis, energy services which may include implementing energy-efficiency projects (and also renewable energy projects). The three main characteristics of an ESCO are:

- ESCOs guarantee energy savings and/or provision of the same level of energy service at lower cost. A performance guarantee can take several forms. It can revolve around the actual flow of energy savings from a project; stipulate that the energy savings will be sufficient to repay monthly debt service costs; or that the same level of energy service is provided for less money.
- The remuneration of ESCOs is directly tied to the energy savings achieved.
- ESCOs can finance, or assist in arranging financing for the operation of an energy system by providing a savings guarantee.

Thus, ESCOs accept some degree of risk for the achievement of improved energy efficiency in a user's facility and have their payment for the services delivered based (either in whole or at least in part) on the achievement of those energy efficiency improvements.

ESCO finance and services is particularly suited to retrofit of public sector owned buildings as the service model has high transaction costs and as a general rule of thumb needs monthly energy costs in the tens of thousands of Euros in order to be viable – which is possible when several public sector owned buildings are covered under the service contract.

7.6 Market participants and capacity

The scale of mass insulation programs and the speed at which other EU Directives are being transposed in Romania is impressive. However, this unfortunately has resulted in a situation where the market does not yet have the requisite skills or capacity to deliver quality services in the sector. Skills improvement is required in all relevant professions such as architects, engineers, installers as well as auditing personnel.

The National Institute for Building Research, INCERC, is already developing and running qualification schemes for installers of thermal insulation schemes through the project BUILD-UP Skills financed by Intelligent Energy Europe. INCERC and others estimate that, if Romania is to achieve its 2020 energy efficiency and renewable energy targets (with a high contribution from housing), some 628 trainers will be required to conduct over 3,000 training courses to train over 87,000 professionals to implement the works that would be necessary to achieve these targets. The breakdown of professionals required within different market sub-sectors is provided below.

Table 7.3 Training needs estimated to achieve energy efficiency and renewable energy targets by 2020

Occupation	Qualification needs estimate (# of professionals)	Courses	Training Providers
Window assembler/ glazier	4,722	169	34
Building and related electrician	6,675	239	48
Installers (plumbers, pipe fitters,HVAC)	23,218	830	166
Biomass boiler installer	361	13	3
Solar photovoltaic systems installer	516	19	4
Ground source exchangers installer	413	15	3
Solar thermal systems installer	1,316	48	10
Heat pump systems installer	295	11	3
Insulation worker	49,797	1,779	356
Renewable energy systems operator	19	1	1
TOTAL	87,333	3,124	628

Source: Building up Skills Romania (2013)

PART B: TOWARDS A HOUSING STRATEGY

VIII. KEY FINDINGS

Context

After more than two volatile decades since its Revolution, Romania has made remarkable progress in adopting a market-based economy and moving towards the much higher income levels of the European Union. However, the fragmented nature of its housing market and the state of the housing stock continues to have significant adverse effects. Romania's housing is among the most crowded, dilapidated, expensive, and poorly-located of any country in Europe,¹⁴¹ and exposes a large number of people to high seismic risk.

Many of Romania's housing problems are the legacy of one of the most ineffectual, dictatorial communist regimes, and as such, should be seen as an opportunity rather than a constraint. The opportunity arises because reforming the management of the large share of the nation's capital stock embodied in housing can bring significant benefits to the economy as well as the sector.¹⁴²

Reforming the sector also represents an opportunity because even though there is significant dissatisfaction with housing conditions, the broader implications of the country's dysfunctional housing sector do not appear to be widely recognized. This may be inferred from the relatively small allocation of public resources to the housing sector, which are badly targeted, non-transparent and distributed in a fragmented and opaque manner. Twenty-two different spending programs operate with little coordination, and cumulatively expend only a fraction of the average amount of housing assistance provided by other middle income countries. Romania's expenditures on these programs amount to less than \$35 million which, in terms of the share of GDP, is less than the one-third of that spent by other emerging economies. Not surprisingly, these programs are unable to serve as either a safety net or a vehicle that encourages investment in high social return activities. Consolidating and improving the targeting of these programs can be expected to offer substantial gains.

¹⁴¹ In what follows, Romania housing conditions are described as extremely austere. This description is consistent with the evidence provided by *Eurostat*, which compiles comparative data on the EU-27 countries. According to *Eurostat* (2014) Romania has the lowest ranking on almost all measures of housing quality by a significant amount, and at the same time, it has the highest portion of families with high housing cost burden and simultaneously the smallest average size of the transition countries. Moreover, as discussed in the text, our analysis suggests that the country's relatively weak performance in housing is worse than would be expected for its level of per capita income.

¹⁴² Romania's housing, which accounts for about half of the fixed capital stock, is different from that of other transition economies not just because such a large share of this stock was produced by the country's centrally-planned regime, but because the planning of that regime was highly ineffective and dictatorial. That regime, according to the most widely used measures of accountability, such as that provided by Polity IV, was the second most authoritarian system in Europe. Only Albania, and not even the Former Soviet Union, was as authoritarian as was Romania. While, as described more fully in the text, this highly-central, dictatorial approach had many effects on housing investment, one striking measure is that, according to *Eurostat*, the average housing unit size was half that of EU countries and 60% of that of other transition countries.

How do these unfortunate and seemingly contradictory trends – expensive but simultaneously low quality housing – present such notable and possible widespread gains?¹⁴³ And, why have the significant indirect costs of its distorted housing sector not been more widely recognized?¹⁴⁴ These results are even more curious when it is noted that Romania, like all other transition economies, privatized virtually all of the nation’s housing, such that at first glance, it would appear that it has established a successful market-based housing system. However, not only did its privatization program turn the state’s housing assets over to the sitting tenants practically for “free”, as occurred throughout the region, it also produced the world’s highest private ownership of housing of over 98 percent. But, as is evident in the case of Romania even more than in other transition countries, private ownership of the housing stock was unable to realize the gains expected from a “functional” housing market.

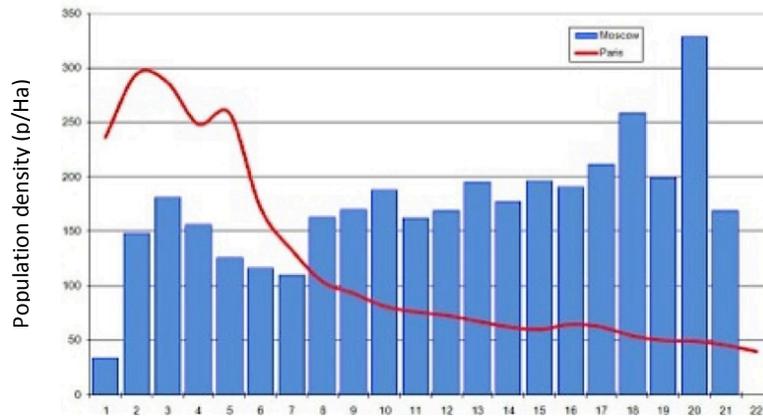
Indeed, in Romania some of the very basic gains of a housing market have not been realized. Because of the way housing was produced under the Ceausescu regime, and the currently atomized home ownership pattern, Romania lacks one of the chief advantages that a well-functioning housing market offers – the ability to consolidate and repurpose the badly-designed and misallocated housing stock.

First, consider the evidence on the country’s housing stock. Besides the policy of systematically under-investing in long-term capital such as housing in order to be able to pay off all of the country’s external debt, a major legacy of the Ceausescu regime is its share of poorly-built communist era housing which is among the highest in the region. Further, a large share of the housing stock is essentially in the wrong place. That is, the location of the housing stock within cities as well as the locations of the cities themselves were determined without reference to resource costs. For example, the distribution of population in Romania’s major cities follows what is known as the well-known a “camel hump” pattern, according to which the city periphery has a higher population density than the central business district. (See Figure 1 which contrasts Paris and Moscow.) As has been documented, this pattern significantly reduces the traditional agglomeration economies offered by cities.

¹⁴³ Conditions are unfortunate in the sense that the estimates suggest that if Romania had been able to supply housing at the level provided by the “average” transition economy, rather than through its ineffective system, the amount of substandard housing would decline by 60 percent. Put another way, as shown in Figure 2, the quality of its housing stock could be afforded by a country with 16% income.

¹⁴⁴ In fairness to Romanian policy-makers, measuring the significant indirect costs of housing market distortions is by no means an easy task. Recent analysis for the U.S., by Hsieh and Moretti (2015), for example, among many such studies, show that these indirect costs to the economy can exceed 10 percent of GDP. Housing markets everywhere have significant government intervention, but given that the U.S. market is much less distorted than Romania’s, this work implies that the costs imposed by the Romanian housing system are likely to be substantial.

Figure 8.1 Density profiles of Moscow (1992) and Paris (1990)



The density profile of Paris (in red) compared with Moscow (in blue) in distance from the central business district (along the horizontal axis).

Source: Bertaud and Renaud (1995).

The location of cities within the country may have been even more inefficient. Many mono-industry cities were built as part of the “Systemization” program by which the Ceausescu regime, rather than economic incentives, determined which locations should grow and which should be eliminated.¹⁴⁵ Many of these cities are now experiencing severe population decline. Furthermore, almost all of the country’s major cities are experiencing population losses from the city centers, a pattern much like, but more severe, than the so-called “rust belt” decline of many U.S. industrial cities.¹⁴⁶

The result has been a significant housing “gap”, and more inadequate and more expensive housing conditions, which almost certainly adversely affects social inclusion and economic growth. Many of Romania’s middle income households are forced to live in housing that is either too expensive to maintain, or inadequate in terms of structural safety, location, energy efficiency, space, infrastructure, or physical appeal.¹⁴⁷ The poor,¹⁴⁸ on the other hand, are relegated to the worst living conditions in slums and ‘ghettos,’ and have, in many ways, been neglected by public policy.

Now consider why housing reform presents such an opportunity in Romania. The country’s housing stock is governed by what has become known as an Anti-commons system. This governance system is

¹⁴⁵ Not only was the Systematization Program based on faulty economics, it also entailed relocating minority ethnic groups out of particular locations and Romanians into those locations to dilute ethnic concentrations. See Kaplan (1996) for a discussion.

¹⁴⁶ During the period of decline in U.S. cities, about one-third of the 100 largest cities experienced reductions in central city population. In Romania, in contrast, only two of its many major cities with populations larger than 50,000 did not experience such population losses.

¹⁴⁷ There are many instances of buildings with extremely high vacancy rates which are located at considerable distance from the city center. These buildings are often in need of significant renovations. These households, even when of middle income level, can often not afford to pay the implicitly subsidized utilities much less the expenses of renovation.

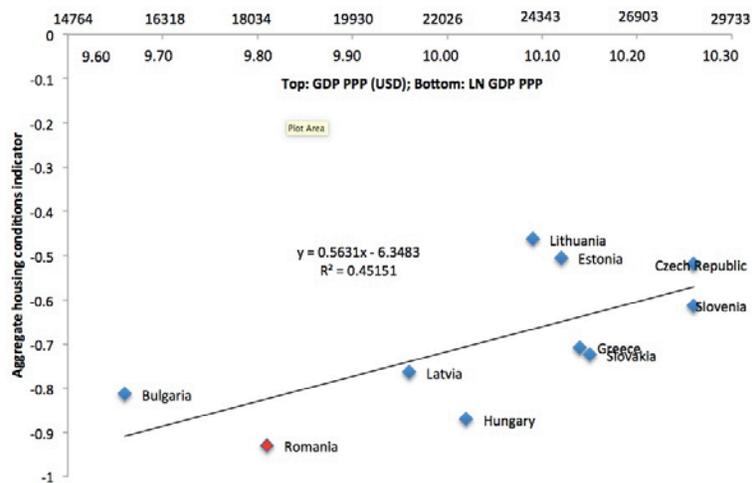
¹⁴⁸ The “poor” are defined in this report as households in the 20th and lower income percentiles.

one that was first identified in World Bank research on Russia’s housing reforms. It results in an inability to manage or repurpose the use of a common property.¹⁴⁹ Relative to other transition countries, Romania has had greater difficulty in changing the stock’s use because ownership rights are more fragmented and the stock more badly allocated. The ownership rights to each building in Romania have been divided in a way that it is difficult to achieve consensus on how to maintain the fabric of the buildings in which the properties are located, much less repurpose the buildings. When these factors are combined with the country’s volatile economic performance in the 1990s and the economic crisis of 2008, it is not surprising that it has been more difficult to reform what Gorbachev’s advisors called the least efficient sector in the Former Soviet Union.¹⁵⁰

In sum, while Romania has many of same housing problems as other transition economies, its circumstances are much more extreme and, consequently, worthy of much greater attention than that implied by the small share of government expenditures it receives. For example,

1. It is the second poorest country in the European Union, but its housing conditions, controlling for its income level are the worst in Europe.

Figure 8.2 Housing conditions in relation to GDP



Romania’s housing conditions (in red), as represented by an aggregate indicator on the vertical axis and per capita income PPP on the horizontal axis, are the worst of all comparator countries – that is, Romania has the lowest level on the vertical axis. In addition, because Romania’s housing conditions measure is below the line that indicates average housing performance by income level of the countries included, Romanians should have better housing given their income level.

¹⁴⁹ The notion of the tragedy of the anti-commons, is symmetrical to the well-known notion of the tragedy of the commons. Under the tragedy of the commons, goods are over-used, but under the anti-commons, goods are not managed at all and under-maintained. It was first described by Heller (1998) in the *Harvard Law Review* in an article that has been cited over 2000 times, suggesting that the problem applies to many other goods. The argument was extended by a Nobel Laureate, see Buchanan and Yoon (2000): 1.

¹⁵⁰ Buckley and Kalarickal (2006).

2. It is one of the world's most rapidly shrinking countries with an expected population decline of more than 15% by 2050.
3. In what is a very unusual pattern for an upper middle income country, there are more housing units than the number of households – some 8 million dwellings for 7.2 million households. The large population shifts taking place mean that many urban areas are losing population, creating a housing demand-supply imbalance, with overcrowding in some urban centers and a high incidence of vacancy in others. Romania's vacancy rate of 16% is among the highest in the world.
4. It has a rapidly deteriorating housing stock due to inadequate maintenance and management of old multifamily buildings. Also, many low and middle income households live in historic buildings or neighborhoods in dilapidated conditions, and in seismically unsafe buildings, without the financial resources to make necessary improvements. Not only do these crumbling buildings pose a danger to the public, they are a forgone opportunity for neighborhood revitalization, and a threat both to Romania's architectural heritage and the vitality of its towns.
5. Public housing constitutes less than 2% of the housing stock, and is insufficient to meet the demand, as evidenced by long waiting lists of applicants for social rental housing.
6. The atomized ownership of spatially misallocated housing restricts resource mobility to more productive locations. In the U.S., recent studies have shown that even much smaller restrictions on movement have had severe adverse effects on economic growth.
7. The rental housing market is mostly informal and unregulated, and some policies in the current market context make it impossible to repurpose structures which were located without reference to the value of the location on which they were built. This misallocation also restricts labor mobility, particularly in an environment of high unemployment.
8. The 2008-2010 global financial crisis resulted in a large drop in house prices – 50% or more in many prime locations – which bankrupted a large number of private developers. The market is still recovering from the shock and many households have suffered major losses in wealth and equity.
9. The country's major cities simultaneously face rapid sprawl and population losses, with negative implications for environmental sustainability.
10. Public housing expenditures are made through 22 different uncoordinated programs, and cumulatively the amount spent is only a fraction of the average share of GDP allocated to housing assistance in other middle income countries.

It thus follows that Romania has more to gain than most other places by undertaking reform of its housing policy. Such reforms are always politically difficult exercises, but rarely does an opportunity like this arise. Romania's housing sector has considerable potential improve living conditions, stem the rate of population decline, foster a more sustainable pattern of development, and boost macroeconomic growth. Housing policy may accordingly be revised to exploit the underlying spatial economies, as well as to provide safe, sanitary housing that is consistent with its purchasing power. If it is not, it is likely that an even greater share of Romania's dynamic young population will seek opportunities by emigrating, and that many of the country's historic neighborhoods will further deteriorate and be exposed to the kinds of seismic risk that devastated Bucharest nearly 40 years ago.

The following pages present the key findings of this housing sector assessment, which are the essence of the recommendations that follow.

8.1 Poor quality of existing housing

8.1.1 Overcrowding

Overcrowding in Romania is reported as being among the highest in EU-28 countries. This may be attributed to several major issues:

- Romania's high vacancy rate of 16%, which is a result of population shifts to employment centers, abandonment of old deteriorated structures, restitution claims in dispute, and state-owned buildings that are lying vacant or unused. There are also reportedly huge inventories of vacant houses that were seized by banks from defaulting customers (developers as well as individual borrowers), and are now sitting on the banks' books at inflated prices. Although no official numbers are available, it is estimated that there are some 20,000-25,000 such units in Bucharest alone, and 'tens of thousands' across the country.¹⁵¹
- Virtually absent rental market, which leaves new families to either continue to live with their parents or extended families, or buy a house which is very small and then continue to live in it even as the family expands.
- Lack of affordable housing for purchase attributed to financial factors such as unfavorable interest rates on savings and high banking fees on one hand, and the high cost of a reasonably sized house.

8.1.2 Inadequate management of buildings

Much of the housing stock in Romania built during the Communist period is deteriorating due to poor maintenance. Over 35% of the country's 8.5 million housing units is in a state of neglect and need urgent repairs. This significant amount of dilapidated housing includes over 10,000 pre-1980 blocks with structural, roof, and heating needs. Many of these buildings are derelict due to the lack of maintenance, and also structurally unstable. This includes historic residential buildings. In some cases, the buildings have been abandoned for years, and the owners cannot be traced; in others, they are simply neglected because the cost of repairing them is unaffordable to the owner; and in some extreme cases, there are reports of vandalism so that the building can be demolished and a new modern block erected.

A large number of blocks-of-flats built in the Communist period face serious problems due to the absence of management, the deteriorating quality of the buildings and the utility networks, and the concentration of low-income and vulnerable populations (e.g. the elderly). Often the lack of interventions at the level of the individual unit lead to problems for the entire building - for example, physical degradation of the building and devaluation of the property, and particularly in buildings with a high concentration of poor people, or a mix of households from various income levels where getting consent and contributions from the homeowners for maintenance is often a challenging task.

Home Owners Associations (HOAs), legally mandated to maintain and manage these buildings, either have limited technical or financial capacity to carry out their functions, or lack the sense of responsibility to carry out these maintenance and improvement activities. The latter is attributed to the legacy of pre-reform centralized planning, followed by an incomplete privatization process that did not factor in the

¹⁵¹ Interview with Pipera (Law firm), August 2014.

tools necessary for the adequate management or maintenance of these buildings. This dependency on the state is evident even today, and most HOAs lack the awareness or the sense of ownership to carry out their responsibilities for management and maintenance. An example is the thermo-insulation program, which is rather “top-down” in the way it is being implemented, both in terms of financing and decision-making. So, rather than incentivizing and mobilizing HOAs to take responsibility for their own affairs, it may be unintentionally further entrenching the false sense of dependency on the state.

Another commonly reported problem is that, according to the Condominium Law, the Mayor retains the right to approve the appointment of the Condominium Manager (or management company). This can take time, and cause delays in the management of utility bills and similar functions. It also inserts a public role in what should be a decision made by those involved in the specific building or buildings.

The current voluntary umbrella bodies, or Federations of Homeowners, support HOAs in Romania, but they – and individual HOAs – need resources and clarity as to their responsibilities to help deal with the many difficult issues that HOAs face. Specifically, there is a need to:

- Increase homeowners’ capacity to appropriately manage and maintain housing and thus to ensure the owners’ right to acquire the best quality affordable services on the market. Local governments, NGOs and counseling organizations should contribute more actively to this problem.
- Amend and improve the legal and regulatory basis for housing maintenance, i.e. to establish the rights and obligations of the parties involved in multi-apartment common ownership, qualification and technical requirements for the maintenance providers of common use facilities.

Plate 8.1. Deteriorated facades of communist-era multifamily buildings in Bucharest



8.2 Seismic risk

8.2.1 Widespread seismic risk

Romania’s exposure to earthquake risk is among the highest in Europe. There are an estimated 607 residential buildings in the Class I (highest) seismic risk category across the country. This translates into

10,577 dwelling units with serious structural deficiencies, most of which are currently occupied. Bucharest has the highest seismic risk of all capital cities in Europe, and is one of the 10 most vulnerable cities in the world. Over 60% of the country's Class I risk buildings are in Bucharest - some 370 structures with 6,480 apartment units. The majority of dwellings in these apartment blocks are occupied.

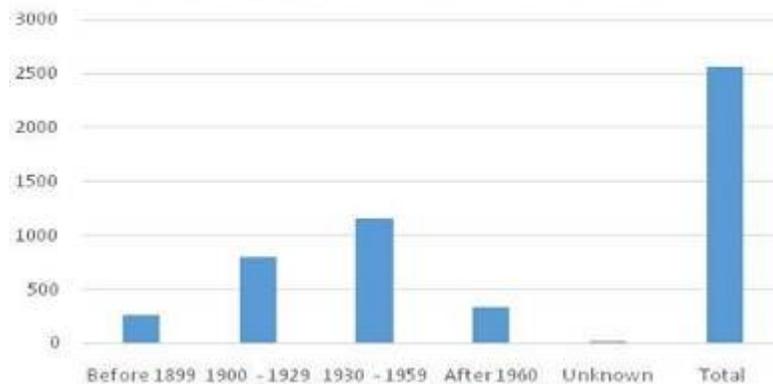
Plate 8.2 Multifamily buildings in Class I of seismic risk in Bucharest



Source: Alexa Cătălin (<http://www.imagist.ro/>)

Over 2,500 residential blocks in Bucharest are unstable (Class I through Class III risk categories) and need structural strengthening. As shown in the figure below, many of the structurally unsound buildings were built before 1960. Many of the buildings built prior to 1940 have a higher seismic risk because their construction preceded the adoption of seismic-resistant building codes in the 1940s.

Figure 8.3 Number of buildings in Bucharest vulnerable to earthquakes, by period of construction



Source: Paraschivoiu (2014)

8.2.2 Failure of on-going program

The national program for seismic retrofitting of buildings is based on GO 20/1994, subsequently republished with amendments, and is being implemented by the MRDPA. The Program was launched in 1998 and started with the allocation of funds covering works on 8 sites. By 2000, an additional 8 buildings were financed. The program provides eligible HOAs with public funds in the form of no-interest loans to retrofit Class I seismic risk buildings. Unit owners must pay back the loans in monthly installments for up to 25 years. This current no-interest loan scheme for residential buildings in Class I of seismic risk is not proving attractive to homeowners. As a result, the majority of vulnerable buildings remain vulnerable.

Two key problems cited for the failure of the current scheme include: (i) The lack of necessity housing or other instruments (e.g. rental vouchers) to facilitate transitional shelter for the residents, and (ii) Even where necessity housing was available, the residents were unwilling to leave their current homes – either because they did not want to move into public housing units which they considered too small for their needs, or distrust in the government and the fear of losing their houses, or the relatively low perceived risk or danger associated with these buildings, given that the last major earthquake happened nearly 40 years ago.

8.3 Inadequate housing for poor and vulnerable groups

8.3.1 Inadequate government assistance

Romania is ranked as the worst among EU-27 countries for “severe housing deprivation”. Government assistance falls far short of the prevailing need of poor and vulnerable groups. A reluctance to invest in making improvements in low-income areas combined with social prejudice has resulted in self-proclaimed ‘ghettos’ in which low-income communities (including a high proportion of Roma households) feel not only marginalized, but are even feared by the rest of the Romanian population. There is an absence of proactive interventions for poor and vulnerable communities which could include the provision of better quality social housing, the upgrading of slums, and the granting of rights to land. Vulnerable groups include orphans, disabled, elderly persons, etc. many of whom do not have the means to access adequate housing.

EU financing for upgrading for marginalized communities (including social housing construction and rehabilitation) under the ROP for the programming period 2014-2020 is EUR 90 million, and only targets urban areas. In a country where 843 areas have been declared ‘marginalized’ by mayoralties, this amount is very low: these funds will only be able to adequately finance¹⁵² 17-18 local CLLD projects during 2014-2020.¹⁵³

¹⁵² Elaboration of Integration Strategies for Urban Marginalized Communities in Romania, World Bank 2013.

¹⁵³ *ibid*

8.3.2 Insecurity of tenure and threats of eviction

Households belonging to poor and vulnerable communities can generally not access the housing market, especially in urban areas, which directly impacts tenure security. Whether renting social housing or occupying a legal or illegal house, the fear of eviction is a significant factor for many poor communities in Romania's urban areas.

In social housing, there is evidence that local authorities reportedly sign leases as short as 3 months in order to be able to legally evict the tenants – in case of non-payment of rent or utility bills¹⁵⁴ or any other form on non-compliance. Renewal of the lease contract every 3 months¹⁵⁵ is a major administrative hurdle, to say the least, and keeps the tenants at the mercy of the Mayoralty.

Although rare, evictions and forced relocations – both legal and illegal – do still happen, and there is little legal recourse for the communities. This has been reported, in particular, in the case of the Roma who have had a history of landlessness. A large majority of the Roma do not possess legal papers to their rightful properties - which they were assigned during the process of 'forced settlement' during the communist period, or even relocated to by the government for one reason or another after 1989. While there is little data to substantiate the frequency of such occurrences, the fact that even one or two local authorities can conduct such illegal acts highlights the extent to which power at the local level can be misused with complete impunity to the law or basic human rights.

Making matters worse in terms of tenure security is the expensive and tedious process of property registration, which deters poor families from registering property documents. Property registration is a long and tedious process, which deters many poor families from registering property documents. Property registration can also be expensive – for instance in Romania an average property registration takes up to 20 days and costs 1.6% of the value of the property (as compared to 2.5 days for registration process and 0.8% of the property value in Lithuania).¹⁵⁶ Given this disincentive, many households avoid the formal processes and remain exposed to illegal evictions.

8.3.3 Negative perception of Roma exacerbates social, economic, and physical exclusion

The (mis)perception that the Roma are 'untrustworthy, lazy, uneducated, and conniving' is a deep-rooted mentality – in Romania and across Europe – that continues to reinforce itself in many ways. The continuing poverty and marginalization of the Roma is, in a large part, a manifestation of these attitudes. Unless these attitudes change, random acts of disempowerment and discrimination that challenge their dignity will continue to be condoned. In the housing sector this refers to the continued marginalization of Roma communities and the lack of public assistance in the form of upgrading works, including the registration of property rights.

¹⁵⁴ Tenants may be evicted if they accrue arrears on utility bills for three months. Information gathered from field interviews with Slatina City Hall and residents of social housing in Slatina in August, 2014.

¹⁵⁵ Observed by team during field visit to Slatina in August 2014.

¹⁵⁶ Doing Business, World Bank, 2013.

8.3.4 Worst living conditions in inner city slums

The worst living conditions are often found in inner city slums. Some deteriorated multifamily buildings dating to the communist period also resemble vertical slums. Typically, the economically worst-off households live in these areas, including a disproportionate number of working-age Roma who are unemployed or underemployed, with children not attending school, and very inadequate housing and infrastructure conditions.

With improvised housing structures, limited or non-existent sanitation, poor quality or limited water supply, and so on, these areas closely resemble slums in developing country cities like Mumbai and Nairobi. However, there is an important distinction between the two: unlike slums in other big cities, which are often used by rural immigrants or other poor people as a 'stepping stone' to prosperity, in the case of Romania these communities seem to be trapped in the vicious cycle of unemployment, poverty, lack of education, poor health, and grossly inadequate housing and infrastructure. And in many of these slums, the Roma constitute the vast majority of the population.

Given the relatively higher densities in these areas, and the fact that they are often in sub-optimal locations (garbage dumps, etc.), these areas pose serious health and environmental risks, and need to be considered priority areas for government action.

8.3.5 Lack of transparency in criteria for allocation of social housing

In addition to the criteria established by the Housing Law for the allocation of social housing, local authorities are at liberty to establish their own additional criteria. These criteria typically include current living conditions, number of children and their health status, and income. Based on this, the poorest may get relegated to the bottom of the long waiting lists for social housing. The households that do receive a home often are allocated units in social housing 'ghettos' that frequently do not provide adequate shelter. The lack of transparency in these waiting lists is another issue of concern, since it allows too much room for manipulation and out-of-order allocations.

For example, when the poorest households (i.e. those earning less than approximately RON 563 per month) compete with other poor but relatively better-off households for social housing, the chances are that the more 'livable' social housing units go to the latter, and the smaller (10-15 m²) units to the former.¹⁵⁷ This means that for the most vulnerable households, which typically have a greater number of household members (due to more children, inter-generational cohabitation and/ or extended family), the chances of getting excluded are even higher. For the Roma at the absolute bottom of the income pyramid (EUR 0-150 per month income range), the chances of getting access to social housing are even smaller for several reasons cited by some local authorities, including: (i) their 'lifestyle' ("the Roma living in slums cannot adjust to life in a multi-story building"), (ii) their inability to make utility payments (since a large number of Roma are unemployed and surviving largely on social welfare benefits), and (iii) their

¹⁵⁸ The law permits that, at the signing of a rental contract, the owner and the tenant may convene to establish a guarantee deposit – not greater than the rent for three months – to be placed in the owner's account. The owner may retain from the guarantee deposit amounts for repairs, replacement of sanitary equipment, construction works, and maintenance works etc., which are in the tenant's charge and in his/her service.

large families (often 7-10 members) that would make them 'unfit' to live in the small 10-15 m² social housing units.

Also, the allocation of other public housing owned by public authorities (such as nationalized housing that was not restituted, and other housing units built during the communist period with public funds that were not sold to the occupants in the 1990s) is made based on less transparent rules.

8.3.6 Discrimination and exclusion due to lack of domicile and/or identity cards

Migrant families, or descendants of such families, often have limited or no proof of identity, which in turn excludes them from not just social housing, but also renting or owning another property. This has the potential to be misused by local authorities as a discretionary tool for discrimination to prevent the poor and marginalized groups from accessing municipal services, including schooling or other services.

8.3.7 Utility costs excessive and unaffordable

The high cost of utilities is especially felt by those at low-income levels – often also with the largest households – where the ability to pay is often hampered by debt cycles, or previous debts, or debts inherited from former tenants' arrears. For example, a 12-member household interviewed in the Ferentari neighborhood of Bucharest renting a 12 m² private housing unit reported that while their rent was only RON 100, they must pay RON 80 per person per month for water and RON 200 per month for electricity. In total, they pay about RON 1,260 per month for utilities. While this may not be the typical situation, it is also not a unique case. The burden of utility costs, especially for large poor families living in small dwellings, marks the difference between affordable and unaffordable housing.

8.3.8 Non-payment of accounts

Residents sometimes build up account arrears so large that they cannot afford to pay them. This is particularly the case in former state-owned companies workers' housing (now privately owned), many of which are occupied by poor renter households. In such buildings, where individual meters are often not installed, the utility companies often turn off the supply to the whole block in an effort to get the account settled which leads to much bitterness. Another complaint is that if the non-paying tenant moves out, the account has to be paid by the incoming tenant, as it is linked to the property, not the occupant. This allocation of responsibility for payment is extremely unfair.

8.4 Inefficiencies in the housing market

8.4.1 Homogeneous and limited supply

The bulk of the new housing being supplied in the market today constitutes 2-room and 3-room dwellings. This is attributed to the high cost of construction and low levels of affordability, and to a certain extent, the Prima Casa guarantee threshold of EUR 60,000, which can buy 1-2 room 50-55 m² apartments. The minimum floor space requirements specified in the Housing Law drive three and four-room units well over the EU 60,000 eligibility threshold for the Prima Casa. Thus, in some respects, this guarantee program, which is one of the only affordable ways to finance a house in Romania, may

actually be dictating what is getting built in the market rather than the other way around. This limits the choice of housing for starter families, and inhibits any form of ‘upward mobility’ to bigger or better houses as families grow and incomes increase.

8.4.2 Constraints faced by private developers

Private developers face a severe lack of construction finance due in part to the financial crisis of 2008-09 which forced many developers into bankruptcy and left large tracts of undeveloped land and vacant housing on banks’ books. Further, the banks’ unwillingness to restructure these assets and renew lending for private development has hindered private developers from undertaking new larger-scale projects. With banks unwilling to offer construction finance, developers are limited to piecemeal projects built with installment payments from buyers.

The relatively low level of affordability, together with the high construction cost means that 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 either case, the high cost of trunk infrastructure or land means a cut in profit margins. However, to develop a project of any meaningful scale, the former choice – greenfield land in the outer suburbs – is probably an easier option.

In addition, there appears to be a general lack of competition in the industry. The situation is most severe in smaller cities and towns where there seems to be a complete lack of any private developers or builders (e.g. Slatina).

8.4.3 High space standards

Space standards for dwelling units are currently prescribed in the Housing Law in terms of the number of square meters per person – for example, 58m² for a one-person home, 81m² for a 2-person home (1-bedroom), and 102m² for a 3-person home (2-bedroom) house. The high standards are a deterrent for the developer because it restricts them to building a very limited number of housing products (1-2 room houses) for which there is purchasing capacity in the market. But more importantly, it restricts the buyer’s ability to choose between, for instance a 100 m² house with 2 large bedrooms or a 100 m² house with 3 small bedrooms, which can be quite reasonably sized if designed well. These minimum standards are multiples of the minimums used in much richer cities and accordingly, makes the smallest legal units much more expensive than need be.

Although this affects lower income families to a greater degree than others, it also inhibits, for example, the construction of small starter homes in the city center that might appeal to young recently married couples. Such small flats that would be in high demand in the large cities of the world, such as New York and London, are technically illegal in Romania. [Notably, however, the gap between legislated space standards and reality is particularly obvious in the case of most social housing, where large families are often crammed into single room units of 10m².]

8.4.4 Lack of affordability

The high unit cost of construction, together with high space standards, and the double-digit mortgage interest rates (which apply to dwellings over the Prima Casa threshold of EUR 60,000) pushes dwellings with over two rooms beyond the reach of the vast majority of Romanians. Those who are looking to buy

a house or rent a market-priced unit can face a cost burden of over 40% of net household income for housing and utilities combined.

Approximately 36% of Romania's urban population lives in flats heated from a centralized district heating scheme. This heat is expensive even after special district heating subsidies due to very high inefficiencies in the heating systems. Further, due to the absence of individual meters, building-wide bills are often distributed to households based on number of family members or the area of the apartment. This means that irrespective of their actual needs/ usage and income they are committed to a fixed level of expenditure. The same is often true for water and sewerage though there is a move to install individual meters.

8.4.5 Absence of a vibrant rental market

The absence of a vibrant rental market in Romania is attributed to a combination of factors: Mass privatization after the 1990s, pro-tenant policies, and the heavy tax burden on rental income for landlords. As a result, the little rental that there is in Romania is largely informal. This 'informalization' of the rental market and the severe lack of rental housing has several negative impacts:

- Renters generally pay two to three months' rent in advance based upon a non-formal verbal agreement. While this is permitted by law for official rental contracts,¹⁵⁸ it is also a common practice for informal rental deals, and has a high potential to be misused by the landlord, especially in the case of vulnerable or poor tenants.
- Informal rental denies both the tenant and the landlord any legal protection associated with an official contract.
- Informal rental limits the market supply of rental housing, thereby making it more expensive, and locking out the bulk of households earning less than EUR 1,000 per month from the option to rent with a formal contract.
- The absence of an efficient rental market limits mobility and compounds the affordability dilemma by pushing many young households to purchase smaller units with limited buying power instead of renting.

The lack of affordable and secure rental options compounds the high rate of ownership in Romania. Many 'potential renters' opt to buy homes, not just because of the uncertainty and hassle to rent a house, but also the underlying financial justification: for example, for a centrally located flat in Bucharest, the rent could be EUR 250 per month, while a mortgage might be in the range of EUR 300-330 per month, which makes homeownership very attractive.

8.4.6 Urban sprawl and misallocation of housing stock

Urban sprawl characterizes many Romanian cities, with rural or agricultural zones around central cities rapidly transforming into peri-urban areas due to new residential construction. This has increased the

¹⁵⁸ The law permits that, at the signing of a rental contract, the owner and the tenant may convene to establish a guarantee deposit – not greater than the rent for three months – to be placed in the owner's account. The owner may retain from the guarantee deposit amounts for repairs, replacement of sanitary equipment, construction works, and maintenance works etc., which are in the tenant's charge and in his/her service.

cost of transport and other public infrastructure investments. One of the factors contributing to sprawl is the developers' desire to build on inexpensive land at the urban periphery to cater to a wider range of household budgets.

Another factor is the inability or unwillingness of local authorities to contain sprawl, which is directly 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.

Bucharest and other large towns contain brownfield sites (ex-industrial) where basic utility connections are either existing or easier to provide, and are also served by existing public transport networks. Previously, these brownfield sites contributed significantly to cities; however, many of them are now under-utilized. Mostly privately owned, these brownfield sites are now occupied by small semi-industrial or other businesses, and it can be difficult for government to plan redevelopment of these areas. Unlike other countries, compulsory purchase powers do not seem to be widely used in Romania for regeneration purposes – even though such powers and procedures are enshrined in the Constitution. Some of these sites are being brought back into use by large, typically international, companies as business and retail parks, which is a good outcome relative to leaving the sites unused. However, market participants interviewed are of the opinion that there is a lack of clarity from town halls in relation to strategic spatial planning; as such, this appears to be largely ad-hoc development. Such uni-dimensional development is sub-optimal and does not help improve the urban fabric or lead to higher quality of life.

8.5 Inadequate legal and institutional framework

8.5.1 Outdated housing law and complex array of legal provisions

In its current form, the Housing Law does not provide the appropriate regulatory framework for the housing sector by targeting those households most in need. After being amended significantly nine times since its promulgation in 1996, it is inadequate in its current form – both in the context of the market, and the roles of the public and private actors. Further, each successive change in the law introduced a new provision, for example, the organization and functioning of condominiums and homeowners associations, rental housing, or housing built with public funding. The result is that the Housing Law today constitutes a large number of disparate – and sometimes overlapping and contradictory – provisions that do not direct government resources towards addressing segments of the population that most need housing assistance. For example, the approach towards housing for evicted tenants, is the object of five different normative acts. The Housing Law also does not make a distinction between the “law”, which should clarify rights, obligations, and legal terms etc. versus “programs” which are simply instruments to implement policy. These programs need to retain some flexibility to adapt to changing circumstances, and as such, should not be stated in the law.

8.5.2 Fragmented institutional roles in housing

The complex distribution of roles and obligations to different public authorities as a result of the intricate legal framework has led to significant program overlap, lack of coordination, and inefficiencies in targeting public resources. At the central level, several ministries currently manage different housing programs: the MDRAP, which coordinates the NHA; the Ministry of Environment, which deals with

several energy efficiency for housing initiatives; the Ministry of Labor, which provide housing-related subsidies but also coordinates the poverty and social inclusion of Roma strategies (both of which contain sets of measures on housing); the Ministry of Agriculture, which monitors land allocations for housing; and the Ministry of Finance, which oversees the Prima Casa and BauSpar programs. The current housing department under MDRAP – the only designated housing body at the national level – is neither technically nor financially equipped for informed decision-making.

At the local administration level, responsibility for housing has gradually increased in line with the decentralisation process. However, Local Authorities still face significant challenges, including lack of funds and limited professional know-how and experience in designing and implementing efficient housing programs. This is reflected in inefficiencies in the implementation of different housing programs, including public housing for the poor, and their sub-optimal performance.

8.5.3 Underutilized public assets

There is a considerable stock of publicly owned buildings in Romania, which is not being utilized to its highest potential. One reason for this is that there is no comprehensive inventory of these buildings, as a result of which it is not clear how asset-rich or asset-poor a local authority may be. The other reason is the lack of capacity at both the central and local levels to carry out an objective assessment to understand the full potential of these assets and assign uses accordingly. Also, as mentioned earlier, some publicly owned residential stock, particularly in Bucharest, is of high heritage value and is located in prime areas of central Bucharest. Some of this is dilapidated and unoccupied while other stock is used as social housing. Much of it is underutilized, and many buildings still lie vacant and derelict. Due to low/no revenue generation in current use, it is difficult to do any rehabilitation work in these buildings. However, there could be high potential for revenue-generation if these buildings were to be redeveloped, and some of them used for other purposes such as corporate guesthouses, hotels and public event spaces. The revenue thus generated could be used to fund programs targeting those in need.

8.5.1 Lack of data on housing

Data on the housing sector is severely lacking, making it impossible to make meaningful projections or public policy decisions related to housing. There is little to no data collected on publicly funded housing programs, and very little data is available on the market trends, for example, sale prices, rents, unit size, number of sales transactions, construction costs, construction pipeline, vacancies, locations and sizes of vulnerable groups, etc. This makes evidence-based policy and equitable budget allocations virtually impossible.

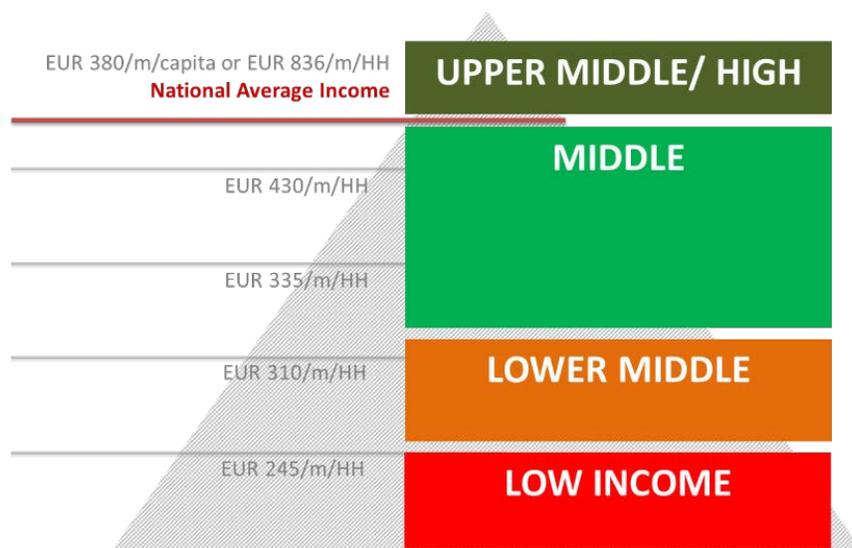
8.6 Public housing assistance not targeted or prioritized

8.6.1 Public housing subsidies not targeted to poor

Per the Housing Law, local governments are required to provide social housing for individuals earning below the National Average Monthly Net Income of RON 1,866 per capita. This income threshold is mandated by the Housing Law, and also applies to most other public housing programs. Given the low income levels in Romania, the threshold of RON 1866 (EUR 380) in fact lies in the top-most income decile of the population, which implies that in terms of income criteria, almost everyone except the

richest 7-8% can apply for social housing.¹⁵⁹ The tendency of government housing programs to favor higher income individuals is also illustrated by the Land Lots for Youth Program, which awards higher eligibility “points” to applicants with higher incomes. Finally, the Housing Law refers to low income persons, but does not explicitly include socially marginalized or physically challenged persons.

Figure 8.4 The income eligibility threshold for public housing subsidies lies at the very top of the income ladder

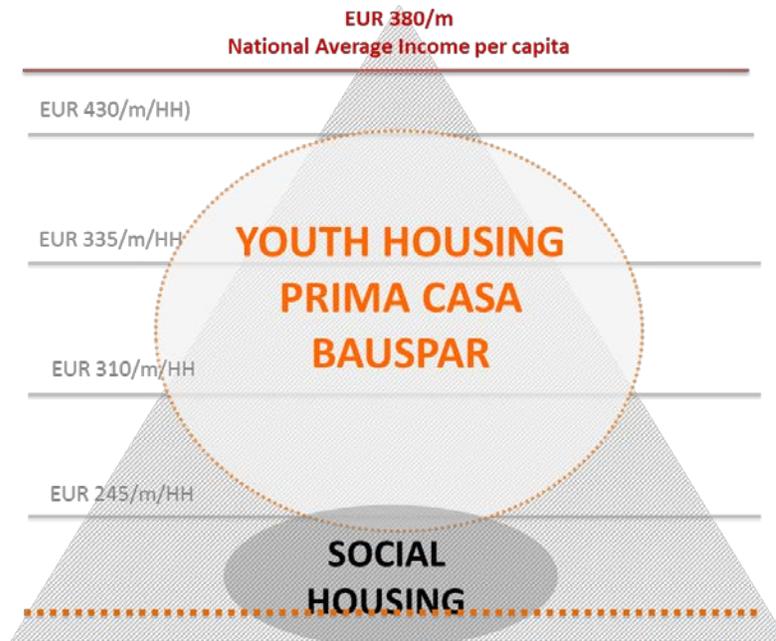


Moreover, the bulk of public subsidies offered in the housing sector target middle income households. The three largest government programs in housing include the Youth Housing program (EUR 224 million to date), the Prima Casa loan guarantee (EUR 4 billion since 2009), and the BauSpar subsidy (EUR 188 million to date), all of which mainly benefit non-poor households (see Figure 8.5). The Social Housing program, together with a range of other programs, are intended for the poor, but have faced major challenges in their outreach due to limitations in technical and financial capacity at the local level.

The poor targeting of programs is in part due to the lack of incentives for the local authorities to target subsidies to the most needy who might not pay utility bills and in part due to the financial liability associated with public housing where rents are highly subsidized by local authorities. Housing programs are, therefore, driven by a preference for the easy solution to disbursing public funds, typically aimed at the middle-income group – in recent years through the Youth Housing program, Prima Casa guarantee program, and BauSpar subsidy. While the Prima Casa program serves to stimulate the mortgage and real estate markets, the Youth Housing program delivers housing with massive government expenditure that the private sector should be delivering at affordable market prices. Likewise, the BauSpar scheme has disbursed significant funds from 2005 to 2015 in the form of subsidies to savers, the vast majority of whom are “non-poor”.

¹⁵⁹ According to the Household Budget Survey of 2012, individual income for the first income decile is RON 0-281 (EUR 0-63) and RON 1201-10740 (EUR 270-2,416) for the 10th income decile.

Figure 8.5 Poorly targeted government programs target mainly middle-income households



Further, all housing developments to date on serviced land provided free of charge by the local authority raise the issue of not just inadequate targeting but also of financial sustainability of such efforts. By committing free land and infrastructure for projects that are not targeted to the poor (such as NHA’s Youth Housing program), cash-strapped local authorities put the prospect of providing housing for low-income households even further out of reach: it appears they do so when NHA offers to bring in housing investment but, in the end, this housing is neither bringing in the necessary rent to maintain the buildings, while at the same time siphoning away funds and resources from the poor (in the form of social housing, for example).

Table 8.1 Publicly funded housing programs in Romania

Program	Targeting by income bracket	Delivery	Budget time period	Average annual budget (EUR)
NHA Youth Housing	middle	31204 units	2005 - 2014	48956374
Social housing	low	122,538 units	2005-2014	5387658
Rebirth of the Romanian Village	middle	0	2010-2014	0
Housing for resident physicians	middle	1119 units	2003-2011	unknown
Necessity Housing	all	17693 units for flood victims	floods in 2005	18055000
Housing for evicted tenants	necessity	unknown	2008-2014	9109347
Social Housing for Roma Community	low	280 units planned, 0 delivered	2010-2015	1218306

Rental Housing with Private Capital	high	28,000	2012-2014	0
Mortgage-Financed housing program	middle	3,200	NA	unknown
Prima Casa	middle	100,000 loans	2009-2014	666667
Land lots for youth	middle/high	105 lots	2004-2009	unknown
Support for Young People Living in Rural Areas	middle/low	unknown	NA	unknown
Combating Marginalization through Housing	low	639,718	2008-2013	15808239
BauSpar	middle	1,738,539 contracts	2005-2015	4175545
National Program for Thermal Rehabilitation of Blocks of Flats	all	1,869,068 units	2009-2014	20518798
Thermal Rehabilitation of Blocks of Flats Financed by bank loans with Govt. Guarantee	middle	16 guarantees	2012-2014	unknown
Energy Efficiency of Blocks of Flats (ROP 2007-2013)	all	93 contracts	2007-2015 (implementation ROP 2007-2013)	21146883
District Heating Program	all	unknown	2008-2014	12815505
Rehabilitation of Heating Plants in Cities	all	7 projects approved	2007-2014	55719586
Green House Program	unknown	11,000	2010 (program since 2007)	25300000
Seismic retrofitting	all	41 buildings	2013-2014	1092500

8.6.1.1 Programs not targeted to beneficiaries' needs

The sub-categories of public housing, as they currently stand, do not allow for flexibility in addressing the needs of the different types of beneficiaries at the local level. At the same time, the beneficiaries are not adequately defined or targeted, which allows leakage of public resources to beneficiaries who do not have urgent needs, thus leaving room for misuse of funds, resources, corruption etc. For instance: Youth Housing could, in principle, be used as Necessity Housing for evicted tenants, but the latter is also qualified by law as social housing. Since Youth Housing is not considered social housing, it is not possible to use those dwellings for either Necessity Housing or social housing – even though, in principle, all of these housing types are “public housing”.

The harmonization of beneficiary categories with an integrated approach to managing public housing types should build on the existing and formally approved definition of vulnerable groups, as addressed by the national system of social assistance. Some laws, such as the law combating marginalization developed by the Ministry of Labor, already mandate local public interventions to cater to housing needs based on beneficiaries identified and classified as per the social protection system.

8.6.1.2 Fragmented and overlapping programs

There is a great deal of overlap among programs (different overlapping programs for vulnerable groups, including Roma, or targeting young professionals). Maintaining too many programs implies dissipated

implementation capacity with different agencies competing for budget allocations. There are several formally-approved governmental programs which have yet to commence, and this discredits the reliability of governmental initiatives in the eyes of lower level administrations and beneficiaries.

Synergies across programs across the various sub-sectors of housing – for example, planning, energy efficiency, and structural retrofitting – are practically non-existent. This lack of coordination across programs has resulted in a situation whereby different institutions implement different programs based on their own sense of priority and knowledge, without any reference to an overarching national-level strategy. For example, the Youth Housing program is seen as the most important program by the NHA, even though many more critical and urgent issues prevail in Romania’s housing sector where the government must play a key role – including retrofitting of seismically risky buildings and providing housing assistance to the poorer segments of the population. Even so, the NHA recently got another financing injection of EUR 175 million for the construction of some 7,000 more Youth Housing units, while there has been little to no progress on the issue of seismic retrofitting or social housing for the poor. Similarly, the energy efficiency program is being implemented largely without any link to HOA capacity building or awareness building – which is another important problem in Romania. This is essentially a massive opportunity lost.

Better outcomes and more effective public spending in housing programs is conditioned by a proper monitoring system, of both needs and public expenditure. This would allow a better-coordinated and timely funding support by central administration to local communities which manifest significant housing needs. Also, better awareness of needs allows for preventive rather than reactionary measures, which in most cases is much more cost-effective and avoids extreme social impacts diverging from housing needs not-attended in time (e.g. evicted tenants turning into homelessness, or human casualties caused by housing collapsed from earthquakes etc.).

8.6.1.3 Massive untargeted public investment into the BauSpar scheme

The BauSpar program has been relatively successful to date with over 300,000 savers between two bank providers in 2015. The number of new savers is increasing by approximately 10% annually. However, there are several major issues with the program as it currently operates:

- The program is not having its intended impact in terms of expanding housing loans – only 5% of savers are exercising option to take out loan. The program is still relatively new so this number may change. However, because rates have come down in recent years, the incentive to go with a BauSpar loan is now limited given that the initial contract sets a rate several years in advance on the loan conversion.
- The subsidy element is not well targeted – anyone can apply for a BauSpar product and benefit from the subsidy. At EUR 250 per customer, the subsidy program so far registers budget allocations of RON 841,590,738 since its inception in 2005.¹⁶⁰ These funds could be better deployed in a targeted way to those who most need assistance.
- Increasing loan size could be considered – There is currently a strong lobby to reduce the proportion of savings to end-loan amounts. This does need careful reflection, as it can create a system where new savers are constantly needed to meet outgoing new loans. This can be inherently

¹⁶⁰ MRDPA.

unsustainable. However, there may also be an argument that current ratio of savings to loans is too conservative and the loans obtainable are not sufficient to buy a home.

- The subsidy is largely benefiting banks at present – the subsidy is paid out in Trust until the loan is taken out. Essentially this represents a windfall of free funding for the banks on the government’s budget.
- Questions have also been raised about consumer understanding of the product – the built-in interest rate option is actually a relatively complex product and it is not clear that many of the 300,000 savers understand its full workings.

8.6.1.4 Massive untargeted public investment into Youth Housing

At present the NHA is struggling to deliver on its mandate. Much of the housing it is currently developing is not targeted to the poor, which is especially stark in its massive investment in the Youth Housing program.¹⁶¹ In its strategic document, key programs such as Roma housing or PPPs to attract private investments are underfunded and have seen little or no funding disbursed to beneficiaries.

NHA’s Youth Housing program has been successful in terms of scale with approximately 30,000 units delivered to date with another 6,990 planned according to a loan of EUR 175,000,000 approved in July 2015 by the Council of Europe Development Bank. The program is a good tool to attract youth to growing cities, in principle. However, while the youth are a valuable sector of the population, allocating large resources into youth housing is a questionable use of public resources: (i) massive subsidies in the form of below-market rent for a segment of the population that does not need them; and (ii) large resources being channeled into an area of relatively low priority compared to the much more imminent and pressing problems such as seismic risk, and one which could be served better by the private sector anyway.

According to a recent amendment to the Youth Housing Law, rents have now been revised to cover management, maintenance and repair expenses, and investment recovery (determined on the lifetime of the project).¹⁶² The monthly rent is first determined by location based on locality rank coefficient ranging from 1 in Bucharest to 0.8 in villages making up communes, municipalities, and towns. The monthly rent is then determined by a coefficient based on household income, ranging from 0.9 for households with an income per capita less than or equal to gross national minimum wage (RON 1050 or EUR 236 per month per capita), and 1.0 for those with income per capita exceeding 200% of the gross national minimum wage.¹⁶³ The regressive nature of this subsidy is illustrated by an example of a 4-

¹⁶¹ Total cumulative budget allocation of RON 2,128,538,000 from 2005-2014. There are approximately 30,000 Youth Housing units in Romania.

¹⁶² Government Ordinance no. 6 of 23 July 2014 amending and supplementing Article 10 of Law no. 152/1998 on setting up the National Housing Agency. 29.7.

¹⁶³ Ibid.

Rental coefficient by location

Locality rank	Coefficient
0 (Bucharest)	1
I	0.95
II	0.9
III	0.85
IV	0.8
V (Villages making up communes, municipalities, towns)	0.8

member household with 2 income earners that can qualify for the lower co-efficient (0.90) if the household income is below EUR944 per month, or for the higher coefficient if the household income is above EUR 1,888 per month.¹⁶⁴ Such households, in the country's top most income decile clearly do not need a government subsidy for housing.

There are several other problems with the approach underlying the Youth Housing program:

- The implicit subsidy includes serviced land provided at zero cost by the local authority. The provision of serviced land at zero cost involves an implicit subsidy equal to the value of the donated property.
- Rents are set below market rate and the program has no revolving principle to allow for future beneficiaries to use the same units.
- The program relies on capitalized subsidies gained from selling units (again, at below market rate, and not fully factoring in the cost of the serviced land which is provided by the local authority) to build new units.
- The revenue generated from the sale of these units goes to the NHA to build more units. However, the local authority that put in the land and infrastructure gets no share of the proceeds.
- Selling youth housing units according to coefficients determined by the locality's population could severely under-value properties in small villages on the periphery of Bucharest or other large cities because the relatively high value of land in these "satellite" towns is not included in the sale price.
- Moreover, making the public sector the decision-maker as to what type of building should be constructed on a specific property essentially places the public sector into what is typically a risky private sector developer role. It is a role in which the public sector is particularly less able to take and one that echoes back to the decision making process of the old regime.

Rental coefficient by household income

Income	Coefficient
Income per family member less than or equal to gross national minimum wage	0.90
Income per family member between gross national minimum wage and 200% the gross national minimum wage	0.95
Income per family member exceeding 200% the gross national minimum wage	1.00

¹⁶⁴ A simplified calculation is used here, using equal weight for all household members to calculate per capita income. This might not be the way it is actually calculated, but it provides a ballpark estimate of who qualifies for this government-subsidized rental program. It is irrefutably people in the top most income decile.

Plate 8.3 Youth housing projects in Romania



8.6.2 Inadequate social housing program

The inadequacy of social housing is a result of several issues, among them the following:

8.6.2.1 Lack of incentives to build or maintain social housing

Social housing is not funded directly by the State; under the Housing Law, local authorities are solely responsible for it. In their annual requests for housing funds, they may include funding requests for social housing, but typically prefer to request funds for other programs. This is partly because social housing, as it currently stands, is a 'loss-maker', and local authorities have neither incentive nor motivation to build, maintain, or increase their social housing stock

This is well illustrated by a fully-financed Roma housing program under the NHA which was initiated in 2008, but as yet no housing construction has started in any of the 11 municipalities across which 300 units are planned to be built. In this case as in others, those communities which are most in need of subsidies receive the least funding.

8.6.2.2 Underutilization of existing public housing stock

Local authorities also own 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', 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 serves to compile a comprehensive list of such relevant public assets for strategic use in programs targeting the poor. Much of this public housing stock is not utilized to its full potential, and represents a foregone opportunity to leverage these assets for social housing.

8.6.2.3 Poor maintenance due to lack of financial resources

The management of social housing is a real problem that deserves serious attention. The residents pay very little in terms of rent, but the costs of maintenance must be met by the local authority. It is a chicken-and-egg situation. The tenants complain about the lack of maintenance and services, overcrowding, poor living conditions, insecure tenure (very short rental contracts – 2-3 months in some cases), threats of eviction, and harassment by authorities. The local authorities complain about the tenants' non-payment of utility bills and rents, and the fact they have limited government resources to improve the conditions in these social housing blocks.

Another reason for local authorities' inefficient and inadequate delivery of social housing is that even though this is a responsibility mandated by law, it is not enforced – in part because they neither have the financial nor the technical tools to deliver this function. Enforcement will only be possible if local authorities have the tools and resources necessary to realistically deliver on the social housing mandate.

8.6.2.4 'Ghettoization' of public housing

Partly because of the inadequacy of available stock, little or no new stock, and 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' in undesirable (often former industrial) areas, where no respectable member of society wants to go. This concentration of poverty combined with alienation from the rest of society has led to an increasingly unstable and unsatisfactory social structure within these communities.

8.6.3 Shortcomings in residential energy efficiency programs

8.6.3.1 Sub-optimal quality of thermal insulation programs

Each block of flats that undergoes thermal rehabilitation represents a significant level of investment by hard-pressed local authorities and residents, and it is critical that the value for money for this investment is maximized. Lack of quality and completeness can significantly reduce effectiveness of the contracted works and can also lead to unintended negative consequences e.g. lack of controlled ventilation after super-insulation works can lead to condensation, dampness and poor air quality inside dwellings; poor finishing of external wall insulation (insufficient thickness of final coats, or exposed parts of insulation) can lead to damage of the system and loss of effectiveness.

8.6.3.2 Lack of public awareness

A significant body of insulation retrofit work exists in Romania, and there are examples of new buildings that are energy efficient as well. There is a real need for actual cost-benefit data to be collected and publicly disseminated in terms that can be understood by the general population – so that citizens can actually view the work in a commercial, or economic cost-benefit manner.

8.6.3.3 Lack of adequate data and information for nZEB

Pilot projects are being developed to demonstrate compliance with nZEB requirements, however this is happening on a small scale at the moment. Wider engagement is required within industry in order to increase preparedness.

8.6.3.4 Lack of technical capacity for low-carbon housing

As discussed earlier, there is a lack of skilled personnel who can ensure that the investments being made by Romania's citizens and the public sector result in good quality work and provide the required results. Detailed estimates have been created for the types and numbers of training courses required, and these need to be carried out with the training budgets available from the Partnership Agreement with the EC for 2014-2020.

8.6.3.5 Shortcomings in the existing program for installation of heating systems

The existing program for installation of heating systems using renewable energy is developed only for individual units with maximum financing granted of RON 6,000-8000. The subvention is enough only for the most simple equipment with a one year warranty period. In case of solar panels, the most complex,

with heating contribution that can be used throughout the year, the cost is EUR 3,000-5,000. The program does not grant any subventions for blocks-of-flats, especially for the blocks-of-flats which are undergoing thermal rehabilitation.

IX. KEY RECOMMENDATIONS

Fundamental Principles

Within an overarching goal **to make adequate housing attainable to all income groups by 2030**, the recommendations outlined in this section seek to address the gaps in Romania’s housing sector, and establish the foundations for Romania’s forthcoming National Housing Strategy.

Box 9.1 Definition of Adequate Housing

Adequate Housing is defined in this report as one that offers:

- Security of tenure and protection against forced evictions
- Safety in terms of structural stability
- Equal and non-discriminatory access to housing for disadvantaged or marginalized communities
- Affordability: Eurostat defines a household to be financially ‘overburdened’ when total housing + utility costs exceed 40% of net income.
- Availability of services
- Habitability: Appropriate dwelling units usable by special needs communities such as the elderly, nonconventional family types, etc.
- Suitable location: Access to job opportunities, and workforce mobility.

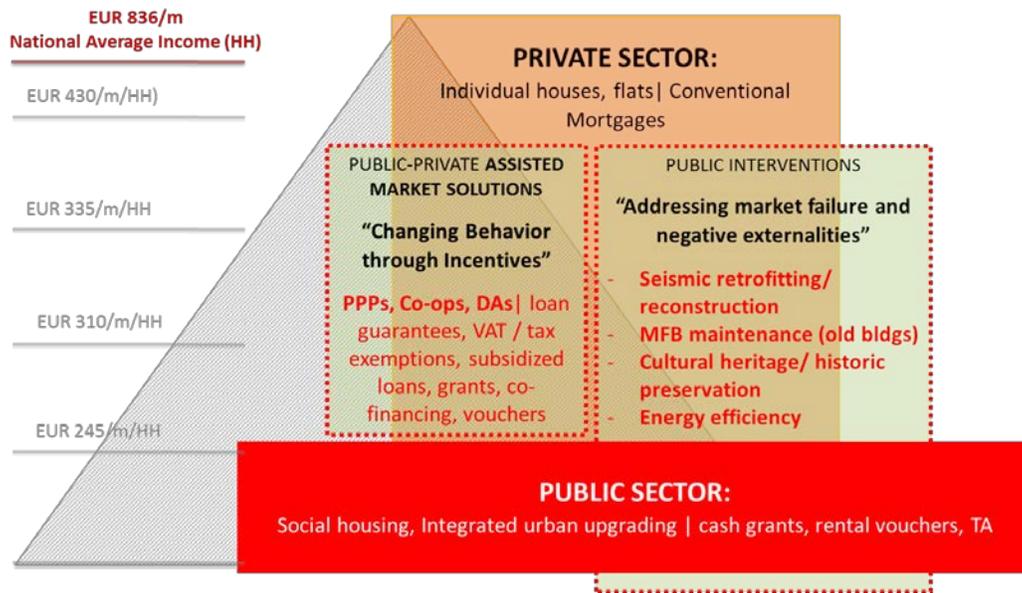
The core tenet of the National Housing Strategy should be to target public assistance to those most in need as defined by income or vulnerability. More specifically, public investments should be targeted first at the poorest households in the 20th income percentile and lower, and then at households in the 2^{0th} to the 50th income percentile. At the same time, it is critical to make the market work better. Subsidy programs, however well designed and well-targeted, cannot work effectively in a dysfunctional housing market where the vast majority of the population (including middle income households) cannot afford adequate, decent, and safe housing. In such a situation, the subsidies intended for the poor inevitably get “hijacked” by the middle income segment. Here, the role of government as a “facilitator” of a well-functioning housing market – while effectively targeting scarce public resources to the poor – cannot be overstated. This involves a proactive role of the government in creating the right environment through appropriate incentives and tools for the private sector to play its role in housing delivery more effectively.

Further, the underlying strategic vision must outline the types of interventions most appropriate at different income levels. For instance, the poorest households might need purely public assistance, other low income households might be targeted with 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.

As illustrated in Figure 9.1, a basic principle of the Strategy should be to aim for a ‘functional’ housing market, in which:

- The public sector plays a key role in providing direct housing assistance to the poorest and most vulnerable groups;
- The public sector actively intervenes in specific themes or sectors facing market failure or negative externalities;
- The public sector creates incentives to change behavior and leverage private investments for affordable housing through “assisted” market solutions; and
- The private sector is enabled to serve the housing needs of middle and upper income groups.

Figure 9.1 Functional housing market: Roles of public and private sector stakeholders



This chapter outlines the key recommendations for Romania’s housing sector, starting with the major sectors where reform is needed (financing, legal, institutional), followed by the priority areas: seismic retrofitting of residential buildings, improving the old housing stock, prioritizing assistance to the poor and vulnerable, leveraging the private sector for housing delivery, and improving the energy efficiency program.

Legal and Institutional reform, and Financing mechanisms

9.1 Legal Reform

9.1.1 Introduce a new Housing Law

In the absence of a comprehensive housing strategy, the array of mostly disparate provisions in the Housing Law respond to very narrowly defined needs. An overarching approach or strategy to housing is required to enable the government to better target scarce public resources to those who need them most, and to facilitate the development of a better functioning housing market. Such a strategy should not be the result of, but rather precede, the laws that govern the programs. Also, it is necessary to make a distinction between the Housing Law, which clarifies rights, obligations, and legal terms etc. versus other laws which basically act as housing programs.

The current Housing Law needs to be replaced by something that establishes a framework to serve the whole population. The new law should refine income eligibility criteria for social housing and other public housing programs, introduce mechanisms to enforce penalties for unlawful evictions, introduce mechanisms to enforce penalties on home owners (and HOAs) that do not adequately manage or maintain their buildings, establish more appropriate housing standards, establish a National Housing Fund, and redefine the role of the NHA. Among other things, the new law should mandate that public money be used to assist those who have insufficient income to meet their housing needs, with priority for those most in need, i.e. the poorest 20% to 30% of the population.

However, legislation by itself is never sufficient: It needs to be coordinated with and integrated into the implementation of policy. Thus, while new legislation should address the points outlined in this report, it must be prepared with strategic objectives in mind. The principles of good legislation are that it should:

- Enable the maximum participation by all actors in the housing delivery system
- Be able to respond to changes in the economic and social situation
- Have clear strategic goals
- Establish the principles under which regulations can be made, but not include regulations.

Legislation, therefore, must be based on the following strategic principles:

- Stratifying the market and ensuring that all sectors are addressed
- Establishing the role of all actors in the housing delivery system, principally:
 - o Central Government
 - o Local Authority
 - o State agencies (e.g. the NHA)
 - o the proposed National Housing Fund (NHF)
 - o Utilities
 - o Private sector
 - o End users

- Have clear justification and targets for all subsidies
- Establish clear guidelines regarding how state funds are managed and allocated
- Sustainability
- Flexibility
- Protect the disadvantaged and marginalized, for example by prohibiting eviction without due process.

The new Housing Law should spell out the roles and responsibilities for national, regional, and local levels of government, in terms of budgets and financial control, program monitoring and evaluation, policy development and data management, together with the underlying together with appropriate financing mechanisms and technical capacity to deliver these functions.

It should mandate the following:

- Public money should be used to assist those who: (i) have insufficient income to meet their housing needs, with priority to be given to those most in need concentrated in the poorest 20% of the population; or (ii) those who would with minor assistance contribute to much larger improvements in housing conditions, such HOAs and or elderly living in seismically risky but valuable housing.
- The National Housing Agency should be reconstituted to act as a technical advisory body given its significant technical capacity. It can focus on retrofitting of buildings at risk to earthquakes (including building necessity housing), and providing assistance to local authorities in the upgrading and incremental housing projects for marginalized communities and low income groups.
- A National Housing Fund should be established with the following objectives:
 - o Provide co-financing for seismic retrofitting of unsafe residential buildings
 - o Provide co-financing for essential repairs to dilapidated existing housing stock
 - o Support the establishment and functioning of cooperative and homeowners associations through co-financing for repairs and upgrading works and technical assistance
 - o Provide co-financing to HOAs or local authorities for the improvement of residential buildings and neighborhoods
 - o Provide grants to the poorest households to support incremental housing and upgrading
 - o Provide co-financing for energy efficiency in buildings and district heating upgrades, preferably done in parallel
 - o Provide guarantees on mortgages loans targeted to first time or middle to low income buyers
 - o Provide guarantees for loans to cover owner contributions for repairs of multifamily buildings.

The Law should also give local authorities the duty to take all measures reasonably possible to serve marginalized communities by:

- Assisting such residents to obtain security of tenure
- Establishing “Improvement Areas” in which suitable building and planning standards allow for construction by stages, whether by the householder’s own labor or professional builders

There are two important parallel Laws which should be revised in parallel with the proposing new Housing Law.

The Draft Condominium Law needs to incorporate the following:

- Allow HOAs to appoint any suitably qualified person/company to manage the property without approval by the Mayor
- A duty on all members of the condominium to protect the structural integrity of the building and undertake regular repairs and maintenance to do so

- Establishment of a quick and low cost system to resolve disputes between members of the HOA.
- Either in this legislation or in the new Housing Law provision should be made to support families who lack the means to pay their monthly dues to the HOA, whether for utilities or other costs.

Law on Property Rental. As stated elsewhere in this report the legislative framework for residential tenancies needs to be amended so as to encourage more house owners to rent their property. In addition to the proposal to reduce the VAT charged on small landlords (with less than five properties), legislation should be drafted which facilitates renting by:

- Introducing a standard simple form of lease document which can be used by all parties in the knowledge that it is fair to both parties
- Establishing a quick and low cost system to resolve disputes between tenants and landlords.

9.1.2 Introduce a compulsory purchase clause for vacant and unused historic buildings

There is a need to use the state's compulsory purchase powers to acquire unused (vacant) historic buildings that are in poor condition – based on a policy that mandates improvements of all privately-owned historic buildings within a stipulated timeframe. Failing this, the local authority should be able to compulsorily purchase/ acquire these structures to improve them, with financing from the National Housing Fund.¹⁶⁵ These improvements must take place within a standardized timeframe (e.g. five years) to ensure public safety and that such powers are not misused.

In addition, privately owned buildings that are certified as historical monuments but lying vacant and unused for an extended period of time (say 5 years?) and in a state of disrepair, can be bought with preemption rights by the Romanian state through the Ministry of Culture (according to Law no. 422/2001 on protecting historical monuments). This legal framework should allow for the preservation, regeneration, and possible repurposing of such buildings.

9.1.3 Introduce legal framework that proscribes living in unsafe structures

The new Housing Law needs to ensure that families currently at risk are not left at risk. This means clearly stating under the Law that unsafe structures be vacated, and tied with a clause that ensures adequate support from the government to the affected households, both in terms of temporary resettlement – either in the form of government provided public housing or in the form of cash vouchers with which the households can access private housing for rent. The law should also require that unsafe buildings – historic or non-historic – that have been lying vacant for more than 2 years be compulsorily acquired by the government (or local authorities), and retrofitted.

¹⁶⁵ See Article 44 of the Romanian Constitution (Law 429/2003): Par. 3) No one shall be expropriated, except on grounds of public utility, established according to the law, against just compensation paid in advance; Par. 5) For projects of general interest, the public authorities are entitled to use the subsoil of any real estate with the obligation to pay compensation to its owners for the damages caused to the soil, plantations or buildings, as well as for other damages imputable to these authorities; Par. 6) Compensation provided under paragraphs (3) and (5) shall be agreed upon with the owner, or by the decision of the court when a settlement cannot be reached.

9.1.4 Clarify the scope and function of public housing and social housing

9.1.4.1 Better define “social housing”

There is a clear distinction between public housing and social housing. The former consists of all housing provided by public funds. Social housing, on the other hand, is defined under the Housing Law 114-1996, Art 2 (c) as:

Housing for which the rent is subsidized for persons or families whose economic situation does not allow them access to a dwelling owned or rented out under housing market conditions.

This definition is in line with the intent of social housing in the majority of European countries. However, in Romania, the practical usage of the term social housing alludes only to the highly subsidized *public* rental houses for the very poor, which are managed and maintained (often poorly) by local authorities. This definition needs to be expanded to include other forms of housing, both public and private, that can come under the realm of ‘social housing’.

While the majority of European States target social housing for lower income groups, a clear distinction should be made between the type of accommodation provided and the income groups served. There is increasing recognition that separation of residential neighborhoods on the basis of income groups leads to ghettoization and a tendency for social housing to be viewed negatively. This can lead, in turn, to a decline in the condition of the housing and environment.

There is therefore a need to change the definition of social housing from a product – that is a specific type of dwelling – to a housing solution that is available to people with lower income groups who cannot afford market prices due to their low incomes. As such, access to it is made possible by income support/ housing vouchers (there are different models, but they all have the effect of assisting people with low incomes) rather than locating it in a specific type of building.

Indeed, in many countries in Europe, rental housing is developed by the state (in one form or another) as public housing, and there is no physical distinction in the type of housing unit between those who receive subsidies in the form of income support (which would be considered “social housing” according to the definition above) and the others.

While the provision of public housing on this scale is neither necessary nor desirable in the Romanian context, it underlines the principle that the target for subsidies should be the family and not the dwelling unit. This principle means that social housing would no longer be the heavy drain on local authorities, and that subsidies would be targeted more effectively.

9.1.4.2 Consolidate the various categories of “public housing”

The sub-categories of public housing should be merged to include all public stock addressing different target groups in need (which are now covered by too many different programs –e.g. evicted tenants, people affected by hazards, marginalized Roma, youth, elderly etc.). It is best to have just one category of government-owned housing – public housing, used for social purpose – serving all vulnerable groups defined by the social assistance laws. This needs to be combined with possibility of local authorities to prioritize assistance across the different vulnerable groups in order to reflect local needs. In other words, the different uses for the stock of public housing could be better determined by the categories of beneficiaries, rather than the categories of housing – and respond to specific needs at the local level.

9.1.1 Improve space standards for dwellings

The Housing Law specifies the minimum house size in terms of the space required per person – for example, to comply with the Housing Law, a family of 6 must have a house with an area of 144 m², which must include a bathroom and separate shower room. Going even further, the Law specifies the number of shelves, mirrors and towel rails. By comparison, after exhaustive surveys and comparative studies, the standard adopted in London, UK, for a six person family is 92 m².

Not only is this setting an unrealistic standard, it makes development of housing – especially social housing – too expensive. In essence, the Romanian Housing Law sets a standard which the public sector cannot expect to meet if it is to develop social housing at any scale. By comparison, it should be noted that some families of this size are accommodated in official social housing units of only about 10-15m².

It is recommended that space standards relate to minimum room sizes rather than the house size (as is currently the case in the Housing Law), thus permitting residents to select for themselves the amount of space they require.

Box 9.3 London Housing Standards

In 2005, the Greater London Authority commissioned a study of housing spatial standards as input into the Great London Plan proposed for 2006. It was intended to provide a snapshot of current custom and practice, recent trends and likely future trends in new residential development internal & external space standards, and the views of significant developers; a review of good practice guidance on housing space standards currently available; a review of the experiences of other organizations within the UK and elsewhere who have introduced minimum space standards; a cost/benefit analysis of setting minimum standards at different levels; advice on implementation issues and a recommended way forward. The work represents one of the most comprehensive reviews of space standards in Europe this century. Recommendations are:

Number of persons	Cooking eating and living	Total area*
1	22	37
2	22	44
3	24	57
4	27	67
5	30	81
6	33	92
7	36	105

This includes bedrooms at a minimum of 7m² for a single and 10m² for a double, room for storage, play space for units intended for more than two persons, and balconies for multi-story dwellings.

Source: Housing Space Standards: A report by HATC Limited for the Greater London Authority; *Mayor of London*, London, August 2006

9.2 Institutional Reform

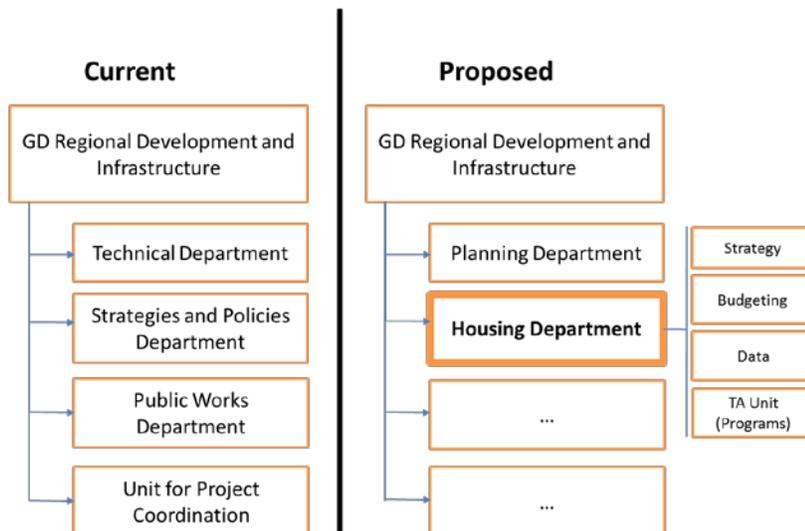
9.2.1 Strengthen the Housing Department at the national level

At present, there is little recognition of the gains from a more proactive and larger public role in the housing sector. Expenditures at present are not coordinated, minimal by international standards, badly targeted, and not transparent. More resources could help realize social benefits that would go far beyond the housing sector. However, to realize this larger, more substantial role, it would be essential to strengthen national level institutions. For example, MRDPA has a duty to prepare the national level budgets for the programs implemented by the government for housing, and play an advocacy role to justify the maximum possible allocations. At the same time, MRDPA will need to ensure that the funds benefit the more needy sections of the population, and are properly accounted for. MRDPA’s coordination role among the various public and private stakeholders needs to be strengthened, including maintaining a consolidated housing database.

A housing department at the General Directorate (GD) level is proposed that would have responsibility for programs in energy efficiency, HOAs and maintenance, accessing finance, monitoring, evaluation, and data collection. Such a strengthened housing department can provide training to specialists at the county level, who can then provide support to local authorities in energy efficiency standards and procurement, social housing, asset management, housing finance, and other key areas.

Twinning can be employed to build institutional capacity at the national 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.

Figure 9.3 Current and proposed institutional structure for the Housing Department at the central level



9.2.1.1 Budgets and financial control

MRDPA, responsible for housing, has a duty to prepare budgets and play an advocacy role in relation to them so as to justify the maximum allocation possible for housing. But at the same time it has a duty to ensure that the funds received (a) benefit the most needy sections of the population, or those that have the highest social benefit, and (b) are properly accounted for.

Since funds will largely be passed through local authorities, this will require a well-defined procurement and financial management procedure that would be subject to regular audits. The audits would ensure that allocation of units to beneficiaries is in accordance with the criteria defined by MRDPA for the funds, and that value for money has been obtained through efficient and effective procurement procedures. Budget allocations and expenditure can be monitored using a central housing monitoring platform (see section 10.3.2.3) to inform future budgetary decisions.

9.2.1.2 Program monitoring and evaluation

MRDPA should monitor all housing programs to determine whether they are being implemented according to agreed cost and time parameters. It should also evaluate all publicly funded programs to determine whether they are meeting their objectives, and in what way program design and implementation procedures can be improved. Monitoring the need of different populations for different housing solutions is also critical in targeting and adjusting housing programs for efficient budget allocation. This monitoring and evaluation should be linked to the audits required under financial management, and can be conducted using a centralized housing monitoring platform, described in section 10.3.2.3.

9.2.1.3 Data management

MRDPA can establish a housing monitoring platform that would overview public investments in housing as well as data on existing housing stock and housing needs. The MRDPA might need to introduce new indicators for data collection and review the existing monitoring system of local budget expenditure to ensure that housing-related investments are tracked. Such a monitoring platform would support knowledge creation in the housing sector (including appropriate statistical databases and tools, elaboration of housing analysis, etc.) as well as promote training for public sector employees with responsibilities in the field (mayors, public servants, others). Increased monitoring and data infrastructure in the housing sector would provide policy makers and developers with a picture of what type of housing is being built, at what cost and where, by whom, and how public investments impact the housing sector. Such data would form a useful input to the monitoring and evaluation process, but would also be a useful resource for all agencies and companies involved in housing production. Potential partners for a housing monitoring platform would be the National Institute of Statistics and the Department for Fiscal Policies and Local Budgets.

9.2.1.4 Policy development

New initiatives might require either legislative or administrative support from the national government. For example, MRDPA might convene national workshops or establish committees to share experiences, both locally and internationally, or to debate policy issues or discuss implementation methodologies. The MRDPA already holds the secretariat of the National Centre for Human Settlements (HABITAT), a structure described earlier in the report, which is mandated to ensure such inter-institutional cooperation and overview. HABITAT could have an active role in initiating and coordinating different policy analyses, contributing to development of legislation, drafting rules and regulations, organizing consultative processes in decision making for the housing sector, developing and implementing a

housing monitoring platform compatible with the practice of international and European structures with which Romania is aligned, as well as initiate and take part in different training and representation events.

9.2.1 Clearly define and strengthen the role of local councils

Under present legislation, local councils have the duty to provide social housing. This requires that they obtain and service land and construct dwellings on it. Once they have obtained these lands and serviced them, they have the duty to allocate the units, collect the rent and maintain the building. The current policy is drawn unduly narrowly in that it requires the local council to construct the dwellings. It can instead leverage cooperatives, housing associations, or private sector developers working with the local council to develop public housing (for social purposes) under a public private partnership while retaining the existing policy of the local council providing and servicing land. It can also emphasize the need to rehabilitate dilapidated dwellings in preference to building new ones, where appropriate.

In so doing, the local councils 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. Local Councils can be allowed and incentivized to rehabilitate or convert existing public buildings to public housing. Alternatively they should be able to supplement public housing stock by subsidizing rents and utility costs from the private market (rental vouchers).

Local councils also need to prepare a five-year housing plan, to be reviewed annually, which will be the basis for the allocation of public funds. The housing plan would primarily address the issue of social housing and marginalized communities.

Local councils should also be responsible to collect and maintain housing data at the local level. The Mayorality of Cluj-Napoca, through its Directorate of Local Taxes, compiled the first centralized database of real estate transactions carried out in Romania in the hopes that the analyzed data would shed light on real estate market dynamics in Romania. The collected data included all real estate transactions conducted between May and December, 2013. 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 in addition to new housing construction.

Local authorities can also encourage and when relevant employ improved planning practices to better integrate housing aspects in main planning documents (e.g. General Urban Plans and Zonal Urban Plans). In addition, new planning instruments can be used to support the development of affordable housing (e.g. betterment levies, planning gain, and development agreements). Central authorities can disseminate a list of guidelines to local authorities on how to better identify and tackle housing needs through planning instruments and regulations.

Twinning can be employed to support institutional capacity building at the local level associated with new allocation of roles and responsibilities for housing. Such a program already exists between Cluj-Napoca and Istanbul, and might be expanded to other Romanian cities to encourage best practice exchange with other countries where planning has a well-defined and developed institutional setting. For instance, twinning could help in the capacity building of housing departments at the city hall level.

9.2.2 Reform the role of the National Housing Agency

Given the proposed policy reforms outlined in this section, the current role of the NHA – to implement housing projects – may become redundant. However, because the NHA has significant technical capacity, its role and function needs to be fundamentally reviewed and re-targeted towards a new portfolio of projects in the housing sector.

While the largest NHA program, the Youth Program, has succeeded in terms of delivering a relatively large number of rental homes for middle income households, it is a program that can be undertaken by the private and non-profit sectors (Cooperatives and Housing Associations). As an arm of the government, the NHA should ensure that its initiatives are not substituting or competing with the private sector, even if the full potential or capacity of the private sector is still to be realized.

The establishment and operationalization of the National Housing Fund will serve some of the NHA's key social responsibilities in the housing sector through the disbursement of co-financing, loan guarantees, and grants for a number of initiatives targeting poor and vulnerable groups. That said, there are some programs such as development of necessity housing, retrofitting of housing at risk to earthquakes, rental housing, and PPP schemes in which the NHA could be encouraged to play a role.

The NHA would be ideally positioned to undertake public sector programs that local authorities lack the skills to design or implement, and/ or in which the private sector is unlikely to step in. This includes three potential areas of focus:

- A technical and implementation role in the seismic retrofitting of buildings, including the construction of necessity housing to temporarily house residents of those risky structures during the retrofit period;
- Providing technical assistance to local government in in-situ upgrading and incremental housing programs; and
- Rental housing and PPP schemes. To the extent that the provisions relating to housing cooperatives mentioned by Law no. 1/2005 on the organization and functioning of cooperatives will be developed, the Youth Housing program could be adapted to the production of housing for certain categories of low-to-middle income groups, but based on partnership with and investment from future-owners/ private individuals.
- To the extent that the provisions in a new Housing Law would allow for the unification of currently disparate types of public housing in to one category, the current stock of Youth Housing could be reallocated to those most in need based on income and other vulnerability criteria.

With its past experience in executing large construction initiatives, the NHA is uniquely positioned to undertake the construction of necessity and rental housing for those living in seismically risky structures and to retrofit or rebuild those structures for inhabitation.

There are a total of 607 buildings in Class I of seismic risk in Romania, translating to 10,577 apartments. The NHA can construct a batch of necessity housing over a period of two years to temporarily house those living in Class I buildings while the buildings are either retrofitted or rebuilt. If the NHA constructs

1,500 units of necessity housing to be used for the temporary, phased resettlement of residents of risky buildings, all Class I buildings could be retrofitted or rebuilt within a period of approximately ten years.¹⁶⁶ Class II and III buildings could be addressed thereafter. Details of such a phased program of retrofitting need to be determined through a more thorough analysis leading to a *Seismic Risk Mitigation Plan* for unsafe residential buildings.

It is proposed that the NHA operate through offices in each of the 8 administrative regions, which would be staffed by architects, engineers and surveyors. In addition to such technical skills it would have a staff of community workers who would take the lead in managing its programs, calling on the technical staff as and when required. These regional teams would report to the head office in terms of procurement and management decisions, but would operate as largely autonomous units, thus reducing the management burden on the head office.

Under this new structure, the role of the head office would be to liaise with local and national government in terms of selecting projects and assuring funding for them, as well as providing specialist input as required, for example legal services.

9.2.3 Improve public asset (property) management

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 (possibly using funds from the proposed National Housing Fund or in the framework of a public-private partnership), and use them for rental housing at both subsidized and market rates.

An inventory of such relevant public assets needs to be developed at both the central level as well as by each Local Authority. The MRDPA can then consolidate the information into a single inventory to serve as the basis for 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. These interventions may be accomplished through a combination of PPPs, DAs, and ESCOs depending on context and capacity of the implementing organization(s). As part of such a program, each Local Authority would develop its own inventory and strategy for relevant public assets.

9.3 Financing

9.3.1 Establish a National Housing Fund

There is a need to establish a National Housing Fund (NHF) that streamlines the delivery of public sector support for financing and subsidies to the housing sector. While the operational details of this Fund need to be developed, the conceptual outline is presented below.

¹⁶⁶ This assumes a two-year start-up period after which residents would be phased through every one year. 1,500 households per year implies that in approximately 10 years (accounting for delays / less than 100% occupancy) all 10,577 risky units would be renovated or rebuilt.

9.3.1.1 Concept, features, and advantages of a Fund

A potential solution to some of Romania's blockages in the production of affordable housing could be the establishment of a dedicated National Housing Fund. The Fund would be a centralized source of government support for developing the affordable housing market through targeted financial support. The Fund would consist of several specific funding windows accessible by both private and public sectors. The overall objective is to increase the availability of good quality, energy efficient, affordable housing while avoiding ineffective expenditures of public funds. The difference in effectiveness of well-targeted subsidies that leverage other resources and efforts and those of expenditures that are not well designed can be the difference between a program with lasting value and one that has an adverse effect on its putative beneficiaries and urban development. This assistance could be used for rental housing, or for affordable homeownership, or for improvement of residential buildings or neighborhoods. The Fund would support both new housing and rehabilitation of the existing housing stock.

Key features of the Fund would be:

- **A reliable source of long term revenue** – This could be an automatic allocation of either real estate taxes, a share of property transfer taxes, a specific income tax, or a dedicated tax on goods (such as cement). In addition, there could be an agreed annual budget allocation from central government, which could potentially be based on an agreed formula to ensure predictability of the income, EU funds (under the ROP), and potentially some local government contributions. Other revenue streams could also be considered to provide a solid platform to enable long term investing into housing.
- **A single Administrative platform** – The Fund would have multiple windows covering a number of public interventions in the housing market, which include:
 - o Co-financing for local authorities/ NHA to undertake seismic retrofitting
 - o Co-financing to local authorities, HOAs and individuals for improvement of old and/or historic houses and neighborhoods
 - o Co-financing for HOAs and individuals for building/ home improvement
 - o Co-financing for local authorities to construct/ improve public housing (social, necessity)
 - o Co-financing for local authorities and district heating providers to improve energy efficiency in district heating systems as well as housing
 - o Loan guarantees/ partial grants for lower income home-buyers and renters
 - o Tax incentives for developers building affordable housing
 - o Grants/ subsidies for the poor for home improvement, construction or rental.

Advantages of such fund would be:

- **Efficient and more coherent administration of public expenditures** – Point of central focus on housing bringing together inter-disciplinary housing inputs (finance, infrastructure, land, transport etc.), and unified administration creating a single point of contact for working with local authorities.
- **Sustained, transparent involvement in the housing sector** – Would provide long term investment through a stable easily identifiable vehicle which, in turn, will help other stakeholders formulate longer term plans and investment plans.
- **Source of finance for local governments** - Would provide a clear linkage between local and central government which, at the moment, is lacking in terms of the delivery of affordable housing.
- **Expand affordable housing** - Increased focus on affordable housing solutions – both public and private – which for many low-income families may be the only option.
- **Avoid the most ineffective use of public expenditures.** Subsidies for a good like housing which in well-functioning markets costs a multiple of annual incomes can be highly ineffective if not well-

designed. In addition, while it is of course a political decision as to who beneficiaries should be, it should not be a political choice as to how to assist them. That is a technical question which should be addressed, in an accountable way, by expert analysis. The international experience on this is clear. Very often, very large subsidies are provided to those with very little need while the intended beneficiaries are not assisted.

9.3.1.2 Funding

The NHF will have a social function and, as such, will require public funds. However, if it is to successfully develop a multi-year long-term investment strategy for housing, it needs independence from the political process and stable funding sources. Annual budget allocations might not be conducive for long-term investments, given their annual fluctuations. The government of course has the right and obligation to make political choices about what should be subsidized. The point of the Fund is to do this in the most effective way. That is, in a way in which the instruments chosen to assist a specific group are the most effective and transparent.

The types of revenue streams that could be considered include:

- Direct budget allocation
- Funding from international bodies (e.g. EU, World Bank)
- A proportion of property transfer taxes and local real estate taxes¹⁶⁷
- Bond issuance by the fund based on guaranteed income stream from rental properties
- Revenues from public assets (e.g. rents on publicly owned property)
- Guarantee fees
- Dedicated tax on goods such as cement or other construction materials where any negative impact from higher prices would be offset by increased business volumes.

9.3.1.3 Structure

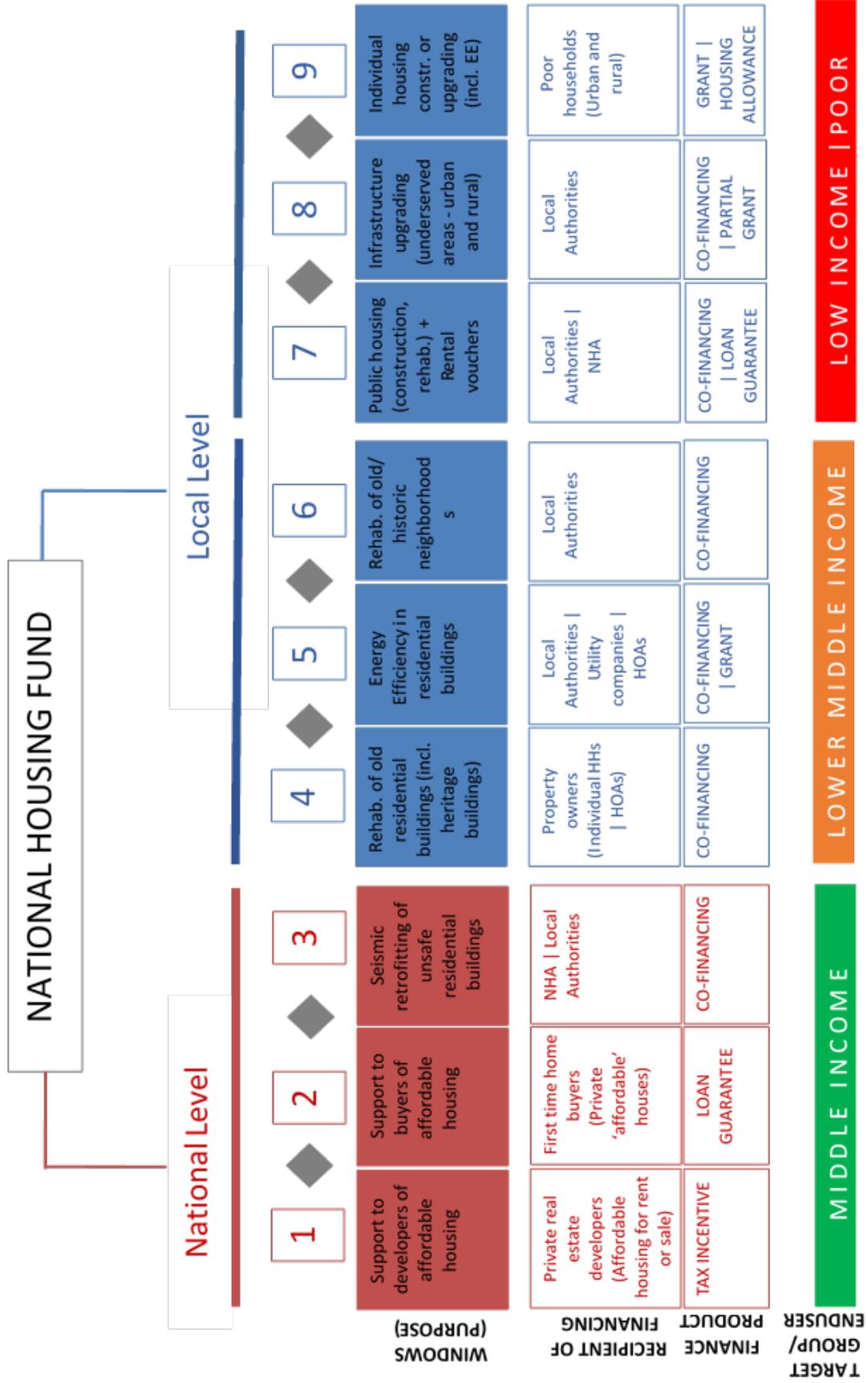
The Fund would be managed at the national level, but would have a strong regional presence also as the key link with local authorities that serve as the main delivery point for social housing at present. As shown in the illustration in Figure 9.2, two of the windows under the proposed program would be run at the national level; the others would be run at the local level. Commercial banks can serve as ‘agents’ or intermediaries to carry out the transactions.

9.3.1.4 Corporate Governance

Overlap with Government Programs. The fund would aim to distance itself from policy aspects and be a tool for the administration of housing policy. As such, the NHA would not have a role in the running of the Fund directly although it would potentially be involved in structuring some of the programs that benefit from Fund resources. The Fund would then provide the financing, as necessary. The Fund itself would not be involved in PPP transactions as such. Structuring and implementing PPPs would remain the responsibility of the local authority (or NHA). If the Prima Casa scheme continues, it could work in parallel with some of the initiatives under this Fund or could be rolled into the Fund’s program.

¹⁶⁷ Currently local real estate taxes are low and not well-collected. This may remain as a potential future source of funds for the NHF.

Figure 9.2 Proposed National Housing Fund



Risks. There are underlying risks associated with targeting, budgeting resources effectively, corruption, and the inability to obtain sufficient budget/ revenue allocations.

See Box 9.2 some international examples of bodies operating as Housing Funds.

Box 9.2 Housing Funds: International examples

UNITED STATES – HOUSING TRUST FUNDS

There are two levels of Housing Funds in the United States. A National Housing Trust Fund which was established under the Housing and Economic Recovery Act of 2008, but which has yet to get fully off the ground and there are smaller State level or even County level Housing Trust Funds that receive ongoing dedicated sources of public funding to support the preservation and production of affordable housing and increase opportunities for families and individuals to access decent affordable homes. Housing Trust Funds systemically shift affordable housing funding from annual budget allocations to the commitment of dedicated public revenue. While housing trust funds can also be a repository for private donations, they are not public/private partnerships, nor are they endowed funds operating from interest or other earnings.

As at 2009, there were up to 700 Housing Trust Funds in the US, many of them small (less than \$5m) with different remits. Each Trust Fund has different objectives and goals based on the needs of the local population and political preferences, and each jurisdiction is responsible for determining how Housing Trust Fund dollars may be used and who is eligible for funding. Funded activities may include new construction, acquisition, or rehabilitation activities. Funds may also support transitional housing, assistance for low- and moderate income home buyers, such as down payment assistance, education, or counseling, emergency repairs, loans for design costs of housing developers, or rental subsidies.

Trust Funds typically target households earning 80% or less of the area median income, though some may only fund projects for homeless individuals or families or lower income targets. And, typically funded projects are required to remain affordable for a set period of years. These requirements and preferences may be established by the authorizing legislation or by the administrative body. This may determine which projects are more likely to be funded and who will benefit the most from the trust fund. Over time, housing needs of the population may change, and a Fund's regulations can change to accommodate new goals and objectives

The Key Features of the National Housing Trust Fund are:

- It is a **permanent program**, and will have dedicated source of funding not subject to the annual appropriations process.
- **Targeted toward rental housing**, at least 90% of the funds must be used for the production, preservation, rehabilitation, or operation of rental housing. Up to 10% can be used for the following home ownership activities for first-time home buyers: production, preservation, and rehabilitation; down payment assistance, closing cost assistance, and assistance for interest rate buy-downs.
- **Targeted toward extremely low income households**, at least 75% of the funds for rental housing must benefit extremely low income households and all funds must benefit very low income households.

AUSTRALIA – HOUSING AFFORDABILITY FUND

The Housing Affordability Fund is a five-year, more than USD 400 million investment by the Australian Government that is helping to reduce the cost of new homes for homebuyers.

The Fund is addressing two significant barriers to increasing the supply of affordable housing:

- The 'holding' costs incurred by developers as a result of long planning and approval times; and Infrastructure costs, such as the laying of water pipes, sewerage, transport and the creation of parks.
- The Fund provides grants to state, territory and local governments, to work in conjunction with the private sector, to reduce housing-related infrastructure and planning costs, and to pass savings onto new home purchasers.

9.3.2 Redirect funds from and reform existing subsidy programs

9.3.2.1 Abolish the Youth Housing program

Abolishing this program should first take the form of ceasing construction of new Youth Housing, and stopping the sale of Youth Housing. Selling these units effectively removes stock from the already too small pool of public sector housing, while continuing to rent them for extended contracts means that the same residents benefit from the subsidy year after year.

The current Youth Housing should be integrated under the framework of public housing, and retained as public housing stock to be used as one or more of the following: (i) revenue generating assets with market-price rents that can help cross-subsidize the cost of existing social housing or raise funds to construct new social housing; (ii) rental housing targeted to lower income households who can pay the current (social) rents; (iii) housing for the youth 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 residents of buildings undergoing seismic retrofitting.

If possible, the EUR 175 million approved in June 2015 for Youth housing construction should be redirected towards retrofitting of structurally deficient buildings.

9.3.2.2 Better target the BauSpar subsidy

To better target the subsidy associated with the BauSpar scheme and to ensure that government funds are spent in the most equitable manner, the following reforms can be taken in respect to this program:

- Establish income eligibility criteria for participation in the subsidized BauSpar scheme. For instance, beneficiaries might be required to be below the median national income. In addition, the subsidy can be targeted specifically to those saving for renovation loans, as the Prima Casa program is already successful in serving households in need of affordable mortgage financing.
- Reallocate the subsidy element remaining after eligibility criteria are reallocated to a guarantee scheme or direct subsidy scheme potentially focusing on smaller home improvement loans (as distinct from Prima Casa which would offer a means to full home-ownership).
- The subsidy itself can be disbursed to the income-eligible borrowers at the beginning of the loan period rather than incrementally throughout the savings period so that it does serve as an ongoing bonus for the banking system in the form of free funding.
- Any change in the ratio of the savings amount to the loan amount should be very carefully reviewed. This requires financial modeling to assess overall stability and sustainability of the system.

9.3.2.3 Review and reform the Prima Casa guarantee program

The Prima Casa program targets first-time homebuyers by providing government guarantees for mortgage loans (thus reducing interest rates and making loans easier to obtain), while a parallel program offers 5% VAT for properties selling at less than EUR 68,000. Both of these policies are relatively risk-free and effective in assisting lending for first time buyers and should be continued.

The house price threshold of EUR 60,000-70,000, while somewhat effective in terms of self-eliminating the very wealthy buyers, does not do a very good job filtering out and targeting those who really need this type of government assistance. An income eligibility criteria would be more appropriate in this regard. It is thus suggested that the price threshold of the house be removed, and instead, eligibility for

the Prima Casa guarantee be based purely on income criterion. For instance, the program can be limited to those earning less than the median national income.

9.3.2.4 Review and reform the VAT subsidy

Individuals purchasing private houses within a certain price range (less than EUR 86,000 or RON 380,000)¹⁶⁸ are offered a VAT subsidy – they pay 5% VAT payment compared to the regular VAT of 24%. Although data on this program is not available, it appears that there is no income eligibility criteria. In other words, this program loses potentially substantial government revenue by way of untargeted subsidies to individuals who do not need them. This subsidy would be much more effective if targeted by income level, for instance to people earning below the national median income. The additional revenue thus generated (from otherwise “lost” VAT) could be allocated to other priority areas discussed in this report, including public housing and seismic retrofitting.

Existing programs and new program proposals

9.4 Urgently initiate seismic retrofitting of structurally unsafe residential buildings

9.4.1 Develop a Seismic Risk Mitigation Plan for all residential buildings categorized as structurally unsafe

First and foremost, a mitigation plan needs to be developed for seismic risk mitigation in residential buildings. This plan would outline a range of interventions that could be used under different scenarios – for example, historic/ non-historic buildings, severity of risk etc. together with a participatory process to engage with resident communities (to create awareness and ease the process of relocation). The plan would quantify the needed interventions in terms of budgetary requirements, phasing, prioritization, and sequencing.

9.4.2 Provide transitional accommodation for residents during retrofitting

The urgent need for seismic retrofitting will require a plan to ensure that residents are temporarily moved out of dangerous buildings into transitional shelter. This shelter will need to be provided by the state. Since it will take some years to build up an adequate stock of public housing that can be used for this purpose (Necessity Housing), other alternatives may be considered in the interim: the government might consider offering other more flexible incentives to households to vacate the premises so that improvements can be undertaken - for example, rental vouchers displaced households, with special

¹⁶⁸ This is was established by GEO 200/2008, which made an adjustment to the 2003 Fiscal Code to include, among other changes, a reduced VAT for houses purchased for less than EUR 86,000 (RON 380,000). The land must not exceed 250m², and the house area should be less than 120m² (including auxiliary buildings).

assistance focused on the poorest and more vulnerable groups. In the absence of adequate necessity housing, the housing voucher should ideally be offered to all residents – this will be a major incentive for them to move. However, it should be designed as a progressive subsidy -- for example, those earning below the median income could get a voucher equivalent to 100% of the standardized market rent; those in the 50-75 income percentile could get a voucher equivalent to 50% of the standardized market rent; and those in the top 25 income percentile could get a voucher equivalent to 25% of standardized market rent. (Note: These are illustrative figures and the income brackets; the corresponding subsidy amounts may be changed to reflect a more linear progressive subsidy.)

9.4.3 Implement structural retrofits

Once the buildings are vacated, they will need to be retrofitted, or demolished and reconstructed – based on a thorough technical analysis. Financing for such retrofitting should come largely from the government, with a small-co-financing element from the resident households, depending on their income levels. Again, as in the case of housing vouchers, the subsidy should be progressive – for example, owner contributions could constitute 10-20% of the total retrofitting cost, and the cost burden split proportionately across all home-owners. However, very importantly, care should be taken to ensure that this does not impose a disproportionate housing burden on poor households living in these buildings. To this effect, contribution amounts from poor households should be supplemented with grants: for example for households in the 0-30 income percentile, the contribution amount should not exceed 10% of household income, and any money owed in excess of this amount should be supplemented with a grant from the Housing Fund (under window 9). Similarly, for those in the 30-50 income percentile, the contribution should not exceed 15% of HH income; anything above and beyond should be supplemented through a grant. Households earning above the median income may be expected to pay their fair share in full, without any subsidy element on their share of the contributions. This type of progressive subsidy will ensure that all owners contribute their share of the cost of retrofitting, and at the same time, target special financial assistance who need it most.

Table 9.1 Proposed (illustrative) Subsidy scheme for seismic retrofitting

Income percentiles	Cost of retrofitting		Cost of temporary resettlement
	Owner contribution	Grant component	Grant component (voucher value)
0-30	10% of HHI	'X' – 10%(HHI)	100%(SMR)
31-50	15% of HHI	'X' – 15%(HHI)	100%(SMR)
51-75	'X'	0	50%(SMR)
76-100	'X'	0	25%(SMR)

Notes:

- "X" denotes the portion of retrofitting costs for each individual unit. It is a share of the total amount of retrofitting cost of the building not co-financed by the public budget. It is calculated by dividing that amount by the percentage share of housing area owned by each household
- SMR: Standardized Market Rent
- HHI: Household Income

These are illustrative numbers to present a general idea. Indeed, it is not hard to imagine programs for lower income families, perhaps an elderly person, who reside in a central city houses on very valuable land. Repurposing these buildings could be done for a fraction of the value of the land and could be done with financing and no subsidy. The calculation of the subsidy or financing scheme may be further refined using a linear progression calculation rather than ‘blocks’.

Part of the resident household’s contribution could take the form of an interest-free loan (as is the case under the current seismic retrofitting program), provided through a window in the proposed National Housing Fund. For properties with commercial or other monetary potential, the private sector may be encouraged to participate through incentives such as tax breaks etc. The construction of additional public housing (to be used as Necessity Housing), as needed, might be executed by the NHA, based on its experience in undertaking large-scale housing projects.

9.5 Prioritize improvement of old housing and neighborhoods

9.5.1 Improve the quality of Communist era housing

9.5.1.1 Increase public awareness of the legal framework surrounding building maintenance

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.

9.5.1.2 Provide technical assistance and capacity building to HOAs

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

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

This unit could be located within the proposed National Housing Fund to ensure easy linkages with co-financing resources to be offered for repair and upgrading works as explained later in this chapter.

9.5.1.3 Provide financial assistance to HOAs for maintenance and improvement of their buildings

Co-financing covering 50-80% of the cost of repairs may be given to HOAs that meet certain eligibility criteria, and this could be done from Window 4 under the proposed NHF. The contribution of the

Box 9.4 International example- Renovation of MFBs

In the Czech Republic, there are two schemes to help with the modernization and renovation of pre-fabricated multi-story communist-era blocks in which many co-operatives are based. The first program was initiated in 1997 and provides grants for urgent technical upgrades for up to 40% of the budgeted cost. The second program is aimed at upgrading and renovation of housing and is designed as an interest subsidy and a guarantee from the Czech Guarantee Development Bank. In 2006 the program’s provisions made market loans effectively interest-free.

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 which is guaranteed by the NHF. Additional grants may be given to the poor households – also through the NHF, under Window 9 – 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.

9.5.1.4 Link energy efficiency (EE)/ thermal insulation program with more general building improvements

There is a need to assist homeowners with ‘comprehensive’ modernization of multi-apartment buildings including thermal insulation of walls, roofs, doors/windows, common areas, improvement of district heating systems, building services upgrades, structural/ cosmetic repairs, metering installation – not only thermal insulation, as is currently being practiced. This will improve efficacy of building performance and will also reduce the chance of individual, piecemeal upgrades that are inefficient and expensive. Technical assistance and financing should come from the proposed National Housing Fund to HOAs and cooperatives to undertake such large-scale improvements, possibly over phases, and special allowances/ grants to low income households to do the same. The draft for the EU ROP 2014-2020 stipulates that structural strengthening work will be implemented, if necessary, along with thermal insulation work. Although the Applicant guide is not yet implemented and exact details of funding splits are not known yet, this is expected to be a step in the right direction. Inclusion of common areas and maintenance facilitation would improve efficiencies even further.

9.5.1.5 Streamline the thermal insulation programs to transfer more decision-making and quality control to HOAs

It is not uncommon for HOAs to not have sufficient capacity to take loans, create tender specifications, select appropriate contractors etc. However, a potential benefit of HOAs being in charge of payment to project contractors is that they naturally feel more ownership over the work, and are therefore more likely to be attentive to its quality.

A way to address the current imbalance of power (which currently rests with the local authority) in the implementation of thermal insulation projects is to continue to arrange the tendering and financing (repaid over 5-10 years by the HOA) while giving the HOAs much more of a visible input into the selection of contractors and the approval of the works. As described above, the National Housing Fund might also participate in the financing of such projects implemented by HOAs. This arrangement ensures that the contractors will respect the HOA’s opinion since it is a determinant of the contractors being paid.

As such, it is recommended that financing for energy efficiency and seismic retrofits (as well as other building/ neighborhood-wide upgrades) should be available:

- Directly to HOAs who demonstrate adequate capacity for project implementation;
- To Local Authorities where HOAs do not have the necessary capacity;
- To special purpose vehicles (SPVs) set up for wider neighborhood upgrades (e.g. an SPV between a local authority and a district heating provider to upgrade district heating facilities as well as implement energy efficiency in homes.)

It must be stressed that when financing is facilitated by Local Authorities due to lack of capacity on the part of HOAs, the involvement of HOAs in other parts of the work implementation (contractor selection, payment approvals etc.) is critical in order to create a sense of ownership.

9.5.1.6 Enforce EE improvements in common areas of buildings

Although the law is clear that HOAs are responsible for maintenance of common areas in multi-family blocks, there is often reluctance on their part to invest in improvements of these areas or their thermal rehabilitation – the false expectation sometimes being that Local Authorities will step in to support. This often results in energy efficiency measures and other maintenance and upgrades being implemented only for individual dwelling units and not in the common areas, which in turn can lead to heat loss from homes into common areas and also shabby appearance of common areas and consequent loss of civic pride. In most cases, whole-building upgrades mean slightly higher initial capital investment but better value for money in the long term. Recognizing this, some forward-thinking local authorities are entering into negotiated agreements with HOAs to invest in rehabilitation of common areas along with homes. The law can be more effectively enforced, and common area measures need to be included as part of the standard package of measures for thermal insulation programs. The ROP can be revised to facilitate the finance of such improvements.

9.5.2 Design comparable subsidy in EE programs for single-family homes

The focus for mass thermal insulation programs has so far rightly been on multi-family dwellings. The new program created by GEO 69/2010 provides government guarantees and subsidized interest for loans contracted for the thermal rehabilitation of housing stock that is more than 10 years old – and this includes single-family housing. However, less than 30 loans have been taken up as of August 2014. There are many possible reasons for this, including lack of borrowing power and lack of understanding on costs and benefits. Another significant reason could be the expectation that government will provide schemes for this section of the housing stock that are comparable with the schemes for blocks-of-flats.

It is clear that other programs/ initiatives are required. Grant levels similar to those provided to multifamily buildings should be provided to single family homes – similar not in terms of percentage (as insulating single-family homes are almost always more expensive) but in terms of the real cash amount. The criteria and formulae for such funding needs to be considered more carefully, including contribution levels from homeowners and minimum energy performance levels.

9.5.3 Improve the quality of historic buildings and neighborhoods

9.5.3.1 Provide technical and financial support to improve privately owned historic dwellings and buildings

There is a need to provide technical and financial assistance to owners of historic residential buildings/ dwellings from a window under the proposed NHF (both to HOAs and individual households) to undertake improvements. This could be a grant or co-financing because, as mentioned, the cost burden is too high for an individual household or HOA to bear, and the improvement of such buildings is in the larger public interest. In cases where such historic residential buildings are under public ownership, the proposed NHF may disburse co-financing to local authorities for the restoration of such buildings for public use including as public housing stock.

9.5.3.2 Provide technical and financial support to local authorities to improve historic neighborhoods

In the case of historic neighborhoods that characterize most Romanian cities, there will be a need for the local authorities to take charge of coordinating and implementing improvements at a neighborhood-wide scale – this is something that an individual household or a group of households cannot do on their

own. For example, this would include street paving, street-lighting, drainage, façade restoration along the entire street, and so on. In order to undertake these improvements in historic neighborhoods, co-financing may be provided to local authorities from a window under the proposed NHF.

In the interim time before the proposed NHF is established, local authorities that are creditworthy and can borrow directly from banks can access long-term loans for the rehabilitation of heritage residential buildings, based on the successful model of similar work in Timisoara, as illustrated in section 4.5.

9.5.4 Improve the housing environment in terms of planning and urban design

9.5.4.1 Mandate local authorities to undertake neighborhood scale improvements

Local authorities can take charge of coordinating and implementing improvements at a neighborhood scale; for example, street paving, street-lighting, and façade restoration. The state maintains pre-emption rights to purchase private buildings listed as historical monuments. This would allow the state to acquire historic buildings and, with financing from the proposed NHF, could maintain these structures and contribute to the vitality of historic districts.

9.5.4.2 Encourage brownfield and infill development

As a general principle, it is far more sustainable, profitable and desirable to create medium and high-density residential and mixed-use development on brownfield land and within existing neighborhoods, where new homes can benefit from existing transport networks, existing retail and other services, as well as utility connections and networks such as district heating networks. Bucharest and other large towns contain brownfield sites (ex-industrial) where basic utility connections are either existing or easier to provide, and are also served by existing public transport networks.

These sites are mostly privately owned, so it is often difficult for government to plan redevelopment of these areas. Unlike other countries, compulsory purchase powers do not seem to be widely used in Romania for regeneration purposes – even though such powers and procedures are enshrined in the constitution. Some of these sites are being brought back into use by large, typically international, companies as business and retail parks, which is a good outcome relative to leaving the sites unused. However, this ad-hoc development could be improved if sites were more systematically identified by the government, and infrastructure was developed to make for a high density, mixed-use urban areas with proper provision of utilities, public transport access and services. This applies, in particular, to existing transit corridors, which could be rezoned to allow for higher density development. Therefore, local authorities should make it a priority to identify housing sites in existing neighborhoods and on brownfield land.

There is also a need to revise the formula used for budgetary allocations to local authorities that inadvertently rewards them with greater allocations for having a larger urban footprint, and instead, create incentives for more compact and ‘smart’ urban development. Local authorities should take measures to return to the real functional limits of the built-up areas.

In conjunction with this, there is a need to improve the policies to ensure optimized use of public lands, for example, to implement projects of public interest, such as social housing.

9.5.4.3 Plan trunk infrastructure to guide urban growth

Better planning and coordination is also needed between the local authorities and the utility service providers to provide trunk infrastructure in a timely manner. 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.

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.

At the same time, the national legislation should now allow real estate developers and speculators from subdividing or developing properties in areas where infrastructure has not been developed.

9.6 Prioritize housing assistance to the poor and vulnerable

9.6.1 Provide security of tenure and protection from illegal evictions

9.6.1.1 Accelerate land tenure programs, possibly by introducing alternative land tenure instruments

Insecurity, through lack of land tenure, is a major factor depressing housing investment and creating a lack of confidence in the future. This affects both the physical and psychological condition of the residents. Formal cadastral survey and titling are in progress for some communities, but the process is slow and expensive. The new legal amendment of the cadaster law (endorsed in June 2015 by Law 150), introduces the possibility for informal settlers to secure the right of possession for the land/ house they occupy. Land tenure programs have been initiated by the NAR in 2014, resulting in concrete progress in 16 settlements in Romania. However, registration for possession should be accompanied by a thorough analysis of different planning aspects of the respective areas where such property (land and buildings) are located. Otherwise, securing tenure could lead to the legalization of residential functions in areas that are not compliant with basic accessibility, connectivity, or public health norms. Land tenure programs should thus be accelerated and scaled up, comprising of both legal and cadaster support to individual households but also participatory planning and infrastructure works, to ensure sustainable of these areas.

9.6.1.2 Impose strict penalties on unlawful evictions

There are frequent examples of evictions of Roma communities under populist slogans such as “cleaning up” the neighborhood. It is essential for such evictions to be subject to checks and balances to determine whether the eviction is justified. Legislation should, therefore, be developed which will specify conditions under which evictions are justified, in which case they should be approved by an

independent body.¹⁶⁹ When evictions are not justified, penalties for those carrying out the evictions will need to be enforced, in accordance with the law.¹⁷⁰

9.6.1.3 Grant legal standing to NGOs in Human Rights abuse cases in the housing sector to do Class Action Suits

Currently, there is no mechanism by which an NGO can challenge wrongful evictions as a class action on behalf of a community – even though they can do so in cases of discrimination. Legislation can be developed to allow NGOs to represent a community in the case of forced evictions.

9.6.2 Improve targeting of subsidies for EE programs to poor and vulnerable communities

9.6.2.1 Prioritize social housing for government-supported thermal insulation programs

It does not appear that Romania is targeting social housing to receive insulation funding. Social housing should be prioritized 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 financing model for combined

Box 9.5 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

¹⁶⁹ It is suggested that the National Council for Combatting Discrimination would be a suitable body for this.

¹⁷⁰ Further legal analysis is needed to diagnose where the current legal shortcomings are in assuring that those responsible for illegal evictions are punished. A possible solution might be to peg fine amounts to an adjusting scale based on inflation so that previously hefty penalties do not lose force as currencies change value.

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.

9.6.2.2 Factor in utility expenses in housing subsidy calculations

The poorest households typically should not use more than 10-15% of their incomes on housing and related utility expenses combined. Subsidies for both housing and energy should factor in this while in the calculations. This is particularly relevant for those who might want to rent a social house, but do not have the means to pay more than 15% on housing plus utilities. The subsidy on social rental housing mandating that the rent not exceed 10% of household income, although reasonable for a household in the 40th income percentile, does not work for households in the lowest three income deciles. For households earning less than EUR 150 per month, the subsidy should be revised such that the household does not pay more than 10% of income on the housing and utility bills combined.

9.6.3 Use a customized approach for the poor that meets their needs

9.6.3.1 Expand the menu of options in both urban and rural areas

No single housing product works for all; in all cases, it will be important to adapt the product to meet the needs of different population groups, and not the other way around. This is particularly relevant for the poorest communities, including the Roma – most of these households cook outdoors using charcoal or wood, which is less expensive than an electric stove (due to the high cost of electricity). Considering this, housing assistance can be expanded beyond ‘social housing’ to include a menu of options that are not just more appropriate for the recipient households and their lifestyles, but also more value-for-money for the government, more equitable, and more sustainable. This change can start with the planning and design of housing options that suit these communities and their lifestyle. This applies to both urban and rural areas.

Funds currently allocated to disadvantaged communities under the 1st draft of ROP (2014-2020) will need to be increased, and/or supplemented, to address the needs of over 800 such marginalized areas across Romania. Financing for slum upgrading, infrastructure provision (water, sanitation, etc.) may accordingly be accessed from a window under the NHF, in the form of grants.

9.6.3.2 Designate “Improvement Areas”

The application of uniform and universal minimum building standards can never be achieved in view of the fact that existing stock, especially rural housing, does not conform. This anomaly does not prevent most jurisdictions from requiring that all new housing be built to conform to it. This creates a de facto two-tier system.

Although the role of building standards is to ensure that buildings are strong, waterproof, properly insulated, and with an appropriate level sanitary provision, all of which are excellent goals, in fact there are sections of the population for whom these standards will take time to achieve. Meanwhile, their priorities may place a higher value on space than, for example, services. It is therefore better to permit

building to alternative standards than to try and insist on everyone reaching a standard that is impractical.

This may be achieved by designating areas of informal housing and incremental housing development as “Improvement Areas” within which different standards will be applied. This will mean creating a building regulatory framework that recognizes the right to occupy units that are technically unfinished. Such regulations should not skimp on issues of the ‘hard’ components (structural stability or room size) but should be flexible in terms of the ‘soft’ components (fittings and finishes), which can be upgraded with time. They should also allow for the incremental increase in the size of the dwelling, for example starting with a simple two room unit which may be expanded to a three bedroom unit over time.

9.6.3.3 Include a distinct program for vulnerable groups such as the elderly and disabled and other special categories

A separate program for vulnerable groups, including the elderly, disabled persons, and orphans can be introduced in line with European standards. While disabled individuals are part of the group of beneficiaries defined by the Housing Law, and disabled and elderly individuals alike are targeted by social assistance (as part of the Combating Marginalization through Housing program), allocation of appropriate living facilities is not tailored to demand. A program specifically targeted to these groups would ensure the provision of units with improved accessibility for those suffering limited mobility, as well as special features for the elderly.

Specifically, co-financing can be provided to disabled households so that they can retrofit their units for accessibility. Other assistance can also be provided in the form of specially designed units and direct subsidies.

9.6.3.4 Integrate physical investments with sustainability measures to address the root causes of poor living conditions

These include: (a) Income generation support such as vocational training (e.g. involve local population in infrastructure upgrading, which builds ownership, creates job opportunities, and develops skills), job search assistance, apprenticeship facilitation, second chance education; (b) transition and social integration support such as conflict mediation by social workers, awareness campaigns, community activities to facilitate interaction and understanding; and (c) organizational support, such as facilitation of formation and running of residents’ association/committees and capacity training (accounting, basic financial literacy, community decision-making) .

9.6.3.5 Apply a participatory approach to housing

Housing programs to assist the poor can adopt the following elements in their development and implementation to better serve poor communities:

- *Emphasize ‘process’, not only ‘product’.* It is important to understand that often participatory processes are time-consuming on one hand, and slow with respect to up front disbursement. Still, they are critical for success. Local housing improvement programs require a constant – and patient – engagement with the communities to identify the right interventions and to build ownership for the

product. The communities must be *drivers of the process*¹⁷¹, and decisions-makers on the type of housing solution they want and/ or need.

- *Encourage inclusive developments, retain the social fabric.* To the extent possible, any housing intervention should ensure that the existing social fabric is retained; this applies especially to the poorest and most vulnerable households. It is important to emphasize that, to the extent possible, there should be no such distinction made on the grounds of ethnicity between Roma- and non-Roma within the same community, otherwise the effort can prove to be very divisive and counter-productive.

9.6.4 Change policies in the supply and billing of utilities

Utilities are provided by private companies in many cases. The scope for intervention is therefore limited. However, the National Utilities Regulator has the power to control tariffs.

In the absence of individual meters, HOAs choose one of two billing methods: (i) based on the number of people in the household (for water); (ii) based on area of the house (for heating). When the first option is applied, some of the poorest appear to be paying extremely high utility bills, as there are often large families of up to eight or even ten members who live in tiny one-room flats with low space heating requirement and who are clearly being over-charged as a result of the billing calculation formula. Although these families receive subsidies, the subsidies are limited to a percentage of a maximum amount and the bills often exceed this amount by a fair margin. In other words, when utilities are charged on the basis of the number of persons, irrespective of the size of a unit, or when they are charged at a flat rate there are bound to be inequities.

9.6.4.1 Accelerate the individual metering program

When the services for a whole block are terminated because one person has failed to pay his or her account, there is another type of inequity. Individual meters would be of assistance in both cases, and also help all income groups to have better control over their expenditure. While the installation of individual meters is one step in ensuring accountability for service payments, protecting those households who do pay, and denying service provision to those who do not pay, this would represent a concrete advancement over the current system. First priority should to be given to resolving the issue of individual metering for the poorest of residents.

9.6.4.2 Introduce sliding scale tariffs

Linked with individual meters should be tariffs that cross subsidizes lower consumption by imposing higher rates on larger users, thus allowing those who consume less to pay at a more affordable rate. Thus larger users would pay at a higher average rate than smaller users. Energy suppliers can be mandated to offer at least on sliding scale tariff to accomplish this end.

9.6.4.3 Make accounts in the name of the consumer, not the property

Much difficulty is caused by incoming tenants (particularly, in social housing) 'inheriting' the debt of previous occupants. They have no connection with the account but yet are expected to pay it before

¹⁷¹ Martin R., Mathema A. Development Poverty and Politics: Putting Communities in the Driver's Seat, Routledge, NY, 2010.

services can be resumed. This situation should be rectified by changing the law to make the debt linked to the person and not with the property.

9.7 Improve the social housing program

9.7.1 Narrow the income eligibility band

Currently over 90% of the population is, in theory, 'income eligible' for social housing in terms of monthly income. This is clearly neither realistic from the financial point of view, nor fair in terms of the relative means of different income groups. Subsidies should be targeted at those most in need, with much stricter criteria applied in terms of regular (at least annual) review of incomes, and other means tests. In most economies, only the bottom 20%-30% would be eligible for subsidies, but this should be carefully reviewed in the Romanian context in light of products (such as social or other public housing, mortgage guarantee etc.) aimed at different income groups.

Also, due to the tendency of the 'average' or 'mean' or 'medium' income to get skewed due to outliers,¹⁷² it is better to use income percentile to identify target groups – for example, it would be more appropriate to use *median* net monthly income (50th income percentile) as the eligibility threshold for government subsidies, rather than the *average* that is currently used. Again, this would require a more thorough analysis of the income data in relation to the cost of housing and cost of living etc.

9.7.2 Make social housing financially viable for local authorities

9.7.2.1 Subsidize the family, not the house

Current policy for social housing subsidizes the rent payable, by setting it at 10% of the family income, irrespective of the cost of the dwelling.¹⁷³ This means that buildings designed for social housing will always be a net drain on the finances of the local authority, which acts as a significant disincentive to develop more units.

Instead, rents should be set at a level sufficient to recover all costs of the development (i.e. loan repayment of the building cost) and day-to-day maintenance and management costs. This means that such projects will be financially viable. However, tenants in such developments whose income is insufficient to pay the rent should receive a subsidy from the national government to make up the difference. Whether the rent of such families is paid direct to the landlord, or whether it is paid to the family is a policy debate to be examined. The effect of such a change in policy would be to stimulate the market in low cost and social housing development.

¹⁷² The income data from the HBS 2012 has a very high standard deviation.

¹⁷³ There is an exception to this. Under the Combating Marginalization Through Housing program, based on Law 116/2002, the Ministry of Labor, Family, Social Protection and Elderly assists needy families with housing expenses. Approximately one third of mayoralities reported disbursing some of the program's RON 47 million in funds to 1,815 beneficiaries in the form of rent payments.

9.7.2.2 Allocate adequate financial resources to local authorities to construct and maintain social housing

Establish a financing window under the proposed National Housing Fund with loans or grants (or a combination thereof) for local authorities to access for constructing new social housing or improving current stock, or refurbishing old buildings into social housing.

9.7.3 Increase the Social Housing stock

9.7.3.1 Halt the sale of NHA-built Youth Housing units

The current proposals to sell off the Youth Housing stock to existing tenants is being 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. An important consideration here is that selling the units effectively removes stock from the (already too small) pool of public sector housing. The sale of subsidized youth rental housing in a context where the public housing stock is already so limited is not advisable.

This stock should be retained as rental housing to 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 30th income percentile or so) who can pay the current rents; (iii) housing for the youth (as the current program stands), 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 residents of buildings undergoing seismic retrofitting.¹⁷⁴

9.7.3.2 Use PPPs to create new social housing stock

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) 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. This is along the lines of the program that NHA is proposing to start; the only difference is that in this case the local authorities would be the 'public' entity, not NHA.

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.

¹⁷⁴ A draft law has been introduced to the Romanian Parliament proposing that after 5 years once the tenant is 35 years in age or older the rent should be recalculated to market prices. MRDPA stands in support of this legislative initiative.

9.7.3.3 Form Development Agreements (DAs)

Private developers could be required to include a percentage of low income housing in their developments as a condition for development. Some of this may be used as social housing.

9.7.4 Make social housing more accessible to those who need it

9.7.4.1 Revise criteria for social housing allocations

It is important to streamline the criteria for eligibility of social housing, and to mandate that allocation of social housing is made on the basis of transparent and published criteria. Criteria established by local authorities that give priority to levels of education or are based on home domicile hurt the poor and vulnerable who typically lack education and often do not have the necessary (residency) registration papers. These need to be revisited and revised.

9.7.4.2 Offer rental vouchers

In the absence of adequate public housing, or in cases where construction of new public housing is not feasible for logistical or financial reasons, the government can offer rental vouchers. Under such a scheme, the eligible household can find another private rental house, and receive a subsidy from the government to cover the rent. In the case vouchers for social housing, the amount of rent covered by the subsidy should be progressive and targets those most in need - for example, the voucher amount may be 100% of established standardized market rent (SMR) for households in the 0-30th income percentile; 80-90% for households in the 30-50th income percentiles; 80% for the 51-75th income percentiles and so on.

Table 9.2 Proposed (illustrative) subsidy scheme for rental vouchers

Income percentiles	Owner contribution	Grant component (voucher value)
0-30	0% of HHI	1(SMR)
31-50	10-20% of HHI	SMR – 10-20%(HHI)
51-100	Not applicable	Ineligible

9.8 Leverage private sector for affordable housing production

The private sector needs to be encouraged to go down market and build more affordable housing. Banks accordingly, needs to be encouraged to lend for such affordable housing. And in parallel, end users/ households/ communities need to be encouraged and supported by the government, where necessary, to organize themselves and produce their own housing.

9.8.1 Promote the development of a robust rental housing sector

The lack of rental housing and particular dearth of formal rental housing in Romania acts as a major deterrent to labor mobility, causes difficulties for newly-weds, and inflates the rents of the limited stock available. Increasing the supply of accommodation for rent will make a major impact on housing supply, especially for lower income groups.

9.8.1.1 Remove tax disincentives for rental housing

Rental income of private landlords renting their own homes (up to a limit, say, of 5) should not be subject to 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.

9.8.1.2 Reform the 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.

9.8.1.3 Introduce a landlord/ tenant 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.

A simple arbitration procedure should be established to resolve such disputes 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.

9.8.2 Create incentives and motivation for banks to increase lending

9.8.2.1 Create adequate bankruptcy law

Maintaining a balance between creditor and borrower rights is critical in preserving confidence and fairness in the banking system. Overall, a personal bankruptcy system allows for a more rapid resolution of bad debts that can be to the benefit of the consumer and the banking system as a whole by allowing banks to repossess collateral given default on a loan.

Romania was until recently one of just a few European countries without a personal bankruptcy regime in place. The new personal bankruptcy law issued in June 2015 is expected to provide some means of resolving bad debts so that lenders do not have to keep them on their books when repayment is highly unlikely. That said, the recently approved law has also faced criticism that some provisions are quite ambiguous, leaving too much space for interpretation – an even more difficult situation for lawyers and courts since the number of files is expected to be significant. By March 2015, individual lenders had unpaid bank dues exceeding RON 11.5 billion, as per data from the National Bank of Romania. For an effective implementation of the law and in order to limit the expected burden on the legal system, drafting and approval of secondary legislation (methodological norms) is also required.

9.8.2.2 Establish a credit information bureau

A credit information bureau would facilitate the reduction of the housing credit costs and risk of such credits, it would gather and process information regarding the clients, would prepare and provide reports to the banks participating in the program. The credit information bureau would be founded upon the initiative of the banks, with the respective legal and regulatory basis being drafted.

Founding a credit information bureau would entail the drafting of a program design document outlining the bureau's tasks and objectives, participant banks, data sources and quality, and scope of product coverage. Implementation of the bureau would entail the collection and analysis of data and the foundation of a database for sustained and systematic data processing and analysis. The bureau's outputs would decrease the NPL rate, increase the volume of lending, and improve lending terms.¹⁷⁵

9.8.3 Streamline land provision and permitting processes to incentivize private development

9.8.3.1 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.

- Move from the current sequential review process to a concurrent development review process
- Create an interagency committee meeting at the concept review phase and design development phase of every major project; establish a technical review team comprised of representatives from all the reviewing and permitting agencies who meet early in the review process.
- Develop a single, comprehensive, automated permit information and tracking system. Create a system that has easy public access to information, procedures and processes.

9.8.3.2 Local authorities can offer a package of 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 Councils should package sites for development by undertaking all necessary acquisitions and offer them for sale on a competitive basis. They already provide serviced land for housing individuals below the national average income. They should continue to do so, but instead of the NHA developing the land, the private sector should be able to bid for development rights on the land. 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.

9.8.4 Use PPPs and other instruments, both public and private

9.8.4.1 Establish Public Private Partnerships

¹⁷⁵ McKinsey, The national credit bureau: A key enabler of financial infrastructure and lending in developing economies. Working Paper Number 14, December 2009.

Local authorities can leverage the private sector through PPPs and Development Agreements (DAs) for the delivery of private ‘affordable’ housing, and even public housing. This is similar in concept to NHA’s youth housing, but built with private investment and centered on more with a more demand-responsive approach.

Public-private partnerships (PPPs) in the context of housing provision in Romania can be understood as contractual arrangements between a government entity and a private company whereby the private company uses government resources and shares risk by following government guidelines to provide affordable housing.

Table 9.3 General framework for the roles of public and private counterparts in housing PPPs

Partner	Relationship	Responsibilities	Project Incentives
Public body (autonomous semi-government agency funded by relevant ministry; public-public framework)	Enter into PPP with private developer. Share in profits according to pre-determined scheme.	Provides trunk infrastructure to keep costs down and to attract PSP	Incentives for construction of affordable housing include tax breaks or free land
Private developer	Enter into PPP with public body through RFQ and RFP. Share in profits according to pre-determined scheme.	Provides project details, expertise, and financing	Can implement cross-subsidization in order to ensure affordability for a proportion of units

Table 9.4 below outlines the components of a housing PPP. These would all work towards achieving a specified goal set out in a national housing strategy which, in the context of this report, could aim towards the provision of affordable housing.

Table 9.4 Typical components in a housing PPP

Stage	Process
Delegation of control and decision authority	Private company given full authority to make physical, financial, and operation decisions according to a set of conditions specified in the PPP governance document.
Devolution of risks to the private company	Normally, the private company assumes the major performance risks, such as completion of the development, construction cost and risk of cost overruns, timing of delivery, delivery price, and warranty of materials and workmanship.
Shared risks	Some risks such as natural disaster or non-commercial risks (e.g. political) will be apportioned or shared between the two parties. Controllable factors related to project execution are allocated to the private party while unpredictable factors are shared.
Sharing of upside	Most PPPs provide that if things go much better than expected, both the private company and the government entity will share in that economic benefit.
Mechanisms for preventing ‘shadow profiteering’	Governments normally want to see a transparent cost structure so that they can be sure they are getting the value proposed in the project plan. PPPs should provide mechanisms to prevent misrepresentation and shadow profiteering.

Formal Legal Closing	Upon signing of the legal documents, both parties enter into the PPP.
Dispute adjudication via the court system	The parties in a Housing PPP generally retain the right to sue each other.
Conclusion of the PPP	Housing PPPs have a fixed duration. At an agreed upon time or project stage, the joint venture entity is dissolved and one party withdraws to allow the other to remain in a management position, or control of the assets are assumed by homebuyers as individuals or as part of a Homeowners Association.

Source: Adapted from Smith, David. "Public Private Partnerships for Housing Delivery in Iraq," March 2013.

9.8.4.2 Establish 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. This is along the lines of the program that NHA is proposing to start; the only difference is that in this case the local authorities would be the 'public' entity, not NHA.

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.

9.8.4.3 Establish Development Agreements

Private developers could be required to include a percentage of low income housing in their developments as a condition for development. Some of this may be used as social housing (discussed more in the subsequent section).

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, for example, EUR 50,000. This principle of "Development Agreements" is 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.

The same objective may be achieved with a similar tool known as "inclusionary zoning" or "inclusionary housing" in the USA and Canada.

9.8.4.4 Establish 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.¹⁷⁶ Housing co-operatives are modeled differently in every country, although all operate on the principle of one member, one vote.¹⁷⁷ 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.

Cooperatives have for very long been the major source of housing within Germany and Austria, and to a lesser extent the Netherlands and Scandinavia. They offer the advantage of pooling limited resources to establish a body with sufficiently strong legal standing to borrow funds for house building. In times gone by, the cooperatives raised money from their own savings, but today they will normally borrow from a financial institution. Housing Associations are a similar concept, which is widely used in the UK and Germany (see Box 9.6). In both types of arrangements, there is a policy to support to registered housing associations or cooperatives, whether in the form of grants, loans and/or technical or legal assistance in developing the scheme, or any other measure.

Some 10% of Europeans live in housing co-operatives, which generally provide housing below the market price. Housing co-operatives manage over 3.5 million dwellings in Poland (27% of total housing stock in the country in 2009), 17% of the stock in the Czech Republic and Sweden, and 15% in Norway.¹⁷⁸

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.

¹⁷⁶ "Cooperative housing: a key model for sustainable housing in Europe" organized by CECODAHS HOUSING EUROPE. 26 April.

¹⁷⁷ Ibid.

¹⁷⁸ Ibid.

Figure 9.4 Housing co-operatives offer a midpoint option between public and private housing



Cooperatives and housing associations are essentially private non-profit organizations. In some cases because membership is limited to lower income groups they may qualify for subsidies. They may be formed by residents of a specific locality, savers (such as contributors to the BCR Bank BauSpar scheme), employees in specific industries or workplaces, or any other group with a common interest. They may have different roles as described below.

Housing cooperatives as private developers of affordable housing. There is a strong tradition in Germany and Austria, and in a slightly different form in the Netherlands, Scandinavia and England (where they are known as Housing Associations), which is relevant for Romania. The principle is broadly similar, that a group of people (typically lower middle or working class) join together to form a non-profit organization which will develop housing to meet their needs. This allows them to select the site on which they will develop and design the development. Typically they will make a small capital contribution from their savings, but the majority of the capital is sourced from the private market, or sometimes specially earmarked government funds. Land, however, as is sometimes the case in Romania, is often provided by the state or the Local Authority.

Once completed, the units are occupied as owner-occupiers by the members of the cooperative. In some cases they may sell their units, but there are often clauses requiring the sale price to be to the benefit of the cooperative with the seller only retaining the funds that he had invested up to the date of the sale. This discourages speculation and justifies the use of public funds in the initial investment.

Cooperatives as registered social landlords. In many cases, these organizations develop only for rent. They might develop only for rent of their members, or may build for a wider public. As non-profit organizations catering for lower income groups they are eligible for subsidies and can benefit from the preferential treatment in terms of land and infrastructure provided by the local authority. As such they are well placed to act as a provider of social housing, thus taking the management burden from the public sector. Typically such associations can usually access public sector funds for the development. This would, of course, require the establishment of conditions facilitating the non-profit rental housing sector, following experiences in the EU member states, and drafting legislation to regulate the development of such housing stock.

Cooperatives as an integrating force. The 'ghettoization' of social housing is bad for the occupants and for society at large. Throughout Europe there is increasing concern about the emergence of an underclass in zones of social housing. This causes harmful stigma to the occupants as well as a loss of care for the environment by those affected. Cooperatives and Housing Associations offer the opportunity for social mix. Indeed projects can be designed in such a way that subsidized and non-subsidized families share common facilities.

Box 9.6 Cooperative Housing and Housing Associations

The concept of people forming groups in order to obtain housing started in the 19th 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 20th Century.

THE CASE OF GERMANY

In Germany, the first housing cooperatives were founded because the growing cities of the 19th 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 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.

9.8.5 Other types of private sector involvement: Energy efficiency

9.8.5.1 Examine ESCO models for public sector works and PPP for neighborhood-scale works for energy efficiency

Energy Saving Companies (ESCOs) services have proven effective in other countries such as the Czech Republic, the USA and others, especially with the public sector as client. This is because public entities typically have a range and scale of building types that can be serviced – including hospitals, clinics, schools, offices and also housing. Further, public owners are typically long-term asset holders as compared to commercial asset holders and managers. ESCOs are generally able to get bank financing relatively easily for works in public buildings.

ESCO models should be explored where public housing and other properties in public ownership can be offered together for ESCO-type services and financing. As energy performance contracting is relatively new, a common issue raised is that public procurement legislation often does not cater for it, or is unclear on how this can be allowed. This is the case in Romania as well, and the legislation on public procurement should be reviewed to ensure clarity on energy performance contracting.

PPP models work well when there is a particular public service to be delivered with associated infrastructure requirement and revenue-generation possibility – for example, toll road development, waste infrastructure and treatment, hospital construction and operation, or energy generation and distribution. PPP models should be explored for upgrading of old DH networks and development of new networks.

9.9 Improve the current thermal insulation program

9.9.1 Improve quality, consistency, and appropriateness of measures

Each block of flats that undergoes thermal rehabilitation represents a significant level of investment by both local authorities and residents, and it is critical that the value for money for this investment is maximized. As is evident from experience in thermal insulation so far, lack of quality and completeness can significantly reduce effectiveness of the contracted works and can also lead to unintended negative consequences e.g. lack of controlled ventilation after super-insulation works can lead to condensation, dampness and poor air quality inside dwellings; poor finishing of external wall insulation (insufficient thickness of final coats, or exposed parts of insulation) can lead to damage of the system and loss of effectiveness. To improve quality a number of steps can be taken:

- A strengthened and centralized Housing Department at the GD level that would be able to liaise with technical departments, the territorial development department, and other relevant bodies in order to improve the planning and implementation of EE upgrades through monitoring, data collection, targeting of subsidies, integration of EE measures with other building and neighborhood improvements, project financing, and coordination and mandating of proper improvements and maintenance in common areas (through HOAs.)
- *'Prequalify' contractors by an independent body* such as INCERC, and only such contractors should be eligible to undertake works. This is similar to the UK's 'Green Deal' scheme where only authorized companies are allowed to provide services.

- *Provide support and resources to local authorities* to ensure effective quality control. This would include:
 - o A clear set of quality monitoring indicators and processes to follow.
 - o Establishing a central Technical Assistance Unit within MRDPA including a Monitoring and Evaluation sub-unit using EU funding allocated for Technical Assistance. This would provide training, resourcing, guidance and support to local authorities, FHOA, and HOAs as required and would supply commonly-sourced technical expertise as required.
 - o Upgrading the involvement and sign-off responsibilities of the owner associations at all stages of project implementation, from initial audit to final acceptance. This can be written into a revised Condominium Law.
 - o License contractors, introduce warranty requirements from suppliers, and introduce 10-year maintenance program as part of the contract.
- *Differentiate energy performance targets by climatic zone.* The current national program asks for all participating projects to achieve a space heating requirement of under 100kWh/m²/year. However the difference between space heating requirement between the warmest and coolest climatic zone in Romania can be as much as 100%,¹⁷⁹ and as such there should be some differentiation in the energy performance requirement for space heating after the implementation of measures per climatic zone.

9.9.2 Streamline financing for EE programs

9.9.2.1 Coordinate and harmonize EE investments

There are a number of EE programs carried out at the central level (i.e. the State-budget funded thermal insulation program – GEO 18/2009, and the EU-funded Regional Operational Program), there are a number of initiatives started by local authorities in this area (e.g. Bucharest, Slatina), and there are private initiatives started by individual household associations. It is critical that all these initiatives be coordinated and harmonized properly. Programs that can be funded with private money should *not* be funded with public money. Similarly, public funds should try to promote best-practices and encourage emulation by the private sector.

9.9.2.2 Combine EU funding sources and private financing models for different but related activities

Different funding models are being examined by MRDPA (with the help of EBRD and consultants) for financing thermal insulation programs. These include:

- Drawing parallel financing from ERDF and state budgets for the 60% ‘central’ contributions; and drawing bank loans to cover contributions from owner associations and, if needed, local authorities. Local authorities would bear the borrowing responsibility and would be repaid by HOAs over the term of the loan.
- Creating a fund to blend ERDF and state monies and also private funds, and financing local authorities (for their own and the HOA contributions). The loan element of this fund would become a ‘revolving fund’ as repayments begin, thereby relieving local authorities and commercial banks

¹⁷⁹ JASPERS report

from the need to enter into individual contracts. This would suit smaller local authorities, in particular those who may struggle to access bank financing.

Both options could be backed by sovereign guarantees such as through the National Guaranty Fund, and might be augmented by funding from the National Housing Fund.

Once integrated planning and financing is in place it will become possible to tender larger amounts of work out to consortiums. Such an approach facilitates the quality of work and the efficiencies that parallel working inevitably brings.

9.9.3 Increase awareness and preparedness on energy efficiency

9.9.3.1 Introduce measures to increase awareness in energy efficiency

A significant body of insulation retrofit work exists in Romania, and there are examples of energy efficient new buildings as well. There is a real need for actual cost-benefit data to be collected and publicly disseminated in terms that can be understood by the general population. This would help citizens understand the payback periods for their contributions to the work.

A recent study using combination of theoretical and actual data has shown that in thermal insulation works, a 10-year payback can be achieved for residents as long as their contribution to the works is no more than 20%. This is one message; however, an accompanying message could highlight how much money would be 'lost' in paying inflated energy bills in the absence of insulation works over the next 10 years or so.

Another way of increasing awareness is by using tariff structures. Increasing rates with increasing energy consumption has been shown to increase awareness and lead to action in other countries. All energy suppliers should be mandated to offer at least one sliding scale energy tariff in the coming years.

Regarding new buildings, interesting initiatives are being piloted in Romania by different entities. One such initiative is the 'green mortgage' scheme currently offered by Raiffeisen Bank where mortgages are offered at typically 80 basis points lower interest rate than normal. Such offerings should be closely examined by local authorities and the public sector, and should be endorsed and marketed widely as appropriate.

Finally, energy bills offer possibly the best opportunity to gain attention. All energy bills should be mandated to indicate best-in-class energy performance and compare this to the bill-payer's performance, while also offering information about relevant available programs to support energy efficiency.

9.9.3.2 Improve preparedness for upcoming legislation and initiatives

Pilot projects are being developed to demonstrate compliance with near-Zero Energy Buildings (nZEB) requirements, however this is happening on a small scale at the moment. Planning should begin now to implement a wide range of pilot projects by 2017-2018 so that the market has ample opportunity for data gathering and analysis before full-scale compliance begins for the residential sector in 2021.

Similarly, smart grid pilots should be created in partnership with the main power transmission company as well as some of the distribution network operators and DH operators so that the full effectiveness of

smart meter rollouts can be explored – with measures such as demand-side management and integration of building-level renewables.

The data gathered from all pilots needs to be analyzed in a transparent manner and disseminated widely. In some countries the data from such pilots is being managed and distributed by academic organizations and all sectors of society have the opportunity to access it.

9.9.3.3 Create skills for low-carbon housing stock

As discussed above, skilled personnel are critical to ensuring that the investment being made by Romania's citizens and the public sector result in good quality work which provides the required results. As described earlier, detailed estimates have been created for the types and numbers of training courses required.

Significant training budgets are available from the partnership agreement with the EC for 2014-2020. For example, budgets are available for vocational training program and from the Sectoral Operational Program for Human Capital. All efforts should be made to avail of these funds and implement the training and certification programs necessary. These efforts need to be undertaken with support of the National Authority for Qualifications (ANQ).

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Annex 1. Developments in the legal and programming framework on housing in Romania since 1990

Year	Type of intervention Law/program	Notes
Providing access to housing in private property, including by sale of state owned housing units		
1990	Decree - law no. 61/1990 on the sale of homes built with state funds	The decree set the conditions (including price of sale) for the sale of the public housing stock by specialized housing offices and state enterprises
1992	Law no. 85/1992 on the sale of housing and other non-residential units, build with state funds or funds of state owned entities	The law allowed that houses built with state funds can be purchased by their current tenants, in installment or full payment, under the conditions set by the previous <i>Decree-Law no. 61/1990</i>
1998	Law no 152/1998 on the establishment of the National Housing Agency, with subsequent amendments	The sale of rental housing for youth, including units built and intended solely for rent to young specialists from education or health sectors is allowed, also in compliance with the <i>Law no. 85/1992 on the sale of housing and other non-residential units built with state funds and funds from state owned enterprises.</i>
2002	Law no. 646/2002 on state support for youth in rural areas	Introduces possibility to distribute public land reserves to youth, for building housing.
2003	Law no. 15/2003 Republished* on support for youth to build a personal property house	As the previous law, introduces new mechanisms for allocating land lots your youth for housing construction in both urban and rural areas.
2004	Law 562 / 2004 for authorizing public institutions within the defense system, public order and national security to sell service housing units in their administration to their own personnel	The housing stock which could now be sold, under the provisions of this law, had been constituted after 1990, through (1) transfers of public housing units to these institutions and (2) housing units finalized as per <i>Ordinance no. 19/1994 on investment incentives for the development of public works and housing</i> and <i>GO no. 80/2001 on establishing measures to ensure temporary housing for staff of ministries, other specialized bodies of the central government and public institutions.</i>
2006	EGO No. 51/2006 for the approval of the National Program for supporting the construction of private housing, as	The state initially granted a subsidy from the state budget 20% of the price per sqm of built area of the housing unit, within annual

	amended and supplemented	budgetary allocations and within a maximum of 81 sqm built area /unit. Subsequently, the subsidy was changed to a maximum 15,000 euro. This ordinance was discontinued by EO no. 95/2011 and the State ceased to provide subsidies from the state budget through this program.
2011	EGO No. 101/2011 regulating the conditions for the sale of real estate, property of the state, under the administration or ownership of the Autonomous Company "Administration of State Protocol Patrimony"	Allows and regulates sales of state protocol residential units.
Developing construction of public rental housing (of different clearly differentiated categories ie. youth housing, social housing etc) and completion of collective housing blocks started with public funds during the communist period		
1994	GO No. 19/1994 on investment incentives for the development of public works and housing, further amended and republished	Instituted a specific program for completion of housing blocks for private property, in various stages of execution, started before 1989 with state funds and for which there were no sources of funding
1996	Housing Law No. 114/1996	Instituted the program for social housing construction
1998	Law no 152/1998 on the establishment of the National Housing Agency, with subsequent amendments	Instituted, as main program, the rental youth housing construction program. Through GD no. 1505 /2004, the list containing 345 planned investments of building "38.000 rental youth housing units" has been abolished.
2001	GO No. 80/2001 regarding some measures for ensuring temporary service housing required for staff in ministries, other bodies of central public administration and public institutions	Ordinance abolished by EGO no. 15/2013 amending and supplementing EGO no. 101 / 2011 on the regulation of conditions for the sale of state administered by RAPPS (Administration of State Protocol Patrimony).
2008	GD no. 1237/2008 for approving the Pilot Program on Social Housing for Roma Communities	Introduces the Program for construction of social housing for Roma communities, implemented by NHA
2010	GD no.151/2010 for approving the Program Rebirth of Romanian village – 10 houses for specialists	Introduces the Program Rebirth of Romanian village – 10 houses for specialists
2012	GD no. 352/2012 for approving the Program on rental housing construction by attracting private capital	Introduces the Program on rental housing construction by attracting private capital
Restitution of properties confiscated during the communist period and protection of tenants of former nationalized housing asked for restitution		
1991	Law no. 18/1991 on land fund (<i>in Ro: Legea fondului funciar</i>)	Restitution of collectivized agricultural land leads to the emergence of the land market,

		which allowed transactions of land necessary for new construction.
1995	Law no. 112/1995 for regulating the legal status of some housing owned by the State, as amended and supplemented	Redressing rights for former individual owners of residential buildings forcibly transferred in the property of the State or other legal persons after 6 March 1945 and which were still in possession of the state or other legal entities on December 22, 1989 (restitution or compensation for properties which cannot be restituted, including adjacent land).
1999	Government Emergency Ordinance no. 40/1999 on the protection of tenants and determining the housing rent	Ordinance determining the rent for housing owned by central and local authorities, for service and intervention housing, worker housing of state enterprises and former nationalized housing which have not been asked for restitution Leases deadlines have been extended every five years by a succession of laws to date.
2001	Law no. 10/2001 on the legal status of property abusively taken between March 6, 1945 - December 22, 1989, as amended and supplemented	The buildings abusively taken over by the state, cooperative organizations or any other legal entity between March 6, 1945 - December 22, 1989, as well as those taken by the State under Law no. 139/1940 on requisitions are to be restituted in kind or equivalent (equivalent property or cash compensation), when restitution in kind is no longer possible.
2007	EGO No. 74/2007 on the provision of social housing stock for tenants evicted or to be evacuated from their homes returned to former owners, with subsequent amendments and completions	Introduces a program of social housing for tenants evicted or to be evacuated from their homes returned to former owners
Financial aid for the purchase of public housing or housing from the free market		
1999	Law no. 190/1999 on mortgage loans for real estate investment, with subsequent amendments	The institution which first guaranteed such loans was CEC.
2002	Law no. 541/2002 on collective savings and lending for housing	Introduces a premium state of more than 15% of the yearly savings, but not exceeding the equivalent in RON of EUR 120 (in some cases, 150 euro)
2006	EGO. 99/2006 on credit institutions and capital adequacy with subsequent amendments and completions (taking over the provision of the law above)	Introduces the so-called Bauspar scheme – the Program for ensuring state subsidies for collective savings and lending for housing.

2009	EGO No. 60/2009 on measures to implement the <i>Prima Casa</i> program, as amended and supplemente	Introduces the Prima Casa Program
Building retrofitting and improvement of living conditions		
1994	O.G. no. 20 of 27 January 1994 on measures to mitigate seismic risk for existing buildings	First measures targeted to seismic risk mitigation.
2002	GEO 51/2002 on measures to support and expedite actions to reduce seismic risk of multistoried buildings, classified as class I of seismic risk and which represent a danger to the public	Institutes the Program for necessity housing construction by NCI
2004	GEO no. 125/2004 for instituting specific measures for the rehabilitation of housing blocks situated in settlements in underprivileged areas, approved with amendments by Law no. 60/2005	Institutes the Program for rehabilitation of housing blocks situated in settlements in underprivileged areas
2006	Decision No.462 of 5 April 2006 for approving the „District heating - quality and efficiency 2006-2009" Program and the establishment of the project Management Unit	Introduces the " District heating - quality and efficiency 2006-2009" Program, component on rehabilitation of central heating systems
2009	O.U.G. no. 18 of 4 March 2009 on increasing the energy efficiency of residential buildings	Introduces the National Program on increasing energy efficiency in residential blocks
2010	GEO 69/2010 regarding the thermal rehabilitation of residential buildings financed by bank loans with government guarantee	Institutes the program on thermal rehabilitation of residential buildings financed by bank loans with government guarantee
2011	Law no. 153 of 5 July 2011 on measures to increase the architectural and environmental quality of buildings	Provides the possibility for offering public support to façade restoration