Housing Privatization in the Russian Federation

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**Abstract**

In July 1991, the Russian Federation passed legislation permitting tenants of municipal and departmental housing (owned by enterprises or federal bodies) to purchase their units. This article examines the antecedents of this legislation and gives a detailed description of the law’s provisions. It presents information on the early experience with the actual implementation of the program in three cities—Moscow, Ekaterinburg, and Novosibirsk from January to May 1992.

The final section of the article offers a critical assessment of the privatization program. The overall conclusion is fairly pessimistic. The housing privatization program—as implemented in the spring of 1992—was in real danger of not accomplishing its major objective of transferring a substantial share of the stock to the population and thereby jolting the housing sector into operating more on market principles. Moreover, it may result in a distribution of housing assets that is more inequitable than before.

**Housing privatization in the Russian Federation**

The problems of the housing sector in Russia are legend. Typically one-quarter to one-third of the households in major cities are on the waiting list of those qualified for better housing, and the waiting time for a municipal housing unit usually exceeds 10 years (Andrusz 1990). Other estimates that take into account intergenerational households whose individual families would like to live separately put the housing shortage in urban areas as high as 45 percent (Kosareva 1992). Moreover, problems in housing quality abound, including a national rate of 7 percent of households sharing kitchen and bathroom facilities and an additional 8 percent living in hostels or temporary housing (Alexeev, Baker, and Westfall 1991).

These conditions make improving the housing circumstances of the population a high priority for the Russian Federation, despite the limited means at its disposal. To the average
household, after the failure of successive Communist governments to produce results, progress in this area may be a central test for the new regime.1 Because 80 percent of urban Russian households live in a state rental unit (either a municipal unit or a unit belonging to a state enterprise or government agency [Kosareva 1992]), housing improvement must come through the state stock. In the face of the sector’s problems, the dominance of state housing in the existing stock, and the Federation’s limited resources, housing privatization (i.e., the transfer of state-owned housing to private ownership on a massive scale) was seen early in the reform as a cheap way to improve the nation’s urban housing stock.

One obvious argument for privatization is that making tenants into owners will increase their willingness to spend the money necessary to maintain and improve their buildings; state subsidies for this purpose can then be cut.2

Another, and perhaps the most important, argument is that the transfer of a substantial share (perhaps 25 percent or more) of units into private ownership will serve as a catalyst for the private housing market: Some of the new owners will sell their units, either to move to a more desirable existing dwelling or to build a new one. For example, although no clear causal connection has been established, it is true that in Sofia significant privatization from 1990 to 1991 was accompanied by a fivefold increase in private sales of real property from 1989 to 1991.3 In any case, the volume of transactions will accelerate, thus opening up possibilities for persons to improve their housing circumstances.

It is important in assessing the “catalyst” argument to distinguish the situation in Russia, where 70 percent of the national housing stock is owned by the state (80 percent in cities), from that in Eastern Europe, where the state share at the beginning of economic liberalization did not exceed 30 percent in any

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1 Results from a survey conducted by the All Union Institute of Social Opinion and described in an article published in Issues of Economics (1990) without an author listed.

2 Housing services and utilities have been estimated to be the most inefficient sector in the Soviet economy as measured by the ratio of input costs to producers’ prices, with a ratio of 6.02 (Kahn and Peck 1991, table 3.1).

3 For information on privatization in Bulgaria, see Kingsley and Struyk (1992); data on sales are from Hoffman (1992).
major country and reached 50 percent only in the largest cities (Kingsley and Struyk 1992). Hence, Eastern European countries began housing reform with a substantial private sector, while Russia began with a sharply different legacy.

An early analysis of Russian housing privatization is interesting for at least two reasons. First, the method of privatization chosen and its early experience will be indicative of the probability of the policy’s success—in stimulating the private housing market and in achieving an equitable redistribution of wealth, carried out through the subsidies involved in the transfer of units at below-market prices. Stimulation will depend on whether a significant share of units are transferred and, hence, on the terms of sale. Equity issues concern the treatment of households that do or do not elect to purchase their units, but also relate to the treatment of those on the waiting lists compared with those presently occupying a unit. Second, the structure of the privatization program will reveal the extent to which the Russian Federation has learned from the experience of its Eastern European neighbors in shaping its policies.

This article is divided into four sections. The first outlines the options for privatization that were advanced before the final decree of July 1992. The second describes the key features of the privatization law, including those issues left to local control. The third examines the programs adopted by three major cities—Moscow, Ekaterinburg, and Novosibirsk—to implement the law. The fourth section provides a critique of Russian policies measured against the goals stated above and the general principles for housing reform and privatization endorsed by Struyk and Telgarsky (1992) and Renaud (1991).

Privatization alternatives

Debate about privatization options began at least as early as 1987. In March 1988, a special resolution was passed by the Council of Ministers granting the right to private ownership to members of housing cooperatives who had completely paid off any loans for their units.

More important, at the end of 1988 the Council of Ministers passed another resolution giving tenants of state-owned housing the right to purchase their units. The principal objective was to transfer lower quality units (i.e., those needing substantial repairs) into private ownership. Under this resolution, purchasers were to pay the full assessed value of the unit. Local authorities
had considerable freedom in establishing assessments on the ba-
sis of unit quality and location; in Moscow, for example, premi-
ums for better units turned out to be quite high. National policy
makers believed that lower prices for low-quality units would
lead to their purchase, but the low prices were not enough to
make these units attractive. The scheme was abandoned when it
became clear that it was not working as intended: By early 1991,
only 53,500 units had been sold throughout Russia and these
were predominantly of high quality. Even before then, however,
individual cities such as Moscow had moved to control such sales.

A more wide-ranging debate about privatization options began in
1990–1991. The many alternatives proposed had in common the
tenant’s right to purchase his or her unit. Other variants—sale
of entire buildings and purchase of units by “outsiders”—did not
receive widespread support. The various options that were pro-
posed can be grouped into four categories.

**Variant 1: Transfer.** All housing would be privatized to the ex-
tent possible through free transfer to residents; only floor space
in excess of the fixed quotas for each size family would be sold
at a positive, but depreciated (or otherwise sufficiently low), price.

This option assumed that privatizing housing at any price was
the *sine qua non* for a large, quickly expanding market and was
seen as the only mechanism that would trigger a boom in hous-
ing construction (by some households selling the units they re-
ceived and purchasing new ones). In practice it implied (1) a free
transfer of housing within certain limits defined by floor space
and (2) tenants “buying out” extra living space at a low price.
Similar to this variant was the first proposal by the mayor’s of-
office and the government of Moscow.

**Variant 2: Buying out.** The estimated value of all apartments
would be paid with only minimum discounts; in other words, resi-
dents would purchase their units from the state on commercial
terms.

This variant was intended to replenish local budgets, with the
revenues collected earmarked for the housing sector. The city of
St. Petersburg first proposed this option. Under its proposal, a
city resident would have been entitled to free living space worth
R 1,000 (i.e., 3 to 10 square meters at current prices).

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Practically, it implied nearly full payment for the value assessed by a special method proposed by the city, which in fact would have involved significant discounts from true market value.

**Variant 3: Socially just.** A fixed amount of living space would be freely transferred to the purchaser and high, even prohibitive, prices would be charged for any space beyond this level.

This option depended on the need to strictly observe the principles of social justice. The Moscow Soviet, for example, proposed transferring a certain amount of floor space for free and then charging per square meter for the extra space. The price would rise progressively as the amount of extra space increased; for large amounts of space, prices would have reflected market value or above.

**Variant 4: Compensatory justice.** Every family would receive a voucher for a set number of square meters of space. Vouchers alone could be used to purchase units and would be freely traded in the market.

This was the only option that compensated families occupying small units. Each person would receive a voucher for 18 square meters of space. Recipients could sell part or all of their vouchers to those needing them to purchase larger units. This scheme was proposed by a special committee on housing privatization of the Moscow Soviet, although the details were never fully worked out.

**The privatization law of the Russian Soviet Federation of Socialist Republics**

The Russian Soviet Federation of Socialist Republics (RSFSR) law, passed in July 1991, built squarely on the ideas embodied in the options put forward by the major cities. Under the law, tenants of municipal housing and departmental housing (housing belonging to enterprises and government departments) have the right to purchase their unit. The main features of the law are as follows:

- Only tenants officially registered as occupants of the flat can purchase the unit.

- The tenant is given, in effect, a voucher free of charge. The value of the voucher is the price of a square meter of average-quality housing in the city in which the tenant lives times the
number of square meters to which he or she is entitled. The entitlement is computed as 18 square meters of usable living area per person plus an extra 9 square meters for the household.

- The tenant pays the difference between the assessed value of the unit and the value of the voucher. Families living in a unit whose value is less than the voucher receive no additional compensation.

- Those living in cooperative projects and in individual houses do not receive a voucher.

- The general method for determining the cost of privatized housing was to be determined by the Council of Ministers of the RSFSR. (Guidelines to local governments were issued by the Republic in October 1991.)

- During the transition period (length not specified), the old system for allocating units remains in effect. Those allocated a unit have the right to purchase it under the same conditions as those listed above.

- Each family can purchase only one unit under the privatization procedures.

- Some types of buildings cannot be privatized: those below sanitary norms or dangerous to inhabit, hostels, flats with shared kitchen and toilet facilities, and buildings of historical or cultural significance.

Within these overall provisions, local governments have considerable freedom. For example, they can increase the amount of space to be given without charge (and thereby increase the value of the voucher). Also, they ultimately determine the procedure for valuing the average square meter of housing in their locality and differences in values regarding housing quality levels. Local governments can, in addition, override the RSFSR law to permit some types of units on the prohibited list to be privatized. Indeed, the RSFSR law was written in such a way that local legislation is required for its implementation, and the time

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5 During the transition period, maintenance services for privatized units will be provided by state maintenance companies. The charges for maintenance are defined as being the same as the rents on municipally owned units.
elapsed until such legislation is passed—often six months or more—significantly delayed the program’s implementation.

**Implementation by local governments**

Within the framework of the national law, local governments developed their own models of privatization but began to implement them only at the beginning of 1992. The main characteristic of this implementation is the diversity among cities, which is evident in the amount of housing given free of charge, the estimation of the average value per square meter of housing, and the differences in methods and outcomes for determining the variation in values of different qualities of housing.

We illustrate this diversity with information for three major cities: Moscow, Ekaterinburg, and Novosibirsk (see table 1). The information extends through May 1992 and is based on field visits in March 1992 and subsequent telephone follow-up.

**Units ineligible for privatization.** In all three cities, officials have declared that about 10 percent of the housing stock cannot be privatized because the units are in poor condition or because of other factors.

**Space given free of charge.** The greatest difference is between Moscow, where privatization is being conducted on a completely free-of-charge basis, and all other cities, where some charge is made for value above the norm. The city Soviet in Ekaterinburg decided to follow the RSFSR law exactly in this regard. In Novosibirsk, the norm for space per household was expanded from 9 square meters as specified in the RSFSR law to 18 square meters. In fact, these distinctions appear to have made little difference, at least in the early stages of privatization: In all three cities at least 90 percent of the units are being transferred without payment by the tenant.

**Average price per square meter.** Both Ekaterinburg and Novosibirsk follow the same general procedure in making these calculations. Both compute the basic value as the “residual replacement value” per square meter of floor space (RRV). This value is computed by first using a construction cost index to update the original development costs to current ones. Then this figure is decreased by the average amount of depreciation estimated to have occurred (based on the data available on the inventory of the housing stock).
### Table 1. Key Features of Local Implementation of Russian Federation Privatization Laws

<table>
<thead>
<tr>
<th></th>
<th>Moscow</th>
<th>Ekaterinburg</th>
<th>Novosibirsk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Amount of space given freely</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(square meters)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Per person</td>
<td>Full unit</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>• Additional per household</td>
<td>Full unit</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td><strong>2. Percent of units transferred free of charge</strong></td>
<td>100</td>
<td>95</td>
<td>90</td>
</tr>
<tr>
<td><strong>3. Average price per square meter of space above the norm (R)</strong></td>
<td>0</td>
<td>463</td>
<td>190</td>
</tr>
<tr>
<td><strong>4. Range of adjusted prices for space (value) above the norm (R/square meter)</strong></td>
<td>NA</td>
<td>200–850</td>
<td>120–360</td>
</tr>
<tr>
<td><strong>5. Processing fees paid by applicant (R)</strong></td>
<td>320</td>
<td>600</td>
<td>490</td>
</tr>
<tr>
<td><strong>6. Date local law effective</strong></td>
<td>2/92</td>
<td>1/92</td>
<td>1/92</td>
</tr>
<tr>
<td></td>
<td>(02/11/92)*</td>
<td>(01/09/92)</td>
<td>(01/20/92)</td>
</tr>
<tr>
<td><strong>7. Number of units conveyed</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(municipal stock)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Period since adoption of law</td>
<td>3.5 (Data on 05/19/92)</td>
<td>4 (Data on 05/09/92)</td>
<td>3.5 (Data on 05/01/92)</td>
</tr>
<tr>
<td>(months)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Number of units conveyed</td>
<td>98,754</td>
<td>1,288</td>
<td>1,669</td>
</tr>
<tr>
<td>c. Applications</td>
<td>112,126</td>
<td>2,259</td>
<td>6,823</td>
</tr>
<tr>
<td>d. Total number of municipally owned units (thousands)</td>
<td>2,168</td>
<td>142</td>
<td>200</td>
</tr>
<tr>
<td>e. Share of units forbidden to be privatized (percent)</td>
<td>12</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

*The privatization in Moscow according to the Russian law had begun in September but was halted and then restarted in February.

This calculation was performed for the housing stock as a whole. In Ekaterinburg, an average RRV of R 463 per square meter was derived ($4.60 at the May 1992 exchange rate); in Novosibirsk, the comparable figure was R 190 ($1.90) per square meter. These figures are used to compute the value of housing to

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6 In fall 1991, Moscow, following the same procedure, arrived at a figure of R 203 per square meter. It might be interesting to note that the city Soviet wanted to set the value at R 850 on the basis of a different calculation procedure.
be transferred free of charge. That is, the RRV times the number of square meters in the norm is the value to be transferred without charge. It appears that the principal difference between the results for Ekaterinburg and Novosibirsk is that the latter decided not to take inflation since January 1991 into account in determining this value, while Ekaterinburg did. Note, however, that these values can be adjusted annually so that the gap between the two cities may be closed.

Prices charged for space (value) above the norm. There is a considerable range in the price per square meter levied for “additional space” (see table 1). In fact, the actual computation is the difference between the full value of the flat and the amount being given free of charge; that is, the price per square meter for extra space is determined by dividing the difference between the full value and the value of space given without charge by the number of extra square meters. Hence, the problem facing each city is how to determine the value of the flat. The procedures adopted differ significantly.

In Novosibirsk, unit value \( V \) is determined as

\[
V = \text{space} \times \frac{\text{RRVav} \times [1 + \text{sum (quality adj coefficients)}]}{\text{space}}
\]  

(1)

where \( \text{RRVav} \) is the average value of one square meter of housing space in the city that is to be transferred without charge, \( \text{space} \) is the number of square meters in the unit, and the quality adj coefficients adjust for 13 types of differences among buildings and flats. The adjustment coefficients, which are based on local judgment, reflect both positive and negative deviations from a normative standard.

For example, the adjustments for location within the city relative to a location in the inner ring are as follows: central location, 0.07; suburbs, –0.07. Another example is building materials relative to prefabricated panels: brick or concrete block, 0.04; wood or local materials, –0.04. The largest coefficients are for the size of the kitchen (±0.07), location (±0.07), and depreciation (±0.09). In practice, applying these coefficients has resulted in a moderate range of prices for additional space (i.e., ₽120 to 360 ($1.20 to $3.60) per square meter).

In Ekaterinburg, in contrast, the calculations were performed on a building-specific basis that also took into account differences in building and flat quality. It is this \( \text{RRVi} \) (for the \( i \)th building)
that is used in computing the value of the property to be transferred. The formula used is as follows:

\[ V = RRVi \times \text{space} \times (k_1 \times k_2 \times \ldots \times k_{10}) \]  

(2)

where \( k_j \) is the coefficient for the \( j \)th quality factor; the \( k \) values are both greater than and less than 1.0. Examples of \( k \) are as follows: The largest adjustment is for the “prestige” of the building, with a coefficient of 1.2 for a high-quality, prestigious building; units located on the first floor or the highest floor have an adjustment of 0.97; flats in the middle floors of mid-rise and high-rise buildings have a coefficient value of 1.03; and absence of central hot water has a coefficient of 0.98. These adjustments result in a much wider range of prices than in Novosibirsk (i.e., from R 200 to 850 per square meter).

All three cities are charging small fees for processing the applications for privatization: The highest charge is equivalent to about 17 percent of the average family’s monthly income in the first quarter of 1992. Also, the privatization law in all three cities permits flats with shared facilities to be privatized if all the tenants in a flat agree.

By the beginning of December 1991, 139,000 flats had been privatized, less than 0.4 percent of state, municipal, and public housing units (State Committee on Statistics of the Russian Federation 1992c). However, as noted earlier, many cities initiated unit sales only in 1992.

The variance in conveyances among the three cities being analyzed here is striking. In the 3.5 to 4 months that the transfer programs had been in effect, fewer than 1,700 units had been transferred in Ekaterinburg and Novosibirsk, while nearly 100,000 had been transferred in Moscow. In other words, in Moscow about 5 percent of the municipal housing stock was transferred, compared with less than 1 percent in the other two cities.\(^7\)

\(^7\) We focus on the municipal stock even though both municipal and departmental stock (state-owned, i.e., that of enterprises and federal government agencies) are subject to the same privatization conditions because the enterprises are moving very slowly to respond to the law. In short, because housing is a benefit with which to attract workers, they want to retain most of it. The best units are being transferred to managers; enterprises are willing to divest themselves of the worst units, but there are few takers for these.
Although some of this difference can be attributed to Moscow’s more lenient transfer terms, it seems more likely that it can be attributed to other factors. One is Moscow’s aggressiveness in promoting the program: The city geared up to process the large volume of applications received. In May 1992, processing time for an application averaged about two weeks. Another factor is the widespread reporting by the press in Moscow of the prices that units being auctioned are fetching. Additionally, the significant influx of foreigners looking for rentals is fueling a lively upscale rental market; elderly persons living alone who have the possibility of living with their children and who privatize their units are apparently those most likely to provide units for this market. Although some units have been auctioned in the other two cities, the volume is lower. Moreover, few foreigners have taken up residence, and both cities are expecting very difficult economic times (including unemployment of more than 10 percent) because of the cutbacks in defense spending.\footnote{Information provided by officials in both cities during the authors’ visit in March 1992.}

**Discussion**

The foregoing discussion reveals that the Russian Federation and individual municipalities have acted boldly to effect rapid privatization. In this section we evaluate the program existing at the end of March 1992 from three different perspectives:

1. Is the privatization program a strong element of a broader strategy of sectoral housing reform?

2. Is the privatization program likely to succeed in jolting the private housing market into vibrant existence?

3. Is the program resulting in reasonably equitable treatment of households?

**Privatization and housing reform**

Students of housing reform in Eastern Europe generally agree that privatization is only one element in overall sector reform. To be successful as an element in a comprehensive reform program, a program of ownership transfer must be accompanied
by several complementary actions and have objectives broader than simply transferring title (Katsura and Struyk 1991; Kingsley and Struyk 1992; Renaud 1991; and Struyk and Telgarsky 1992).

In terms of objectives, in addition to the transfer of a substantial volume of state rental housing into private ownership, the broader reform program of which privatization is a part must seek to integrate the remaining state-owned rentals with the nascent but expanding private rental market by raising rents and improving services; it must also protect the poorest renters from bearing the full burden of the rent increases. To accomplish these objectives, six complementary policy actions have been proposed as part of a comprehensive privatization and reform strategy:

1. Undertake a program of gradually raising rents to market levels. Doing so increases the value of owning the unit (and thus spurs sales) and at the same time generates the rental revenues necessary to improve the maintenance and operation of units remaining as rentals.

2. Resolve questions of implicit property rights. Tenants now have such strong rights of occupancy that they are already quasi-owners. Moreover, new owners are living in buildings without homeowners associations and thus have little control over their housing. The rights of tenants need to be curtailed (particularly through introducing the real possibility of eviction for due cause), and legislation is necessary to create viable condominium associations.

3. Have housing finance available at market rates to help households purchase their units. Without such finance, many households living in units that are large relative to the standards for free allocations will have difficulty purchasing their units.

4. Have available timely, accurate appraisal of the value of units proposed for sale. Without such services, privatization will be delayed.

5. Implement housing allowances to protect poor renters from having to spend an excessive share of their income for rental payments as rents are increased. Housing allowances are rent subsidies paid to low-income families only; under these
allowances the size of the payment varies inversely with the family's income.

6. Improve the efficiency and quality of management services in rental housing both to save money and to induce renters to be willing to pay higher rents.

In terms of the broader objectives and policy actions just enumerated, the Russian law on privatization is extremely limited. True, it may be asking too much for the law to be so comprehensive, and legislation and regulations addressing many of these other points were awaited during the spring or summer of 1992. But such legislation has not been passed in the 11 months following the July 1991 privatization law.

Most obviously, the privatization law addresses only the transfer of housing to sitting tenants. It is silent on the future of rental housing and on the benefits for those on waiting lists, except to say that these persons will retain their standing on such lists.

In table 2 we summarize the situation with respect to the six complementary policy actions as of May 1992. The table indicates limited action on clarifying property rights, implementing a process for quickly establishing purchase prices (although these bear little relation to market values), and permitting local governments to increase rents.9 No action has been taken in other areas.

Privatization as a stimulant to the private market

Clearly, the more rental units shifted to private ownership, the greater the expected volume of subsequent unit sales, household relocations, units shifted to private rentals, and so on. These types of transactions will stimulate further transactions and the overall movement of the sector toward a market basis. The question here is how large this shift is likely to be in the near term.

The experience of some other countries gives rise to optimism for quick privatization on a large scale. Both Slovenia and Lithuania privatized 80 percent of their state units in less than a year. Hungary, however, has privatized about 20 percent of its stock over two years, and Poland has accomplished much less during a similar period. In all these cases, units were offered for purchase

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9 This provision was (incongruously) contained in a budget law passed by the Supreme Soviet in mid-May.
Table 2. Summary of Russian Federation Action on Policy Reforms
Complementing Housing Privatization

<table>
<thead>
<tr>
<th>Policy Action</th>
<th>Status as of May 1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase rents</td>
<td>Local governments were given permission to raise rents in mid-May; none acted immediately.</td>
</tr>
<tr>
<td>Resolve implicit property rights</td>
<td>There was no change in the rights of tenants. Owners’ rights to sell and rent their unit have been made clear. Owners have no rights to select management in partially privatized buildings, and absence of a condominium law restricts workability of rights in fully private buildings.</td>
</tr>
<tr>
<td>Make housing finance available</td>
<td>The privatization law states that long-term, subsidized credits can be used for purchase. However, the State Savings Bank (Sberbank)—which has a virtual monopoly on long-term housing finance—is not offering loans for the purchase of units being privatized.</td>
</tr>
<tr>
<td>Have timely appraisal of properties</td>
<td>A method has been established for quickly determining the price for which a unit will be sold. The method produces a price that is not related to market value.</td>
</tr>
<tr>
<td>Implement housing allowances</td>
<td>No action has been taken. This is logical because there has been no increase in rents.</td>
</tr>
<tr>
<td>Improve housing management</td>
<td>The privatization law continues the monopoly of state maintenance companies. However, local governments are beginning to experiment with competitive private management for the municipally owned housing stock.</td>
</tr>
</tbody>
</table>

by tenants at very deep discounts. Other factors, including variations in expected increases in rents, the length of time the privatization process was to continue, appreciation in the housing stock, and alternative investment opportunities, may account for the differences observed among these countries.10

10 For a general discussion of the experience with privatization in Eastern Europe, see Kingsley and Struyk (1992). Information for Slovenia is in Mandic (1992); that for Lithuania is from an oral presentation by Bengt Turner at the Seminar on Eastern and Western Practices of Privatization Related to the Housing Sector, Budapest, March 1992.
On the side of stimulating sales, the Federation and local governments have certainly set prices so as to encourage sales. However, by leaving rents and tenant rights unchanged, they did little to enhance the value of owning versus renting. Indeed, it would appear that only the sale of units at very high prices in the open market has created an incentive to purchase.

Moreover, two important uncertainties are discouraging tenants from buying. One is the future cost of maintaining the housing. Such services have been enormously subsidized in the past, but analysts estimate that the total resources available were much less than the amount required for quantity maintenance. In the absence of comprehensive cost information, it is virtually impossible for would-be purchasers to anticipate their expected future costs. It is essentially the same as asking a would-be purchaser of a condominium unit in the United States to buy the unit with the monthly fees to be revealed in the future; few Americans would purchase under such conditions—and not surprisingly, Russians are similarly discomforted.

The other uncertainty is the introduction of the tax on property. This tax is to be implemented in fall 1992, and the tax rate has been established at 0.1 percent of assessed value, according to the law “On Property Taxes for Legal Persons”; the method of assessment has been defined as the RRV method described above. Although people appear to be uncertain about the size of the tax payments on their homes, simple calculations suggest that tax bills will likely be quite small.

Equitable treatment

Housing privatization potentially involves an enormous transfer of wealth from the state to individual households. Obviously a key question is how this wealth is being distributed among households.

Before addressing the equity question directly, it is worthwhile to have some understanding of the size of the potential transfer of wealth. In table 3 we have computed the value of the state housing stock in four of the largest Russian cities at the beginning of 1992. Two assumptions about the value per square meter are employed: R 3,000 and R 5,000 ($30 and $50). In interviews

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11 International Monetary Fund (1991) states that available funding covers less than 40 percent of the estimated needed maintenance (p. 324).
in Moscow, Ekaterinburg, and Novosibirsk in March 1992, respondents reported that auction prices of R 5,000 per square meter were standard in the latter two cities. In Moscow, auction prices were running at R 20,000 to 80,000 per square meter; construction costs were in the R 10,000 to 15,000 range. Respondents in St. Petersburg reported values closer to those of Moscow. These prices are all inflated, however, by the small volume of units on the market; for this reason the figure of R 3,000 per square meter seems more realistic for Ekaterinburg and Novosibirsk and the higher figure for Moscow and St. Petersburg. In any case, these amounts should be viewed as highly conservative estimates.

Using an overall figure of R 5,000 per square meter, the housing stock in these four cities is valued at R 1,276 billion ($12.7 billion). By way of comparison, for the year 1991, net material product in the Russian Federation was R 810 billion ($8.1 billion)

| Table 3. Estimated Value of the State-Owned Housing in Selected Russian Cities, 1992 |
|-----------------------------------------------|-------------------|-------------------|
| Floor Space (million square meters)           | Value of Stock Based on |
|                                              | R 3,000/ square meter | R 5,000/ square meter |
| Moscow                                        |                    |                   |
| Municipal housing                             | 115.6              | 346.8             | 578.0             |
| Departmental<sup>a</sup>                      | 29.2               | 87.6              | 146.0             |
|                                               | 143.8              | 434.4             | 724.0             |
| St. Petersburg                                |                    |                   |
| Municipal housing                             | 61.6               | 184.8             | 308.0             |
| Department<sup>b</sup>                        | 13.1               | 39.3              | 65.5              |
|                                               | 224.1              | 373.5             |                   |
| Ekaterinburg                                  |                    |                   |
| Municipal housing                             | 7.4                | 22.2              | 37.0              |
| Departmental                                  | 11.6               | 34.8              | 58.0              |
|                                               | 57.0               | 95.0              |                   |
| Novosibirsk                                   |                    |                   |
| Municipal housing                             | 9.4                | 28.2              | 47.0              |
| Departmental                                  | 7.4                | 21.6              | 36.0              |
|                                               | 49.8               | 83.0              |                   |
| Total                                         | 765.3              | 1,275.5           |

<sup>a</sup> Includes units of state-owned enterprises.
<sup>b</sup> Billions of rubles (R).

These figures can be interpreted alternatively: The average unit value (at R 5,000 per square meter) is R 270,000 or 6.4 *annual incomes* for a family with a monthly income of R 3,500—the mean income level in the first quarter of 1992 (State Committee on Statistics of the Russian Federation 1992b). In short, the value of the assets being transferred is simply enormous.

There are several dimensions to the seemingly simple question of the distribution of wealth. One concerns the degree to which households living in different cities are being treated comparably in the privatization process. Another concerns the treatment of those purchasing versus those renters who elect not to purchase and those on waiting lists. Finally, there is the question of the distribution of wealth among those who do purchase.

With respect to equity across cities, it appears that rough justice is being done. In the cities studied, the great majority of those purchasing their units pay nothing for the asset. There are real differences among the 10 percent who do make payments; however, none of the payments approaches market prices, and those purchasing the largest units are typically the only ones paying a positive price.

In contrast, there are severe inequities between purchasers and those who remain renters or on the waiting list. Purchasers receive large transfers of wealth; renters receive nothing, and those on the waiting list are at risk of receiving little or nothing. Transfers of wealth can be thought of as payments to the new owners for the implicit property rights they enjoyed as renters. If the rights of those who remain renters are gradually reduced in the future without any compensating payment—and this is the pattern that is beginning to develop in Eastern Europe—then there will be severe inequity between sitting renters and purchasers. The inequity between purchasers and those on the waiting list is still greater. Purchasers receive both a unit to occupy and a transfer of wealth. Those on the waiting list, that is, those living in a unit with less than 5 square meters per person, are in quite a different position. They can receive their current unit without charge, and then they can also privatize a larger unit when they are allocated one. It is true, however, they may not

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12 The rights of renters have already been sharply restricted through legislation in Bulgaria and somewhat attenuated by amendments to the Civil Code in Czechoslovakia. Housing reform legislation introduced in the Hungarian Parliament in April 1992 moves cautiously in the same direction.
be allocated a new unit and exercise their purchase right while privatization is still an option.\textsuperscript{13} Subsequent legislation may attempt to deal with these inequities, but because of the extreme generosity of the transfers to those purchasing their units, it will be very difficult (expensive) for the state to come close to achieving real equity.

Finally, it should be made clear that there is little hope of equal treatment among purchasers. First, the distribution of units in Russia at the beginning of the privatization process was such that higher income households occupied the better and larger units (Kosareva 1992). This pattern will not be materially changed by the terms of privatization because there are only modest adjustments in the price of the unit for location, quality, and other factors and because, in general, the sales price for space above the value of the implicit voucher is so far below market level. Hence, those occupying the better units at the beginning of the privatization process will receive larger transfers of wealth.

No information is available yet on the distribution of capital gains among purchasers in Russia, particularly with respect to income. Hungary is the one country in Eastern Europe for which systematic data on this point have been collected. These data, which are only for rentals privatized in Budapest, show that for the units privatized in 1990 and 1991, 40 percent of the total capital gains associated with all privatized units accrued to purchasers in the highest income quartile, whereas only 16 percent accrued to those in the lowest income quartile. Moreover, the average per unit capital gain for those in the highest income quartile is 46 percent larger than for those in the lowest quartile.\textsuperscript{14} Consistent with this finding, knowledgeable observers in Moscow, Ekaterinburg, and Novosibirsk reported their impression that the better units were being purchased at a much higher rate than other units.\textsuperscript{15}

\textsuperscript{13} At this time there is no time limit on privatization, although some draft legislation has introduced the idea. Privatization has a time limitation in Slovenia, Croatia, and some of the Baltic countries.

\textsuperscript{14} See Hegedus, Mark, and Tosics (1992), table 3. Findings based on a survey conducted in January 1992 of 1,000 randomly selected units that were state rentals in January 1990.

\textsuperscript{15} Interviews conducted by the authors in March 1992.
Conclusions

Our overall conclusion is fairly pessimistic. The Russian housing privatization program as implemented in the spring of 1992 is in genuine danger of failing to accomplish its major objective of transferring a substantial share of the stock to the population and thereby shocking the housing sector into operating more on market principles. Also, it may result in a distribution of housing assets (including implicit property rights) that is more inequitable than existed before privatization began. Such a conclusion is, of course, highly speculative, because a variety of factors could suddenly encourage a massive wave of privatization. Putting aside such a deus ex machina, the government of the Russian Federation would be well advised to consider major adjustments to its program. Perhaps most important would be to begin increasing rents (which would increase the values of the units) and to announce a time limit for making the privatization decision (perhaps 12 to 15 months), which would focus tenants’ attention on this decision. As sales volume increases, it will become increasingly imperative to address the various issues affecting those who purchase their units and those who do not.

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