

Housing Privatisation in the Baltic States

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Keywords (UNCHS' Thesaurus)

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Market and blocks of flats in Lasnamäe district, Tallinn.

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Abstract

This report considers the processes during the 1990s that are transforming the legal framework, institutions and procedures affecting the privatisation of housing in the Baltic States. Restoration of confiscated property, sale of publicly owned dwellings, establishment of home owners associations and the development of a real estate market are some of the processes examined. The main problem lies in the national economies that cannot afford to make sufficient investment in the housing sector. Other obstacles include conflicts of interest in parcelling land and a lack of incentives for flat owners to accept responsibility for housing management. The report recommends development of public support for housing finance, for assistance in monitoring the foundation and administration of home owners associations, reorganisation of municipal housing companies and reestablishment of a publicly owned and managed housing stock.

Foreword and Acknowledgements

This report on housing privatisation is part of the research project *Large-scale Housing Areas in the Baltic Countries*, supported by the Swedish Council for Building Research.

The project was outlined in 1996 when Lund Centre for Habitat Studies organised an expert group meeting in Lund, on this issue. The report from this meeting describes the history of large-scale housing areas in the Baltic countries and the problems from technical, management and social perspectives. The expert group meeting showed that an interdisciplinary approach is both productive and effective, and that a narrow sectoral view will not lead to successful housing solutions. In the discussions problems were defined, options and limitations were listed and research issues were proposed.

In May 1997 a field trip to Tallinn, Riga and Vilnius was undertaken to discuss and organise a research co-operation project with Baltic colleagues. The aim of the project discussed was to grasp the whole complex of housing problems related to the large-scale suburban housing areas in the Baltic States. The Swedish Council for Building Research allocated funding for LCHS to start the project in January 1998. The Swedish project group, consisting of Professor Jan Söderberg, Johnny Åstrand, Annette Wong Jere and Janis Kursis, decided that the first part of the project should address the privatisation process and the resulting consequences for housing management.

There was a reorganisation of Lund Institute of Technology during 1998 and 1999. The staff of the former Lund Centre for Habitat Studies (LCHS) continue to conduct research and organise courses under the name Department of Housing Development and Management (HDM). Both LCHS and HDM appear in this text, depending on when the activity occurred. The material for this report was mainly collected during field-work in Tallinn, Riga and Vilnius in November 1998 and analysed during the spring 1999.

The report intends to provide a comparative overview of the privatisation process of the housing sector in the three Baltic countries Estonia, Latvia and Lithuania. The aim is to combine the main elements of the process of housing privatisation – namely the physical, social, economic, legal, organisational and managerial dimensions – in an accessible manner. It is chiefly aimed at actors within planning, construction and housing management, but it is hoped it will be useful for a wider range of readers

interested in the current dramatic changes in the field of housing in the Baltic countries.

The preparation of this report was only possible through the combined efforts of a number of individuals. First of all I would like to thank colleagues and friends in the Baltic States who helped me to find and understand relevant information. I would like especially to acknowledge the contributions and help of Katrin Paadam and Roode Liias, Tallinn Technical University; Inara Marana, Riga City Council; Gunta Juhneva, Mezciems Municipal Housing Company, Riga; Viktors Macko, Daila Anna Macko Notary Office, Riga; Janis Brinkis, Riga Technical University; Elvira Radaviciene, Housing Department of the Ministry of Environment of Lithuania; Anicetas Simonaitis, Vilnius City Council; and Arturas Kaklauskas, Vilnius Gediminas Technical University.

Thanks are also due to my colleagues at HDM; Laura Liuke and Annette Wong Jere helped me with translation to English. I owe special thanks to Johnny Åstrand for his support in finalising the report.

Finally I would like to thank my tutor, Professor Jan Söderberg, for his critical review of the report draft and his suggestions for organising the information in the report.

Introduction

Housing privatisation is a central part of the transition from centrally planned to market economies in Central and Eastern Europe. Private property rights and trade with real property are fundamental parts of the market economy. The success of the transition therefore depends on the efficiency of privatisation programmes. While few people are involved in the privatisation of enterprises, the current mass privatisation of housing concerns everyone.

New laws, institutions and processes are introduced so quickly that few can grasp the whole situation. Many of the steps toward privatisation are not well considered and often have unforeseen effects. New rules and poor information make it difficult for people to follow what is happening and to act accordingly.

A literature search was conducted, mainly in three data bases: LIBRIS, Science Citation Index, and ProQuest/UMI Digital Dissertations and Theses. There is little literature in English on housing privatisation in the Baltic countries. Information has to be collected from sources such as government reports, conference papers, project reports and business briefings.

The housing stock in each of the Baltic States is comprehensively described in the National Reports to the United Nations World Conference on Human Settlements Habitat II (1996a, b, c), but these contain little about the process of housing privatisation and its consequences.

Summaries of the political and economic situation, reform programmes, legislative environment and taxation regimes are periodically published by international providers of business services, such as Coopers & Lybrand (1994a, b, c) and Price Waterhouse (1997a, b), and governments (eg Country Profile Lithuania 1998) to encourage foreign investment. These reports describe privatisation programmes, but mainly of state owned enterprises, and contain very little about housing.

A research project in 1993 and 1994 by Jaffe, Turner and Victorin (1995) gave the first extensive report on property rights and privatisation in the Baltic States. At the time massive housing privatisation was underway in Lithuania. It had just started in Estonia, while the necessary regulations had not been finalised in Latvia. Jaffe, Turner and Victorin discuss the impact on efficiency and equity of legal, economic and institutional arrangements in the privatisation of real estate property.

The report from an expert group meeting on Large-scale Housing Areas in the Baltic Countries, held at Lund Centre for Habitat Studies (1996), describes and analyses technical, social and managerial issues in suburban residential areas. The privatisation programmes for Estonia and Lithuania

are discussed as an important aspect of each country's housing sector, but not as a phenomenon generating new problems to be solved.

In an EU PHARE project Linkola (1994, 1997) describes and analyses the relationship between territorial planning and land reform in Latvia. He describes the legal framework of Latvian land reform and the system for land registration and land management in urban areas. His reports also give a good overview of the privatisation of buildings and housing units.

The Canadian Mortgage and Housing Corporation (1997a, b, c) produces information on foreign housing markets for the Canadian housing industry. Their country reports on Estonia, Latvia and Lithuania give relevant, but superficial, market research and analysis for business decisions about investment in the housing sector. It is remarkable that these reports merely mention housing privatisation.

Grutups (1995) gives a comprehensive description and analysis of the background and development of property reform in Latvia. This source gave useful support to understanding the reform processes in Estonia and Lithuania.

There is a clear lack of collected, detailed, current information about housing privatisation in the Baltic States. Not even the authorities responsible for monitoring the process conduct systematic and continuous evaluation. The actors in the Baltic States appear to be more interested in learning about housing developments in Western Europe than among their closest neighbours, although there are many lessons to be learned from each other. The relatively stable economic development in the Baltic States and an increasing interest for investment in real estate heightens the need for information about the housing sector.

The Aim of this Project

The aim of this project is to investigate the legal framework, the institutions and the processes for implementing housing privatisation in the Baltic States, to discuss incentives and obstacles and new problems that arise in the housing sector due to privatisation. Finally some measures to improve the viability of the housing sector are discussed. The particular research problem is the consequences of housing privatisation on the management of residential areas. Processes examined are return of confiscated property to former owners, selling of publicly owned dwellings, establishment of apartment owners associations with responsibility for housing management, and the development of a real estate market.

Methods

The methods used for collecting information were both qualitative and quantitative. Qualitative methods include analysis of documents and interviews with key persons. Quantitative data were collected from statistical offices, central and local government institutions, yearbooks, housing man-

agement companies and directly from individual home owners. Documents examined were laws, draft laws, notes from institutions and professional organisations in the housing sector, and plans and drawings from city planning offices. My fluency in Latvian allowed direct reading of Latvian documents, while documents in Estonian and Lithuanian were understood with the support of oral or written translations in English. In Estonia there is more official information translated to English than in Latvia and Lithuania. This is why there is not the same quality and quantity of information from the three countries. About 30 key persons were interviewed. The languages of communication were Latvian and English.

Housing Heritage

Housing Stock

Demographic Development

During the post-war years, there was large-scale industrial expansion in the Baltic republics, and immigration from other Soviet republics was encouraged. There was striking population growth in the capitals. From before the Second World War until 1991, the population of the capitals trebled (see Table 1). After 1991 the population decreased in all three capitals, mainly due to the staff of the former Soviet army and Russians leaving for Russia.

Table 1 Demographic Development of the Capitals of the Baltic States.

	1940	1960	1991	1998
Tallinn	136,000 (1)	288,000 (1)	477,000 (1, 2)	415,000 (2)
Riga	370,000 (3)	575,000 (4)	906,000 (4)	806,000 (4)
Vilnius	186,000 (5)	236,000 (5)	587,000 (5)	564,000 (5)

Sources: (1) Some Statistics about Tallinn, Tallinn City Government 1995. (2) Statistical Yearbook of Estonia 1998. (3) Riga 2020 Urban Development, Riga City Council 1996. (4) Riga in Figures 1998, Central Statistical Bureau of Latvia 1998. (5) Lithuanian Department of Statistics.

Characteristics of the Housing Stock

The technical standards of the housing stock are quite bad, due to poor technical solutions and lack of maintenance. The list of problems is long – leaking roofs, uncontrolled air infiltration, corrosion of concrete, low thermal insulation, low sound insulation, low-performing heating systems and high energy losses, to name some of the most important. The high energy losses in the heating system and through the building envelope are considered to be the main technical problem and have become the main target for improvement (LCHS 1996).

Urban population growth was rapid during the post war years, and construction of new housing did not meet the needs of mass immigration of labour. The solution was prefabricated standard multi-storey buildings. Construction of the large-scale housing areas on the outskirts of the larger cities started at the beginning of the 1960s and continued up to the renewed declarations of independence in 1990 for Lithuania and in 1991 for Estonia and Latvia. Sixty per cent of the total housing space in Riga, and 74 per cent in Vilnius, was built after 1961 (Tables 2 and 3).

Statistics from Tallinn City Council do not report the floor area of private construction, nor figures for single family houses. If we consider only public housing, 75.5 per cent of the housing space was built after 1961 (Table 4). If we include private housing, this figure will be higher. The Estonian Housing Commission of 1998 (*Asjatundjate komisjon*) estimates that about 65 per cent of the total dwelling space of Estonia is in multi-storey blocks of flats.

Table 2 *Dwellings by Period of Construction in Riga 1989.*

Construction Year	Share of Total Housing Space, %
– 1918	22.5
1918 – 1940	8.7
1941 – 1950	1.2
1951 – 1960	7.3
1961 – 1970	19.4
1971 – 1980	23.5
1981 – 1989	17.4

Source: *Rigas pilsetas iedzivotaju dzivoklu apstakli 1989 g. Vissavienibas tautas skaitisanas materiali. Riga 1990. Latvijas Republikas Valsts Statistikas Komiteja.*

Table 3 *Dwellings by Period of Construction in Vilnius 1994.*

Construction Year	Share of Total Housing Space, %
– 1918	3
1918 – 1940	11
1941 – 1950	4
1951 – 1960	7
1961 – 1970	19
1971 – 1980	26
1981 – 1990	25
1991 – 1994	4

Source: *Raugaliena 1996.*

Table 4 *Dwellings by Period of Construction in Tallinn 1992.
Private dwelling stock and hostels excluded.*

Construction Year	Share of Total Housing Space, %
– 1919	4.5
1919 – 1945	10
1946 – 1960	10
1961 – 1970	21.4
1971 – 1980	27.6
1981 – 1990	22.8
1991 –	3.7

Source: *Tallinn Arvudes 1992.*

These figures show that the overwhelming majority of the publicly owned housing stock are found in the large-scale residential areas in surrounding towns and cities. Due to the system of prefabricated concrete wall components these houses are called block panel houses. Flats in these houses are the main objects of the privatisation of the housing sector in the Baltic States.

Housing Management

Housing was regarded as a social right, and management was organised by local governments. Housing management still is an important activity of a municipality. Tallinn, Riga and Vilnius are organised into separate housing management companies for each district of the city. Only a few of them are companies in a legal sense. They are directly supervised by politically elected housing departments of the local government and thus have limited autonomy. These companies have been, and mainly still are, integral parts of the municipal organisation.

Tallinn is divided into eight administrative districts. The municipal housing stock is managed by 14 housing administration units of the Tallinn City Council. These units have recently been transformed into joint-stock companies with the City of Tallinn owning 100 per cent of the shares.

Riga is divided into six administrative districts with 48 administrative units. The executives of these housing management units are dependent on the Committee of Communal and Apartment Issues of Riga City Council. No privatisation of municipal housing companies has yet occurred.

Vilnius is divided into 20 administrative districts with one municipal housing management unit in each district. There is also one municipal unit for the management of hostels. Housing in a hostel consists of one room along a corridor with kitchen, bathroom and other common facilities shared with other tenants. The hostels were originally not intended for permanent housing but for transition housing for disadvantaged and vulnerable groups and for guest workers. Due to the housing shortage the hostels have come to serve as permanent housing. In 1996 the 21 municipal housing management units were transformed into joint-stock companies. The City of Vilnius owns 100 per cent of the shares.

Housing Costs

Rent Costs in the Soviet Union

Rents were stable in the entire Soviet Union after the war and were fixed at 13.2 kopeks (0.132 roubles) per square metre and month. This figure held until the effect of inflation were felt at the end of the 1980s. Normal salaries varied between 100 and 200 roubles per month. An ordinary salary

for a teacher at secondary school was about 110 roubles and for a skilled industrial worker about 160 roubles. The cost for a normal flat of 50 square metres was about 6.60 roubles per month, which represented about 4–8 per cent of an ordinary salary. With two salaries in a family, housing was only 2–4 per cent of the total expenses. Rents were set by political decision and had no relation to production costs or to what should be considered normal maintenance of a building, which has resulted in deterioration of the housing stock.

Rent Costs Today

In all the Baltic States there are laws regulating rents, and local governments set the maximum levels. Rent bills show a detailed break down in different posts composing the total rent cost. Examples of rent cost break downs for some typical flats in multi-storey block panel buildings in Tallinn, Riga and Vilnius are shown in Tables 5–7.

Table 5 Monthly housing costs December 1998 for a flat of 62 square metres in a multistorey block of flats in Mustamäe District Tallinn. USD 1 = EEK 13.

Cost for	EEK/m ²	EEK total
1 cleaning	0.92	57.04
2 emergency service	0.20	12.40
3 emergency repair	2.71	168.02
4 management	0.97	60.14
5 repair-works	2.40	148.80
6 garbage	0.37	22.94
7 general electricity	0.29	17.98
8 land tax	0.11	6.82
9 water	3.10	192.20
10 heating	13.20	818.40
11 hot water	—	—
Total cost		1504.74

6. and 7. These figures are assumed to be the same as Table 13 in Appendices.

11. The unit price per cubic meter was EEK 15. Consumption is measured.

Gas is paid directly to the gas company at EEK 2.90 per m³ according to measured consumption.

Electricity is paid directly to the electricity company at EEK 0.65 per kWh.

Source: Mustamäe District Council.

The rent cost in December 1998 for a 50 square metre flat in Tallinn, Riga and Vilnius ranged from about 65–85 USD per month (see Table 8), plus costs for cold and hot water, gas and electricity. Heating is charged per square metre flat. Hot and cold water, gas and electricity are paid according to measured consumption. If the apartments do not have individual water meters the consumption is measured for the whole building and

divided between the apartments in relation to the number of household members. In Riga and Vilnius garbage is charged per household member while in Tallinn per flat. Land tax for apartments in buildings of public ownership is only paid in Tallinn, which is remarkable since no land allotment to the buildings has been done.

Table 6 Monthly housing costs December 1998 for a flat of 53.2 m² in a multi-storey block of flats, constructed in the 1980s, Mezciems Housing Area, Vidzeme district, Riga. LVL 1 = USD 1.67.

	Costs for	Cost unit	Cost/unit	Total
1	rent	LVL/m ²	0.148	7.87
2	heating system	LVL/m ²	0.02	1.06
3	VAT on 2.	18 %		0.19
4	water pipes	LVL/person	2.72	4.08
5	radio		0.24	0.24
6	garbage	LVL/person	0.30	0.60
7	general electricity	LVL/apt	0.1085	0.11
9	elevator	LVL/person	0.16	0.32
10	electric stove	LVL/apt	0.234	0.23
11	elevator electricity	LVL/person	0.2123	0.42
12	cable TV		0.90	0.90
13	w pipes sewage maintenance	LVL/m ²	0.01	0.53
14	VAT on 13	18%		0.10
Total cost				16.65

Cold water is charged according to the total consumption in the house (m³) divided by the number of occupants. Cold water cost is LVL 0.35 per m³.

The same applies for hot water consumption with a price about LVL 1.30–1.50 per m³.

Households with water meters installed in the apartment pay according to measured consumption.

Source: Juhnevica 1999.

Table 7 Monthly housing costs December 1998 for a flat of 82.14 square metres in a three-storey block of flats, built in the 1980s, Pacialiciai District, Vilnius. USD 1 = LTL 4.

Cost for	LTL
1 heating	355.71
2 general electricity (0.24 Lt/kWh)	8.14
3 hot water (according to meter, 3 m ³)	38.12
4 cold water (according to meter, 4 m ³)	12.44
5 garbage	8.72
6 cable TV	21.45
7 maintenance (0.26 Lt/m ²)	22.00
Subtotal	466.58
8 credit	133.42
Total cost	600.00

8. In 1996 HOA took a loan from the Lithuanian Housing Foundation to improve the heating system and change the windows. The loan is for 10 years with an annual interest rate of 13%.

Source: Simonaitis 1999.

Table 8 Comparison of estimated rent costs in December 1998 for a 50 square metre flat in a multi-storey block of flats in Tallinn, Riga and Vilnius. The calculations are based on figures from the previous Tables 5–7 and the Tables 13–16 in Appendices. Cost for cold and hot water, gas and electricity are paid according to consumption.

Cost for	Tallinn EEK	Riga LVL	Vilnius LTL
1 heating	660	27.53	216.40
2 general electricity	14.50	0.42	8.00
3 garbage	18.50	0.30	3.26
4 gen. cleaning	46	1.00	0.78
5 antenna	5.50	0.77	1.00
6 administration	48.50	7.53	13.00
7 repair, maintenance	265.50	1.93	—
8 land tax	5.50	—	—
total cost	1064	45.91	258.28
in USD	81.85	77.00	64.60

The Cost of Heating

During the Soviet period heating was not an important cost since fuel was not paid for at market prices. The design of heating systems for housing shows no awareness of the economic consequences of the huge energy losses. When the Baltic States left the rouble zone and introduced national currencies in 1992–93, oil imports suddenly had to be bought at world

market prices, which caused a dramatic increase in heating costs during the 1990s. Heating today is estimated to cost tenfold the old price, and is the main part of the monthly rent during the heating season. I estimate that the cost for heating a flat amounts to 60 – 85 per cent of the total rent costs per month during the heating season (see Table 9). Heating costs are similar in Tallinn and Riga, and notably higher in Vilnius. The large differences in cost of heating between Tallinn, Riga and Vilnius are intriguing, but this survey has not allowed for an analysis of the reasons. It could be related to differences in climate, fuel costs, heating periods, thermal characteristics of buildings and the energy supply systems. The point of these figures is to show that a main part of the rent cost is heating.

Table 9 Comparison of heating costs in December 1998 for a 50 m² flat in a multi-storey block of flats in Tallinn, Riga and Vilnius. The figures are from Table 8.

Cost for	Tallinn		Riga		Vilnius	
	EKK	USD	LVL	USD	LTL	USD
heating	660	50.80	27.53	45.90	216.40	54.10
total rent	1064		45.91		258.28	
heating as % of total rent	62		60		84	

Salaries/wages and Rent Costs

At the end of 1998 the average monthly gross salaries ranged from USD 225 to 310 and the old age pensions from USD 75 to 98 (Table 10).

Table 10 Monthly average salaries/wages and old age pensions the third quarter of 1998.

	Estonia		Latvia		Lithuania	
	EKK	USD	LVL	USD	LTL	USD
Salaries/wages	4111	316	135.56	226	1033.7	258
Pensions	1264	97	53	88	300	75

Sources: Estonian Statistics Monthly No 10, 1998, Statistical Bureau of Latvia, Lithuanian Department of Statistics.

According to official statistics the average household expenditure for housing (rents fuel and power) ranges from 14 to 19 per cent of the average household budget (Table 11).

Table 11 Average household expenditure for the housing (rents fuel and power), per cent of household budget.

	1996	1997
Estonia	19.0	
Latvia	14.3	15.0
Lithuania	14.8	15.2

Sources: Estonia in Figures 1997, Statistical Yearbook of Latvia 1998 and Statistical Yearbook of Lithuania 1998.

These figures seem to be quite normal for Western Europe, but we have to keep in mind that these are averages. A comparison of the figures in Tables 9 and 10 shows that the main part of the household budget of a single pensioner living in a block of flats could be spent on rent and heating during winter season.

Social Implications

Social classes were not recognised in the Soviet Union. Society was divided into workers, farmers and intellectuals, and no hierarchy among these groups was officially recognised. Salaries were relatively similar. Apartments from government housing programmes were distributed by the housing authorities according to politically set guidelines and had nothing to do with paying capacity of the tenant. Rent costs were almost “zero”. Segregation in housing, in the western European sense, did not exist in the former socialist countries; the poor and the better off, the unskilled worker and the professor were neighbours sharing the same staircase.

The fall of an old industrial production system with factories closing and unemployment combined with the relatively well-off new groups of professionals brought rapid economic stratification. New professions emerged that did not exist before, mainly in the sectors of trade, services, finance and insurance, real estate, leasing and business services, transport and warehousing (Kliimask 1997).

Changes in spatial location of the urban population has begun although it affects only small groups due to a limited housing market and limited financial opportunities. The following observation by Loogma (1997) about Tallinn could also apply to Riga, Vilnius and other Baltic cities.

Housing stratification is only in its initial stages and is mainly illustrated by cases in which middle class families tend to concentrate to certain areas primarily found in the suburban private housing districts of Tallinn.

Inability to pay the rent is widespread, and more frequent during the heating season. Some people pay their rent debts from the winter during the summer when the rent is lower, due to no heating costs, while others do not pay them at all. In 1995, 181,000 households in Lithuania owed LTL 24 million (USD 6 million) (LCHS 1996). In Riga about 20 per cent of the households do not pay their rents regularly. Each year the Riga City Council has to decide what to do with the debts for heating public houses. For the heating season 1996/97 debts of LVL 7.5 million (USD 12.5 million) were paid by Riga City to “Rigas Siltums”, the heating company. For 1997/98 this figure was only LVL 2.5 million (USD 4.17 million), due to measures taken to save energy, mainly installing hot water meters (Rubina 1998). In Estonia the inability to pay rent seems to be as widespread as in Lithuania and Latvia. Unpaid rent gives the housing company the legal

right to evict a household. The municipal housing companies seem to have a high degree of tolerance and only a limited number have been evicted.

There is a tendency for the well off to move into, and poor out of, the city centres. People with big rent debts living in attractively located flats in the city centre are identified by real estate agents who offer to pay the debts and to provide another flat, less attractively located in a suburban large-scale housing area. In return the agent can sell the tenancy rights, usually at a good profit. This combination of threat and offer is very efficient when the tenants' debts are large and there is a threat of being evicted and losing tenancy rights. People without rent debts also seize the opportunity to sell their privatised flat or tenancy right to get money to buy a cheaper and less attractively situated flat. As on all real estate markets the location is the main price factor.

Inability to pay the rent depends not only on the dramatic increase in costs but also on the economic decline at the beginning of the 1990s. The rapid economic stratification tends to marginalize large groups of society.

Energy Saving

High energy losses in the heating system and through the building envelope is a common problem in Estonia, Latvia and Lithuania.

The Swedish National Board for Industrial and Technical Development (NUTEK) (1995, 1996) supported research and implementation of energy saving measures in Mustamäe District, Tallinn, in 1992–94. The project was carried out in co-operation with the local authorities of Mustamäe and private consultants. The main energy saving measures implemented were:

- roof insulation
- weather stripping of windows and balcony doors
- manually regulated ventilation slots in bathrooms
- heat meters
- new heating substations including: heat exchangers for heating and domestic hot water, circulation pumps, control equipment, expansion tank, valves and pumps
- main pipe control valves and balancing of the heating system
- new pipes for heating, domestic hot water and cold water including insulation of the pipes

Results from 1995 show 20 per cent less heat consumption than in similar buildings in the same neighbourhood that had not been renovated. The loans given by NUTEK at 7–8 per cent interest with a pay-back time of 5–7 years are calculated to be covered by the lower energy costs.

Rupkus (1996) estimates the heating cost per square metre in panel block houses in Riga to be the double that of similar houses in similar climatic regions in the Scandinavian countries.

Zubrus (1996) gives the following estimate of pay back time for different energy saving measures:

- installation of an additional transparent foil into the windows, 1–3 years
- modernising the heating system of the house, 3–5 years
- extra insulation of the roof, 10–13 years
- change to windows of good thermal performance, 20–25 years
- external wall insulation, 25–30 years.

Similar measures, plus the following, were recommended in the *Bustas Program* (1997) by the Housing Department, Lithuanian Ministry of Construction and Urban Development (Ministry of Environment from Spring 1998):

- insulation of end walls without windows
- insulation of basement walls and basement ceilings.

Government supports the Lithuanian Housing Credit Foundation (1997) to run the Energy Efficiency Housing Pilot Project and to give loans for energy saving measures in housing. The measures supported are similar to those mentioned above. The project is financially supported by the World Bank and the Governments of Lithuania, the Netherlands, Denmark, Sweden and Norway. The total project budget is USD 20.6 million. Public information about energy saving possibilities and applications for loans are administered by the Lithuanian Housing Credit Foundation. The Home Owner's Association no 120 of Vilnius has taken loans to install a new substation, a device to control the heating system and heat meters in their house. These measures reduced the energy for heating to the half of normal during the heating season 1995/96 (Simonaitis 1996).

In Latvia few energy saving projects of this scale were undertaken. In Mezciems, Vidzeme District, Riga, the local municipal housing company (*Rigas Domes Vidzemes Priekspilsetas Pasvaldibas Uznemums Namu Parvalde Mezciems*) conducted an energy saving pilot project in a eight storey block panel house during 1997. The measures were: tightening joints between the concrete panels of the facades and addition of insulation in the roof and the house gables. The energy savings were estimated to be so great that the housing company prepared a bigger project, but difficulties in finding finance prevent them from implementing it (Juhnevia 1997).

One of the most frequent and efficient energy saving measures on apartment level is the installation of meters for domestic hot water. The meter gives the tenant control of consumption and an incentive to reduce the hot water use. In Vilnius domestic hot water consumption was reduced to the half after installation of individual meters in the apartments of the former publicly owned housing stock. Experiences from Riga show an average monthly reduction from about three cubic metres per person to one after the installation of meters (Diena 7 March 1998).

Conclusions

Geographic stratification in urban housing will develop as a consequence of the privatisation of the dwelling stock. Housing costs in the large-scale housing areas differ: in Tallinn more is spent on repair and maintenance than in Riga and Vilnius, while in Vilnius more is spent on heating. Although the housing stock is young, about 2/3 was constructed after 1960, it is in bad condition and needs urgent investment for repair and renovation. The low household incomes do not allow rent increases to cover these costs. Energy saving measures, however, have shown to be very effective in dramatically reducing running costs and, thus, creating economic space for repair and renovation. The short payback periods for investment in energy saving measures should be encouraging enough for central and local governments and banks to grant special energy saving loans.

Legal Framework

Land, buildings and means of production were nationalised when the Baltic States were incorporated into the Soviet Union. During the Soviet era private individuals were only allowed to own buildings of limited size, such as one-family houses, summer houses or garages. The beginning of privatisation and deregulation would normally be associated with the restoration of the independence of the three states in August 1991. The process started, however, in the mid-1980s, enabled by the new policies *Glasnost* (openness) and *Perestrojka* (reconstruction) that led to the radical liberalisation of social life in the Soviet Union.

Decision no. 120 of the Council of Ministers of the Soviet Republic of Latvia on 3 September 1990 defined a strategic goal to change ownership conditions to correspond to the principles of market economy. On 20 March 1991 the Parliament of the Soviet Republic of Latvia made the resolution *On State Property and the Basic Principles of its Conversion*. This formed the basis for development and adoption of new laws for property reform. It stated that the rights to nationalised and otherwise confiscated property could be reestablished by any previous owner or his/her lawful heirs regardless of their current citizenship. The decision stated that property would be returned directly or be compensated through special government bonds, *kompensācijas sertifikāti*, or money. It named three ways of converting property:

- Denationalisation of municipal and state property
- The turnover of state companies to municipalities
- Privatisation of municipal and state property.

The main problem here is the conflict of interests between the current users and former owners. To prevent social conflicts the Government decided it was appropriate to include compensation for not returned property. On 3 March 1992 the Parliament of Latvia decided on *Concepts and Preparations for a Program for the Privatisation of the State and Municipal Property* that set guidelines for the necessary new laws and regulations.

On 19 December 1990 the parliament of the Soviet Republic of Estonia approved a resolution on the renewal of property rights which made invalid the declaration of the Soviet Estonian Parliament (23 July 1940) *The Declaration of Land as the People's Property*, and all the later laws and ordinances that had changed the right to property ownership. This resolution also clarified that the collectivisation of Estonia, based on the decision *On the Establishment of Kolkhozes in the Soviet Republics of Lithuania, Latvia and Estonia* of the Central Committee of the Soviet Communist Party on 21 May 1947, was carried out with force and violated the rights of the

property owners. In 1990 the Estonian Government published the programme *About the General Basis of Privatisation*. It analyses the overall aims and goals of privatisation as well as forms for privatisation. It also discusses the necessary steps to be taken for the creation of regulations, procedures and institutions for its implementation. A basic principle is that property nationalised with force shall be returned to its previous owners or their legal heirs. The programme also states that laws on the return of nationalised property, state property and municipal property should be prepared and passed.

On 13 December 1990 the Parliament of the Soviet Republic of Lithuania passed the law *On the Rules and Regulations Concerning the Return of Preserved Immovable Property*. The law regulates return of land, forest, houses and companies as well as other property. The return of property concerns only Lithuanian citizens. As early as on 3 January 1991 the law project *On Selling of the Public Housing Stock* was published in Lithuania.

The property reforms that are being carried out in Estonia, Latvia and Lithuania intend to:

- 1 Restore confiscated property to its earlier owners or their lawful heirs (restitution);
- 2 Sell land, buildings and flats to physical persons;
- 3 Transfer the ownership of state owned land to municipalities;
- 4 Retain state owned land that is being used for state activities or is of national interest, and also land that was previously owned by state.

Estonia

The Land Reform

The Land Reform Law in the Republic of Estonia was passed on 17 October 1991 as a step in the realisation of the property reform according to the principles set in 1991 in the Principles of Ownership Reform Act. The aim of this law is to reach a more efficient land use based on the former and current land owner's rights in the process of transferring state owned land property to predominantly private owners.

Restitution of Land Property

Restitution of confiscated land or compensation for it can be demanded by:

- 1 Physical persons whose land has been unlawfully expropriated and who were Estonian citizens on the 16 June 1940 or residents in Estonia at the time the Principles of Ownership Reform Act came into force (20 June 1991).

- 2 Lawful heirs to former owners have the right to demand restitution or compensation of unlawfully expropriated land.
- 3 Organisations whose land has been unlawfully expropriated.

Estonia has well preserved documentation from the property registry of the time between the World Wars, which makes it easy to establish both the owner's identity, the size and use of the property and other characteristics at that time. Therefore the last date to apply for restitution or compensation was set as 1 July 1992. All the restitution and compensation cases have still not been handled and settled due to the number applications and low level of preparedness to deal with the cases.

The law aims to consider the interests of both the former owner and the current user. Therefore it is necessary to weigh carefully which properties are to be restored and when the current user should be allowed to privatise the property. The law says that land, partly or in whole, is not restored in the following cases:

- 1 When the former owner does not apply for restitution.
- 2 When the former owner applies for compensation for confiscated land.
- 3 When another physical person has been given a life time right to use the land according to the Estonian SSR Farm Act (*ENSV teataja 1989, 39,611*).
- 4 When the land has been built on and is being used by other than the former owner.
- 5 When the land ownership is transferred to municipality.
- 6 When the state retains the land ownership.

Land is returned only to the extent that is possible, based on the current use, master plans and local plans.

Compensation for confiscated land is issued as privatisation vouchers that can be used for acquiring new land.

The land reform was initiated already during the last phases of Soviet era with the return of farm estates to their former owners and with allocations of life time right of use for current land users.

In principle no land that has been built on will be returned, nor will it be returned in cases where current use prevents it. This applies to one-family houses, allotments, apartment buildings, premises for business or other activities, roads, parks and other public establishments, national parks etc.

Local governments make the decisions concerning the return or compensation for confiscated land. Decisions on returning the property are communicated by the Municipal Committee of Land Restitution in a registered letter. The costs for land survey and registration are paid by the land owner. The county governor in each county is responsible for the organisation and supervision of the land restitution.

Land that cannot be returned, due to the current land use, shall either be privatised, transferred to the municipality or remain as state property.

In the cases where there is a single-family house built on the land the current house owner is offered a possibility to acquire the land. Starting from the date the law came into force it is forbidden for the house owner to sell the house without offering the former owner a possibility to buy the property first. Land that has been used for apartment buildings and is owned by the state or the municipality is to be privatised by offering the tenants a possibility to acquire their apartments according to the law of apartment ownership. Acquisition of both houses and apartments is paid with privatisation vouchers and money. Land that has been assigned to a current user with a life time right of use shall primarily be offered to the person with the right of use. In order to make it easier for physical persons to acquire land the State will set up mortgage loans with duration that varies depending on the purchase sum. The duration is five years for a loan of EEK 25,000–300,00, ten years for a loan of EEK 300,001–5,000,000 and 15 years for a loan over EEK 5,000,000.

When no former owner has applied for restitution of land, and when there is no current user with purchase right, the property will be auctioned.

Legal persons are also allowed to privatise real property. Foreign legal persons must be registered in the Estonian Trade Registry to be able to exercise this right.

The governor of each county is responsible for the organisation and supervision of the privatisation process. The Estonian Privatisation Agency is responsible for privatisation of State owned companies. The county governor and the Estonian Privatisation Agency may delegate privatisation to municipal authorities after an agreement with local government.

The owners of a cooperatively owned building have the right to privatise the land in connection to the building. Each co-owner is allocated a legal share of the land proportional to his/her apartments share of the total housing space of the building.

Land that was owned by municipalities on the 16 June 1940 will be restored as municipal property if its current use allows it. Ownership rights for land that is being used for municipal purposes such as buildings, roads, park and other facilities are transferred to municipalities.

Land to be retained as state owned property is regulated by State Assets Act from the 14 December 1994.

Privatisation

The first step towards privatisation of a property is definition of the object through the documentation of earlier registers, an inventory and a new land survey. Application for privatisation is submitted to the local government privatisation committee. Unlawfully expropriated property may be privatised only after the applications for restitution have been considered. Decisions of privatisation cases where the applicant has a purchase priority are to be considered within three month of the application. The organiser

of privatisation will make a sales contract and organise the possible mortgage loans with the state as the beneficiary. All administrative costs for the privatisation are paid by the one making the acquisition.

Apartment Ownership Act

An apartment (flat) is real property according to the Law of Property Act (RT I 1993, 39, 590). Ownership is defined as ownership of a physical share, the apartment, and of a legal share constituted by other premises, parts of the building and land. The size of the legal share is proportional to the share of the flat in the total dwelling area of the whole building. The physical and legal shares make up a unity that cannot be sold, mortgaged or otherwise treated separately. A block of flats can be divided into separately owned flats only if all the flats are privatised. The law does not allow privatisation of only one or a few of the flats in the building.

An flat is established as property by registering it at the Land Registry. Information registered includes the apartment number, area, size of the legal share, the total number of flat properties in the building, the identity of the owner and a plan of the flat. A privately owned flat can be sold, rented and mortgaged as security for loans.

Flat owners together are responsible for management of the legal shares. According to the law they are either to form a home owners association or to draft a contract regulating the management of the legal shares. The costs of management are divided between the owners according to the size of each legal share. Majority vote rules when making decisions about direction and extent of the property management. Every flat owner has one vote regardless of the size of the flat.

According to the Residential Privatisation Act (RT I 1993, 23, 411; 71, 1002) the flat is not considered private property until the land survey is carried out, the legal shares allocated and the flat is registered as property in the Land Registry.

Acquisition of flat property can be realised through down payments in which case a mortgage is registered in the Land Registry. At the time of registration the state is registered as the beneficiary of the mortgage in case a full payment for land cannot be made. The land price is based on the rateable value of the property, which is based on actual market prices. The mortgage amount, duration and yearly down payments are noted in the Land Registry. In an appendix to the application to register an apartment property in the Land Registry all the documentation about the sale is to be confirmed by a sworn notary.

Co-operative owners of a block of flats may privatise the land under the building and the land around it that is needed for accessibility and maintenance. The block of flats and the privatised land are registered in the Land Registry as one unit. If the members of the co-operative decide in a meeting to re-organise the co-operative into privately owned flats the property has to be re-established. This requires an inventory and land survey where-

after the individual flat properties have to be registered in the land registry. A co-operative block of flats can be re-organised into private flat properties only if all the flats are privatised. The members of a co-operative are bound to a majority decision. At least one tenth of the members have to be in favour of organising a members meeting for re-organising the co-operative. The meeting forms a quorum if at least half of the owners are present. A decision by at least a two third majority is required for a re-organisation. Disputes are settled in a court of law.

Latvia

Denationalisation and Return of Property

The property reform in Latvia started on the 2 November 1988 with Decision no 350 of the Council of Ministers of the Soviet Republic of Latvia *On Unfounded Administrative Deportation of the Citizens of the Soviet Republic of Latvia*. Administrative deportation refers to deportation that is not based on a verdict from a court of law but decided by the authority that carried out the deportation. This invalidated Decision no 282 of the Council of Ministers of the Soviet Republic of Latvia on 17 March 1949 *On Deportation of Kulak Families from the Soviet Republic of Latvia* and Decision no 297 *On Order for Confiscating the Property of the Deported*.

In the decision of 2 November 1988 the Minister of Justice and the Ministers of Internal, Social and Municipal Affairs were designated to elaborate regulations for restoration of property and for compensation for property confiscated from citizens that were deported without due cause. The property reform in Latvia was thus initiated with the restitution of property to a defined category of citizens, the deported. The motive for this can be found in the understanding that deported citizens had been caused the greatest material and moral suffering.

On the 5 December 1988 the Council of Ministers decided in Resolution no 396 *On the Order of Restoration of Property, or for Compensation of Its Value, for Citizens Whose Administrative Deportation from the Soviet Republic of Latvia has been Acknowledged Unfounded*. Regulations prescribe that buildings or other property are to be restored in kind or, if this is not possible, compensation is to be issued. Regulations include also compensation for confiscated private property such as machines and animals. Property is restored or compensated for after a decision by local government. Disputes are settled in a court of law.

The Council of Ministers' Resolution no 190 on the 29 August 1989 *On Rehabilitation of those Deported from the Territory of the Soviet Republic of Latvia during the 1940s and 1950s* expanded the group of persons who were given the right to regain confiscated and nationalised property. The notions of "acquired in good faith" and "property that cannot be restored" are considered here. If a person paid for a building, it is considered that

the acquisition is done in good faith and the original owner will not regain ownership. A building that cannot be restored is defined in different circumstances where a building cannot be used for its former purpose, for example if it is completely remodelled for a new function, or the land is exploited for other purposes. In these cases compensation is issued.

The law of the 3 August 1990 *On the Rehabilitation of Unlawfully Politically Persecuted Persons* and the Parliamentary Resolution *On the Law of the Republic of Latvia "On the Rehabilitation of Unlawfully Politically Persecuted Persons" and Regulations for its Execution* extends the group with the right to regain property to include persons who have been sentenced for political crimes. All the earlier resolutions for restoration of property would include politically persecuted persons.

The Council of Ministers decided on the 2 October 1990 that in the future the courts of law should decide about restitution applications instead of the local governments or their appointed commissions.

The law *On Denationalising of Housing and Restoration of Housing to Their Lawful Owners* was passed on the 26 May 1992. This law replaces that of 2 October. Compensation is decided in a court of law.

The following figures illustrate the amount of work in connection with the restitution of property to the deported and other politically persecuted persons. Between 25 and 29 of March 1949, 42,133 persons in 12,987 families were deported. The mass deportation the night of 13 June 1941 is estimated to have been about 10,000. It is estimated that a further 1,900 were deported during the rest of the post war period. During the same period a further 48,093 persons were sentenced for political crimes.

Denationalisation of Buildings and Return to Former Owners

The laws *On Denationalising Buildings in the Republic of Latvia* and *On Returning Dwelling Houses to their Lawful Owners* were passed by the Parliament of Latvia on 30 October 1991. Returning buildings to the politically persecuted had, however, started already in 1988 and soon included all that had their properties unlawfully taken away. The laws that had prescribed the confiscation of property were declared invalid this year. The returning of property could be done with the support of existing legislation as the laws of Soviet Union also gave individuals right to demand back unlawfully confiscated property. The question was how to define what has been unlawfully confiscated. On the 14 February 1990 the City Council of Sigulda decided upon a proposition to the parliament of Latvia to declare invalid the decree *On Nationalising Large Buildings* from the 28 October 1940. Thus the courts of law would be given the right to reverse decisions based on this decree on revoking the ownership rights or restricting them. I Pauls, the chairman of the City Council of Cesis, sent a letter to the administrative and juridical department of the Council of Ministers on the 8 of January with a similar proposal. The proposal mentions that the existing

legislation in this field does not correspond to current principles of social justice nor to the principles for renewal of the state governed by law (Grutups 1995). In Jurmala the City Council not only discussed the principles for denationalising but made decisions and started denationalising buildings. Thus, former owners or their lawful heirs got their ownership rights on 57 buildings renewed in Jurmala.

On the 30 November 1990 the Supreme Court of Latvia published general application rules that imply that the laws on returning dwellings to their former owners apply to anyone whose dwelling was confiscated regardless of the reason the ownership right was cancelled.

On the 27 November 1990 the Council of Ministers presented to Parliament a proposition for a programme for conversion of state owned property. The programme proposes that no property should be handed over to physical or legal persons without some kind of payment, with the exception of property that has been unlawfully confiscated or nationalised. It was also proposed that compensation should be issued in those cases where it is not possible to return the property.

The Parliament decision *On the Basic Principles for the Conversion of State Owned Property* on the 20 March 1991 has become the cornerstone of the property conversion programme. This decision established the principles for the future work of transferring ownership of property and companies from the state to private owners. The programme stated that the conversion of state owned property is necessary and that the restitution of property that had been nationalised in 1940 and thereafter back to the owners or their heirs should be prioritised over the other privatisation of property or companies. The conversion program is initiated by:

- Declaring invalid all the laws concerning nationalisation and cancellations of ownership rights established after the 17 June 1940.
- Clarifying the former and current juridical status of each privatisation object.
- Announcing the right to apply for restoration of confiscated property and also the order and last date for submitting an application.

On the 20 December 1990 Parliament decided to form a planning committee to develop a proposal for a law to return nationalised and unlawfully confiscated property. The members of the planning committee were members of Parliament, civil servants from the Ministries of Finance and Justice, members of the Supreme Court and civil servants from the municipalities' technical divisions. Their work was accompanied by a lively and hard debate in the mass media with both unreserved support for denationalisation and total disapproval of the proposal. As the conditions for denationalisation were a socially explosive question it was important for the planning committee to find reasonable compromises considering the relations between the current users and former owners and defining the position of those who had acquired a property in good faith.

Several revisions were made to both of the two proposals before the laws could be passed on the 30 October 1991. Two principle standpoints were probably important for the endurance of the laws. The first protected property owners who had acquired property in good faith, which turned out to be about 100 000 persons. The second principle gave tenants rights to their apartments for seven years after the privatisation of a building.

Regulations for the execution were passed on the 25 February 1992 by the Council of Ministers. At the same time it was decided to form a state-run denationalisation commission. On the 4 May 1992 the Council of Ministers set the terms of reference for the denationalisation commission. On the 9 June 1993 Parliament decided that former owners had the right to demand a court hearing if the denationalisation commission or local government had not reached a decision within three months from the application ("Par Latvijas Republikas 1991. gada 30. Oktobra likuma "Par namipasumu denacionalizaciju Lagtvijas Republika" 6. panta piemerosanu"). In practice the former owners were allowed to go straight to court for trial, a situation that did not let the denationalisation commission to fulfil its intended role as the arbitrator of the property disputes. This decision increased the reliability and pace of the privatisation process, as the courts of law were neutral and competent. The deadline for turning in an application for renewal of the property rights was set as 1 June 1994.

The Land Reform

The law proposal *On Rural Land Reform in the Republic of Latvia* was passed in the Parliament the 21 November 1990.

The law *On the Farmer Households in the Socialist Soviet Republic of Latvia* on the 5 May 1989 was aimed at restructuring the socialist methods of production in the countryside to make it possible for farmers to become independent. However, the law did not allow private land. Instead, the regional governments were allowed to allocate rights to lifetime use that could be inherited. Another revolutionary novelty was that farmers were allowed to own the means of production such as tractors, trucks, and other equipment, and houses and buildings regardless of their size.

On the 13 June 1990 the Latvian Parliament decided *On Agrarian Reform in the Republic of Latvia*, which was the beginning of legislation for land reform. The decision anticipated two phases of execution. The first phase would allocate land only to those using it; the second phase would include privatisation, ie allocation of ownership rights. Application for land restitution by former owners, their heirs, current farmers or other claimants was to be made within a year from the date the decision was published. To execute the land reform the law *On Land Commissions* was passed on the 10 July 1990. The proposal stipulated that Land Commissions should be set up by the highest decision making bodies in the rural municipalities, the regions and Parliament. The duty of the land commis-

sion was to register, assemble and investigate applications for restitution of land properties, and to settle disputes. Appeals of decisions could be made from the rural district and region's commission to the parliament's commission and to a court of law as the final instance.

The law *On Rural Land Reform in the Republic of Latvia* was passed on the 21 November 1990. One of the law's most important contents was to lay down preferences for the different claimants' right to land ownership. It was established that former landowners, as per the 21 July 1940, or their lawful heirs, would be given priority over others when allocating use and ownership rights covering the whole property. The last date to apply for ownership rights was set to 20 July 1991. Ownership rights were to be allocated to Latvian citizens, with the sole exception of former landowners and their heirs for whom no requirements for citizenship were made. The ordinance to ratify the law stated that Parliament's Land Commission would prepare regulations that Parliament would adopt by 1 January 1991. Already on the 18 October the Parliament's Land Commission had approved regulations for the work of the Land Commissions in rural municipalities and the regions.

The development of the administration and the technical assistance to implement the reform began with the decision *On Establishing Land Commissions and Units for Land Survey* by the Presidium of the Parliament on 22 November 1990.

The regulations *On the Execution of the First Part of the Rural Land Reform in the Republic of Latvia* were established by the Presidium of the Parliament on the 21 February 1991. The regulations gave detailed specifications and clarified the interpretation of concepts. For example building activity is considered performed when the building permit is issued and excavation of the foundation begun. This caused a rush of applications for building permits and the start of many foundations. The interpretation of the law gave new builders better possibilities, in competition with the former owners, to receive right of use and later also ownership rights to a property. The regulations prescribe that even a house owner who had not applied for ownership of the land would be allocated the land needed to enable access to, and to maintain the house.

The law *On the Use and Division of Land* was passed on 21 June 1991 with regulations for its ratification. The passing of this law was a divide between the "old" and the "new" systems as the contents are in conflict with the Land Law of the Soviet Republic of Latvia in which all the land is owned by the state. On 31 October 1991 the Council of Ministers cancelled all the rules and regulations based on the Soviet land law, which were passed between 1951 and 1989.

To facilitate the application of the new land reform laws, the Civil Rights Committee of the Supreme Court compiled examples of different kinds of applications and published them on 9 December 1992.

On 26 May 1993 the Presidium of the Parliament passed a decision on the right to apply directly to a court of law without first applying to the

Land Commissions. This saved time and made it considerably faster to get a verdict in land disputes.

The Parliament passed the law *On Privatisation of Land in the Rural Areas* on 9 July 1992. This law expanded the group of former owners and their heirs who were allowed to apply for restitution of land property to all those who were covered by the 1937 Civil Law. Thus, it included not only heirs-at-law but also heirs defined in a legacy. According to the law legal persons allocated a right of use in the first phase of the land reform are guaranteed a right of use for five years when the land is restored. This rule aimed to allow reasonable time for winding up the activities of eg co-operative organisations formed after the farming collectives.

On 17 December 1992 the Presidium of the Parliament decided that the right to apply for restoration of landed property included all persons who owned land on 21 July 1940 and their heirs regardless of citizenship. Nature reserves and valuable peat moors were excluded from this rule. On 16 December 1993 the following changes and additions were made to the law:

- Privatisation was to also include lands that had been allocated to physical persons.
- Certain preference to regain land that had been allocated to legal persons was given to the politically persecuted.
- Physical and legal persons who had been allocated ownership rights to houses and other buildings were instructed to draw up a lease with the owners who had regained ownership of the land.
- The former owners' debts for land ownership were nullified.
- Right was given to appeal to a court of law, if the land commission did not treat the application within six months.

These changes and additions to the law evoked contradicting feelings and disputes between the sceptics and believers in market economy. During 1994 Parliament considered the proposals three more times before they were passed. The order to draw up leases with owners who had had their landed property restored contradicted the basic principle of the land reform: that physical persons who had legally acquired houses and other buildings had the right to privatise land that was functionally attached to the buildings. This has created disputes that are difficult to resolve legally and morally. To nullify debts such as mortgages was more natural, as there had been no attempts to claim these debts after the war. The right to apply in a neutral court of law had a fundamental significance for the execution of the land reform and increased the pace and precision of the restitution of land ownership. That legal persons were to be allowed to own and acquire land was more controversial, but fundamentally important for the development of a well functioning market economy. On 25 May 1994, the Minister of Economy Ojars Kehra, the Minister of Justice Egils Levits and the Treasurer Einars Repse supported this change in the daily newspaper *Diena* stating it was important for the development of a functioning prop-

erty market that land ownership was not restricted to physical persons, since few physical persons had the capital necessary to invest in modern farming and forestry.

Further important changes were made when the law was considered for the third time on 8 December 1994. Earlier restrictions of 100 hectares on land to be restored were omitted. There were no restrictions when renewing ownership rights. Former landowners or heirs who had applied for compensation, or did not receive restoration because of restrictions in the law, were given the right to cash in the compensation certificates at their nominal value of 28 LVL. This decision was preceded by hard debate in the Parliament. The main argument for was that it was unjust that a physical or legal person who had been allocated land because they were farming it would be able to sell it for money, while the former owner who received a compensation certificate that could only be exchanged for property. The opponents raised moral aspects and also claimed that cashing certificates would drain the public treasury and endanger the economy of the new state.

To reach an end of the land reform, 31 December 1995 was set as the last day to turn in documents proving ownership or rights to inheritance. It had thus taken five years from the passing of the Land Reform Law on 21 November 1990 until the forms and details were clear enough to be implemented.

Land Reform in Cities

The law *On Land Reform in Latvian Cities* was passed on 20 November 1991, a year after the law on rural land reform. The main reason for the delay of a land reform in cities is probably that the many agriculturalists in the Latvian People's Front had observed the chronic lack of foodstuffs and paid more attention to developing proposals to change the system of food production. Relatively comprehensive preparatory work for the land reform law was an early activity of the People's Front. There was a lack of economic motivation and ideological promoters in Parliament to pursue the issue of land reform in the cities. The law of rural land reform served as a model in preparing a proposal for land reform in towns and cities. The availability of a model and co-ordination with the ongoing preparation of a law proposal for denationalisation and restoration of property to the former owners both helped and speeded the preparation of the proposal.

Parliament passed a resolution *On Measures to Secure the Land Reform in the Cities of the Republic of Latvia* (Par pasakumiem zemes reforma nodrosinasanai Latvijas Republikas pilsetas) on 12 June 1991. According to this resolution it was up to the city councils to set a system to receive applications for allocation of land. Three categories were distinguished:

- Former owners and their heirs
- Current land users
- Others wishing land either for the right of use or as property.

The resolution reached further than the first phase of the rural land reform as it contemplated immediate renewal of property rights without the detour of land use rights. It also included all the heirs in accordance with the 1937 Civil Law, without restrictions, and legal persons. On 18 April 1991 Parliament passed a resolution to discontinue allocation of land for building in cities and villages until the new law came into force. According to Grutups (1995) discussions and debates on the proposal in Parliament were often emotional, contradictory and from time to time very heated. Several objections against the proposal as a whole, as well as details, were raised. Some members of Parliament who had supported rural land reform thought that the full control of land use in the cities should not be given away, i.e. privatisation should not be carried out in cities. Others suggested that old mortgages should be renewed and an inheritance tax should be levied in connection to renewal of ownership rights. Some considered that the time limit for applying for property rights should be ten years, while their opponents meant that it would nullify the whole meaning of the reform. The deadline for applications was set to 31 December 1991. The relations between former landowners and current land users had to be regulated regarding ownership rights and land use rights, the right to use buildings, the cost of leases and compensation for property rights that are not renewed. Most of the suggestions for changes and additions did not receive enough support. An important change that was made to the proposal gave preference to physical persons who had legally constructed a house, or who had acquired a house, on the former owner's land. The only buildings physical persons had been allowed to build during the post war era were one-family houses with limited area. Thus, the resolution did not include apartment buildings constructed by the state, municipalities or co-operatives. After extensive debate the law of the land reform in cities was passed with a great majority: 84 votes for, 9 against and 15 abstained.

On 14 May 1993 the Council of Ministers decided that the maximum cost for a lease on restored land may not rise above one and a half times the rateable value of the land. Setting the rateable value of land was regulated through Resolution no 94 *On Appraisal of Land in Cities* of 12 April 1994 (Par pilsetu zemes vertesanu).

The law of land reform in cities has been consistently applied so that all land is restored to the former owners or their heirs if unambiguous documentation of former ownership is provided. The only exception so far is the land under Riga Civil Airport.

Lithuania

Land Reform

The *Law on Land Reform* was enacted on 25 July 1991. The aim is to denationalise land held by the State by returning expropriated land and selling land to physical persons. The law stipulated that only the State or physical persons could be legal owners of land. According to this law legal persons could not own land. With the Government decision *Regulations on Organising of State Land Surveying Management* of February 1992 the Ministry of Agriculture and Forestry was given the responsibility to organise a survey of state land for the implementation of land privatisation in rural and urban areas. This appeared natural as the origin of the land reform was the wish to renew the agricultural sector. With the *Law on Immovable Property Register* of 24 September 1996 this responsibility is shared with the Ministry of Environment. Land in Lithuania can only be owned by physical persons who are Lithuanian citizens and resident in Lithuania. Legal persons are not allowed to own land but can have access to land through a lease.

Restitution

On 13 December 1990 the Parliament of the Soviet Republic of Lithuania passed the proposal *On the Rules and Regulations Concerning the Return of Preserved Immovable Property*. After review and debate of the proposal the *Law on the Procedure and Conditions of the Restoration of the Rights of Ownership to the Existing Real Property* was passed on 18 June 1991. With this law of property restitution, former owners of expropriated land and other real estate were allowed to regain their rights. This law regulates return of land, forest, buildings, companies and other property. The return of property applies only to Lithuanian citizens resident in Lithuania.

Housing Privatisation

The process of housing privatisation in Lithuania began 3 January 1991 with the proposal *On Selling of the Public Housing Stock*, the passing of the law *On Privatisation of Apartments* on 28 May 1991, and the resolution *On Procedure of Privatisation, Selling and Use of Apartments* on 31 July 1991. State property was sold for investment vouchers and cash payment. Many of the vouchers issued were used for the privatisation of housing.

The *Law on Privatisation of State-Owned and Municipal Property* of 4 July 1995 announced the second stage in the process, which still continues. It was replaced by *Law on Privatisation of State-Owned and Municipal Property* on 4 November 1997. These laws introduce several substantial and many minor changes in the privatisation process. In this second

stage, State-owned and municipal property is sold only for cash at a market price determined by property valuation by the State Land and Cadastre Register.

With the law on Municipality Ownership from 1995 the most State owned apartment buildings were transferred to municipal ownership.

Home Owners Associations (HOA)

The *Law on Multi-Apartment Home Owners Associations of the Republic of Lithuania* from 21 February 1995 regulates the procedure to establish associations for governing common property and also regulates their activities. The law foresees State support to encourage the foundation of such associations. The State and the municipalities support the associations by allocating credits for refurbishment and renovation, installing heating and water meters free of charge, and freeing the associations from land tax.

Conclusions

The legal framework of each country reflects different viewpoints on real property rights. A comparison of the rights and restriction in the ownership of real property is shown in Table 12.

Table 12 Property ownership rights in the Baltic States.

	Ownership rights of real property for	
	Physical persons	Legal persons
Estonia		
Flats/buildings	Everybody	All registered in Estonia
Land	Everybody	All registered in Estonia
Latvia		
Flats/buildings	Everybody	All registered in Latvia
Land	Only citizens	All registered in Latvia, with citizens as majority owners
Lithuania		
Flats/buildings	Everybody	All registered in Lithuania
Land	Only resident citizens	NO!

Estonia has the most liberal laws while Lithuanian has most restrictions. In Estonia and Latvia all physical and legal persons who were the lawful owners of real property the day of the Soviet army occupation of the Baltic States – 20 of June 1940 have recognized rights. In Lithuania only the state and physical persons have the legal right to own real property. This is seen as an obstacle to economic development, and a law proposal is expected in 1999 that will recognise the rights of legal persons. Draft laws indicate that Latvia and Lithuania are about to liberalise their laws to make real property available for larger groups of physical and legal persons. The

explicit wish of each country's government to become members of the European Union will certainly speed up the process of making their legal frameworks compatible with those of the Western European countries.

The Idea of Privatisation

Privatisation in General

The word privatisation is usually used for the process that aims to transfer publicly owned property and means of production to private owners, and the process of transferring publicly run services and commodity production to private operators. The concept is fairly new. The opposite dominated most of the period after the Second World War, not only in Eastern Europe but also in the industrialised West. The notion of privatisation has a political dimension and is closely linked to deregulation. The public take-over of property and enterprises is normally preceded by laws and regulations *restricting* individuals' rights to property or business activities. Privatisation is preceded by legislation with the opposite intention, *increasing* individuals' rights to property and business activities – deregulation. These notions of privatisation and deregulation were common during the 1980s and have become both trendy and political during the 1990s.

Deregulation and privatisation carry various meanings that change their content depending on the context in which they are used. Benny Carlsson (1991) of the Department of Economic History, Lund University, considers deregulation to have become a concept covering the setting aside of restrictions for competition in general. According to Carlsson the general definition of deregulation should proceed from the assumption that it is about replacing the public system of rules with competition as a means to control enterprises and individuals and to reach better financial results. Later Carlsson says that a common definition of privatisation could proceed from the assumption that publicly run operations are transferred over to private operators and placed under the rules of the market economy. Deregulation and privatisation are therefore complementary notions, as are the opposite pair – regulation and socialisation.

What are the reasons for deregulation and privatisation, and for the opposite: regulation and socialisation? The question might seem unnecessary with the background of economic failure shown by the collapse of the Soviet Union. However, it is probably worth considering some of the ideas behind the motives and excuses for the extensive social changes taking place in Eastern Europe. According to Gayle & Goodrich (1990) the least common denominator for the motives of deregulation and privatisation is the wish to increase economic efficiency by giving more room to the private sector.

Van Oudenhoven (1989) points out that attitudes to deregulation and privatisation can be pragmatic or ideological. The pragmatic attitude is primarily characterised by a striving for economic efficiency while the ideo-

logical attitude is characterised by an aspiration to increase the territory of the state or the market whether economic efficiency improves or not. Increasing the territory of the market seems to be the main ideological standpoint behind the privatisation process in the Baltic States.

Reducing the state's commitment in owning and managing property, production and business is pragmatic as well as ideological. The pragmatic idea is based on the firm conviction that private owners are more efficient property managers. The most usual pragmatic reason for privatisation seems to be that central and local governments want to get rid of hard to manage property or quite simply need money. The ideological idea of privatisation is the redistribution of the state's accumulated wealth to the people who participated in its creation. These ideas contain dimensions of equity and justice with far-reaching consequences when set into practice. Careful consideration should be made, to avoid social unrest, dissatisfaction and the cost of enforcing law and order, about which objects and subjects will be submitted to privatisation and which procedures will be set up for the implementation.

Ideas on Housing Privatisation

Housing privatisation embraces restitution of property and selling of publicly owned property. The main part of the publicly owned housing stock in the Baltic States consists of flats in multi-storey block panel buildings, mainly constructed after the Second World War. Flats in such buildings are thus the main objects of housing privatisation. Most of these houses are estimated to be in bad technical condition and in need of considerable investment for refurbishment. Many residents have difficulties in paying current rents. The tenants' capacity to pay more rent to cover necessary investment is therefore very small. There is little convincing information about advantages of being an owner. Why should a person take over management of a badly maintained house? And why should he share such a responsibility with neighbours he does not want to cooperate with? A lack of management strategy is also considered to be a reason for politicians and public authorities to dispose of responsibility of housing ownership and management. These kind of reflections seem to be widespread among people and explain their wait-and-see attitude and disinclination to taking responsibility for housing management.

Denationalisation and Privatisation

When the Baltic States were incorporated into the Soviet Union all real property and means of production were nationalised, regardless of whether they were owned by physical persons, legal persons or municipalities. Exceptions were one-family houses with limited space. All land was nationalised. A non-nationalised one-family house was considered personal prop-

erty and not immovable in a legal sense. The first step towards a spread of ownership of real property was to sort out who had statutory ownership rights to real property prior to nationalisation and to return the property to its former owners or their legal heirs. This process of defining ownership rights and transfer of property is called *denationalisation*. To identify the rightful owner or heir could be a very simple process when there is unambiguous documentation of former ownership. Otherwise, it could be a long and complicated process, during which there is very low incentive to invest for maintenance, which could have devastating consequences for the state of the property. The ownership of most block panel houses was transferred to local governments, a process often called *municipalisation*. The denationalisation process embraces *restitution*, *municipalisation* and *retain in state ownership*.

The word privatisation embraces both restitution and the *selling of publicly* owned property. Most usually, however, the word privatisation is used for the selling of public property, which is discussed in Chapter 7.

The process of privatisation can be illustrated in Figure 1.

Restitution of Property

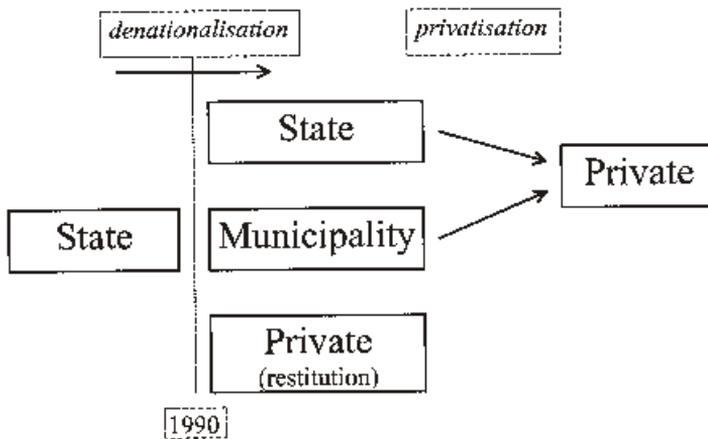


Fig. 1 The Process of Privatisation.

The term restitution is used for the return of property to lawful former owners and heirs, whether physical persons, churches, municipalities or other. County and city committees for return and compensation for unlawfully expropriated property were established in 1991 by local governments to examine applications for restitution and compensation. These committees constituted the first instance. If the applicant was not satisfied with their decision, he could take his case to the court of first instance and then to the court of appeal for a final verdict.

An initial problem is to identify the lawful owner of real property. In Estonia and Latvia the right to ownership is granted to all physical and legal persons who were lawful owners of real property the day of the Soviet army occupation of Estonia, Latvia and Lithuania – 20 of June 1940. In Lithuania only the state and physical persons have the legal right to own real property. Nationalisation of property during the Soviet period, according to Soviet laws, was declared as unlawful, and the laws that permitted nationalisation were abolished.

In Estonia and Lithuania tenants living in houses that are returned to former owners or heirs receive compensation. Tenants living in returned houses have the legal right to remain a number of years after the restitution – five years in Estonia and seven in Latvia. In Lithuania the tenants have the legal right to stay until 2006. These tenants consider it unfair that they do not have the possibility to privatise their rented flat, since the house has been returned to the former owner. The Estonian Housing Fund grants favourable loans to tenants in returned houses who want to purchase a flat. In Lithuania there is a special government programme to provide flats to tenants in returned houses and to compensate former owners for blocks of flats not returned (Radaviciene 96).

The following figures from Latvia illustrate the extent of property restitution. By 1 January 1999, 20,219 applications of a total of 22,072 (92 per cent) from former owners or their heirs had been scrutinised and decided. In 12,448 cases (of which 344 in 1998) it was decided to restore ownership rights and return the property (restitution). In 1946 cases (of which 187 in 1998), it was decided to offer compensation for the value of the property. In 5,825 cases (819 in 1998) the request for restitution was refused. Altogether 11,305 houses with a total floor area of 5,607,000 square metres have been returned since the start of the denationalisation process: 9,995 were houses with 75,000 flats with a total area of 3,493,000 square metres. During 1998 441 owners were given back houses and flats: 270 of them are residents of Latvia, 60 in the USA, 20 in Canada, 18 in Israel, 9 in Germany and 9 in Sweden (Jauna Avize 13–20 February 1999).

The Arena of Housing Privatisation

A number of new actors in the arena of housing and housing privatisation, that did not exist during the Soviet period, have emerged since the introduction and implementation of property reforms in the Baltic States. Which are the objects and the “rules of the game” are defined by the legal and institutional framework, which are dependent on the general economic development and the notion of privatisation. This relationship is illustrated in Figure 2.

Conclusions

The notion of privatisation is not stable. Different eras fill the word with different meanings. The notion of privatisation is an intricate, ever evolving relationship among the actors implementing the process and their cultural heritage, economic development, and the legal and institutional framework. In the Baltic States the privatisation process embraces the restitution and selling of practically all publicly owned real property. The notion of real property here embraces not only land and building(s) as an integral unit but also a defined building part (flat) and its legal share of land.

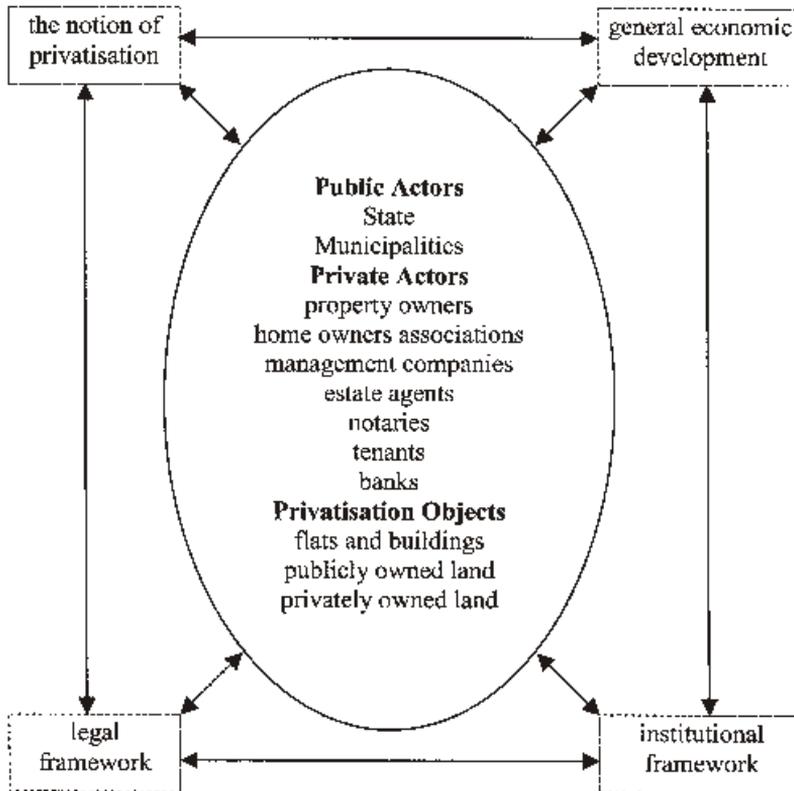


Fig. 2 The Arena of Housing Privatisation.

Objects of Housing Privatisation

Privatisation in the Baltic States includes all kinds of publicly owned property, production and business, ranging from enterprises with low quality products in little demand to competitive enterprises with potential for profit. This part of privatisation affect a restricted number of actors with access to the code of privatisation, such as politicians, civil servants, business executives and employees in leading positions, and foreign investors. All people, however, are concerned in the privatisation of dwellings.

This section addresses only housing privatisation. The objects for privatisation are *publicly owned flats and blocks of flats*, *publicly owned land* with housing constructions and *privately owned land* with housing constructions. To a small extent one-family houses in Estonia and Latvia are also objects of privatisation.

Flats and Blocks of Flats

The objects for housing privatisation are almost all the publicly owned housing stock, consisting of a minor part of *pre-war blocks of flats* and a major part of *post-war blocks of flats*, mainly situated in the suburban large-scale housing areas.

Pre-war Buildings

There are three main types pre-war buildings in public ownership:

- buildings with flats attached to public posts
- buildings from pre-war social housing schemes
- property nationalised in 1939–40

There are few pre-war blocks of flats in public ownership, and they are in the cities.

Buildings with *flats attached to public posts* were built or purchased for people in state or municipal employ, such as civil servants, teachers, health care workers, etc.

During the 1920s and 1930s social housing programmes were initiated in Tallinn, Riga and Vilnius in response to industrialisation, migration and bad housing conditions. Blocks of flats from *pre-war social housing schemes*

were built, owned and managed by the municipalities or by housing associations owned by the municipality.

In denationalisation all buildings that were publicly owned before the Second World War are attributed to the State or the municipalities and become objects for privatisation.

Properties of imposed nationalisation 1939–40 is property in Estonia and Latvia that was owned by the Baltic-German minority that moved to Germany. After the signing of the Ribbentrop-Molotov pact in August 1939, there was intense propaganda from Germany to repatriate the Baltic Germans, who had been an influential minority in everyday life for centuries. The German government forced the Estonian and Latvian governments to sign agreements to redeem their property. The reason for repatriation, according to the pact, was that Latvia and Estonia were in the Soviet sphere of interest and would soon be incorporated into the Soviet Union. The German propaganda was so efficient that most Baltic Germans sold their property. For historic reasons this did not happen in Lithuania, which was not conquered by Teutonic Germans in the Middle Ages, and never colonised by Germany.

Although the redemption of property from Baltic Germans was more or less forced upon Estonia and Latvia, it was done in accordance with laws and bilateral agreements. The current governments find neither moral nor legal reasons for returning this property to the former owners, which is why a considerable number of blocks of flats in central Riga, Tallinn and other Estonian and Latvian cities are in State ownership. The property, consisting of dwellings, is subject to privatisation.

Post-war Blocks of Flats

The *post-war blocks of flats* consist, with few exceptions, of buildings from the vast national housing schemes during the Soviet period when the suburban large-scale housing areas were created.

Publicly Owned Land

Land owned by the State or municipalities before June 1940 on which housing was constructed, according to Soviet laws, is subject to privatisation. The land shall be accordingly surveyed, parcelled and allotted to the building that stands on it. In the case of a single family house the house owner is given the possibility to privatise the allotted land, using privatisation vouchers for payment, and register land and building(s) as an integral real property unit. For single family houses in Latvia the maximum land allowed for privatisation is 1200 square metres. This limitation can cause administrative problems when the land used by the house owner exceeds the maximum size, and limiting the land parcel to the authorised maximum size would leave a plot that is difficult to use appropriately.

In the case of a block of flats, each flat is to be attributed a legal share of the building and the parcelled land. The unit of physical share (flat) and legal share (part of land, common space, building parts and technical infrastructure) is to be registered as integral parts in the land book. The registering of the unit of physical and legal share is the final step in property privatisation. Surveying and parcelling have started, but due to procedural problems few registrations were entered in the land books by December 1998 (see the following chapter).

Privately Owned Land

Land that was privately owned in June 1940 is also an object of privatisation to the benefit of current private land users. The three Baltic States have taken different positions for the legal and procedural framework.

In Latvia all land that was privately owned is being returned to the former owners or their heirs. The consequence is that the owner of the building and the owner of the land are not always the same. This is the case for practically all urban areas constructed during the Soviet period. This situation can be characterised as a form of privatisation since the land owner has no control of the land he formally owns, and the imperative solutions provided by the law are that the owner of a building either buys the land from the land owner or signs a long term lease.

Land in Estonia and Lithuania is not restored if the current land use makes it impossible to use the land in the same way as in June 1940, eg if there are buildings on the land. If the municipality or the State has other appropriate land, this can be offered as compensation. Due to lack of such land most former owners or heirs are compensated in vouchers or in cash. The land is surveyed, parcelled and new land properties are created to fit the buildings on the land. The new land properties are then offered to the current land user, for purchase by payment in vouchers.

All former privately owned land with housing constructed during the Soviet period are, with few exceptions, objects of surveying, parcelling, privatisation and registering in the land books.

Conclusions

The objects for housing privatisation are *publicly owned flats and blocks of flats, publicly owned land and privately owned land* with housing built on it. Restitution of property and privatisation of dwellings and land is treated differently in each of the three countries. In Estonia and Lithuania land that was previously owned privately and has been built on, is not returned to the former owners or their heirs. In Latvia practically all land is returned. Almost all publicly owned dwelling stock is privatised. It has been impossible to limit privatisation to a part of the dwelling stock. It would

be considered unfair not to give everyone living in a publicly owned flat the opportunity to buy it.

Institutional Actors

Public Actors

The National Administration and Public Institutions

Estonia has three administrative levels, national, regional and municipal. There are 15 counties, 47 cities and towns and 207 rural municipalities.

In Latvia there are only two administrative levels where decisions are taken by politically elected bodies: national (parliament and central government) and municipal (city or municipal council and local government). The 26 regions of Latvia still exist as planning units, but their decision and executive functions were abolished in 1998. Municipalities consist of 77 towns and cities and 486 rural municipalities (pagasts). The government intends to carry out an administrative reform soon to reduce the number of municipalities.

Lithuania has 10 counties, 44 regions, 108 cities and towns and 449 rural municipalities.

In Estonia the *Housing Department* of the *Ministry of Economic Affairs* is responsible for analysing the development of the housing sector. The Housing Department elaborates legal acts, other regulative documents and recommendations to improve housing legislation, housing management, exploitation and renovation.

In Latvia the *Construction Department* of the *Ministry of Environmental Protection and Regional Development* treats issues concerning regional planning and development, construction and housing. The Department evaluates the development of the construction sector and the production of building materials, elaborates national programmes in construction and housing, prepares recommendations on energy efficiency, and manages energy-saving pilot projects. A special Housing Development Section within the Department develops and formulates housing policy, elaborates draft legislation on housing management, maintenance, renovation, rent and tenancy questions.

In Lithuania *The Housing and Territorial Regulation Department* in the *Ministry of Environment* is responsible for issues concerning housing and territorial planning. This department deals with implementation of energy saving measures, elaborates law proposals and regulations for the housing sector and housing finance.

Public institutions at all administrative levels have important roles in the process of implementing restoration and privatisation of real property.

On local government level the members of city or municipality councils and its committees control the departments concerned with planning, construction and housing (See organisation chart of Riga City Council in Appendices). The chairman of such a committee is politically elected and has a strong position in steering the activities of its departments with professional staff. In the big cities the committees are headed by part time politicians. Even the departments of economy and social issues are related to the development in the housing sector. The borderline of competence between the political committees and their professional staff of the departments is rarely clear. It is often thought that politicians interfere too much in the work of the department staff. The privatisation commissions and the municipal district housing management companies must also be included among public actors controlled by the local government.

The most important public institutions for implementing restoration and privatisation of real property are the *commissions and boards for land, denationalisation and privatisation* and the *central real property registries*.

The land commissions, denationalisation and privatisation commissions are ad hoc bodies created at local, regional and national levels to examine which property is to be object of denationalisation and, further, whether the property should remain in the ownership of the State, transferred to a municipality or into private ownership. When the process of denationalisation is completed these bodies will be dissolved.

The property registries have a fundamental role in securing ownership rights by documenting and keeping records on the characteristics of a property and who has the ownership rights. New systems for property registration are being built up in all the three Baltic States.

Privatisation Commissions

The tasks for the privatisation commissions are to identify the objects for privatisation, set the price and carry out the transfer from public to private ownership. The work is very delicate, since privatisation arouses a lot of feelings about what, which conditions and to whom property is to be transferred. Lists of proposed housing privatisation objects are prepared by the commissions and must be accepted by the local governments or the national government. The housing privatisation commissions are appointed by local, regional and national governments for activities at these levels.

In Lithuania and Estonia the commissions consisted of laymen reflecting the political composition of the respective local or regional governments. The practicalities of transfer were left to the administration of the local governments. The privatisation of flats in Lithuania and Estonia was achieved without formal allotment of land and thus without forming a real property unit of land and building. Lithuania first launched housing privatisation and the privatisation commissions in 1991. Since the privatisation of apartments in Lithuania was about 95 per cent complete in 1995 these commissions have practically no further functions. The same goes for

Estonia where about 92 per cent of the publicly owned apartments were privatised by the end of 1998 (Asjatundjate komisjon 98). In Vilnius there was a central privatisation commission (*Vilniaus Miesto Butu Privatizavimo Komisija*) and 20 local commissions (*Seniunijos Butu Privatizavimo Komisija*), one in each city district.

In Latvia a wait and see policy was adopted until the first housing privatisation commissions of professionals, on municipality and national level, were appointed in mid-1995. The Riga City Privatisation Commission for Municipal and State Property (*Rigas Pilsetas Valsts un Pasvaldibas Dzivojamo Maju Privatizacijas Komisija*) was appointed only in January 1996. Each local government appoints a commission of professionals to administer the privatisation process. The role of commissions is to “prepare the objects of housing privatisation” and inform the public about the procedure. “Preparing the objects” includes an inventory of the physical characteristics of flats and buildings, valuation, allotment of land, creation of cadastral units and finally the registration of the cadastral units in the Land Register. The ambition in Latvia was to privatise flats with defined legal shares of land – in other words to privatise land and part of a building as an integral unit. It was thought that this could best be done by groups of professionals such as jurists, architects, engineers, surveyors, economists, etc. The work of the Housing Privatisation Commissions in Latvia should be completed by the end of 1999, when privatisation vouchers expire. The parliament has judged the process as too slow and decided on July 1, 1999 to extend the dead line for voucher privatisation until December 31, 2000.

Property Registries

During the Soviet era all land belonged to the State and there was thus no need for records of ownership, mortgages, etc. Buildings for civil use were registered in building registries in municipalities and counties. These building registries, *Hooneregister* in Estonia, *Inventorizacijas Birojs* in Latvia and *Inventorizacijas Bjuras* in Lithuania still exist and contain information on technical characteristics of a building, its flats and its non-dwelling spaces. The registries contain maps, plans, information about land use, technical information as year of construction, type of building, construction area, number of floors, building material, building technology, elevators, stairs, technical infrastructure, number and size of flats, number and function of other space than housing, information about who occupies flats and other space. This important information is being transferred to the new central national property registries.

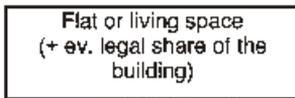
The new laws of Estonia, Latvia and Lithuania on real property define it as an integral unit of land with all fixed assets on it. The fixed assets can be buildings, part of a building, flat, installations, etc. A flat property is defined to consist of a *physical share* and a *legal share*. The physical share is the space and assets within the walls, ceiling and floor of the flat. The legal share is a share of the common building parts, common spaces, installa-

tions and land. It includes a share of the roof, the staircase, the outer walls, boilers, etc. The legal share of the building and land assigned to a flat is expressed as a percentage, related to the size of the flat and the total dwelling space of the building. The legal share is not physically defined; it does not specify which part of the roof, staircase and land belong to each flat.

Due to the time needed to define and survey land to be allotted to buildings and flats with privatisation, all three countries are adopting a two-step process. The first step concerns the privatisation of the *building parts* – flats and non-dwelling spaces. When the physical characteristics of a building part and its share of the whole property are defined, the owner registers the flat in The *Cadastre Register*, which provides the proof of ownership right of the flat. Until there is no land connected to the flat it is not considered an immovable in a legal sense. The second step involves the allotment of land to a building with privatised flats or non-living space. Now the flat and its owner can be registered in the country's national *Land Register* which is the ultimate proof of the existence and ownership of immovable property. The Land Registers contain only information about integral units of land and buildings or building parts.

The Cadastre Registers can be seen as an intermediate level of property registration before land has been allotted to a building, and the flat can be registered in the national Land Register. In all the three Baltic States there exist these two kinds of parallel property registers. This kind of “double book keeping” could be avoided by merging the two registers into one. This also seems to be the intention in all the countries.

1. Registration in Cadastre Registry



2. Registration in National Land Registry

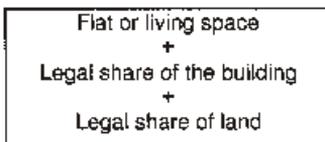


Fig. 3
The two steps of property registration in creating a property unit of a flat.

Estonia

In Estonia the institution for building registry was, and still is, the *Hoone-register*. In each county there is a *Hooneregister*, 15 altogether. These registers are central government bodies, but their activities are mainly fi-

nanced by the municipalities and by fees. A minor part is financed over the State.

The *Estonian Land Board* (Maa-amet) is subordinate to the Ministry of Environment. The Land Board is responsible for:

- conducting and completing the land reform process: restitution, privatisation and land compensation,
- registration of land and for establishing and maintaining the Cadastre,
- managing and organising geodetic and cartographic activities (the Estonian National Mapping Agency).

The new national central registry for real property registry is the *Maaregister* (=land registry or land cadastre). The Maaregister keeps the records of real property consisting of the land and building(s) as integral parts. In Estonia there are 16 Maaregisters – one in each county plus one in Tallinn. The Maaregisters are subordinated to the Ministry of Justice.

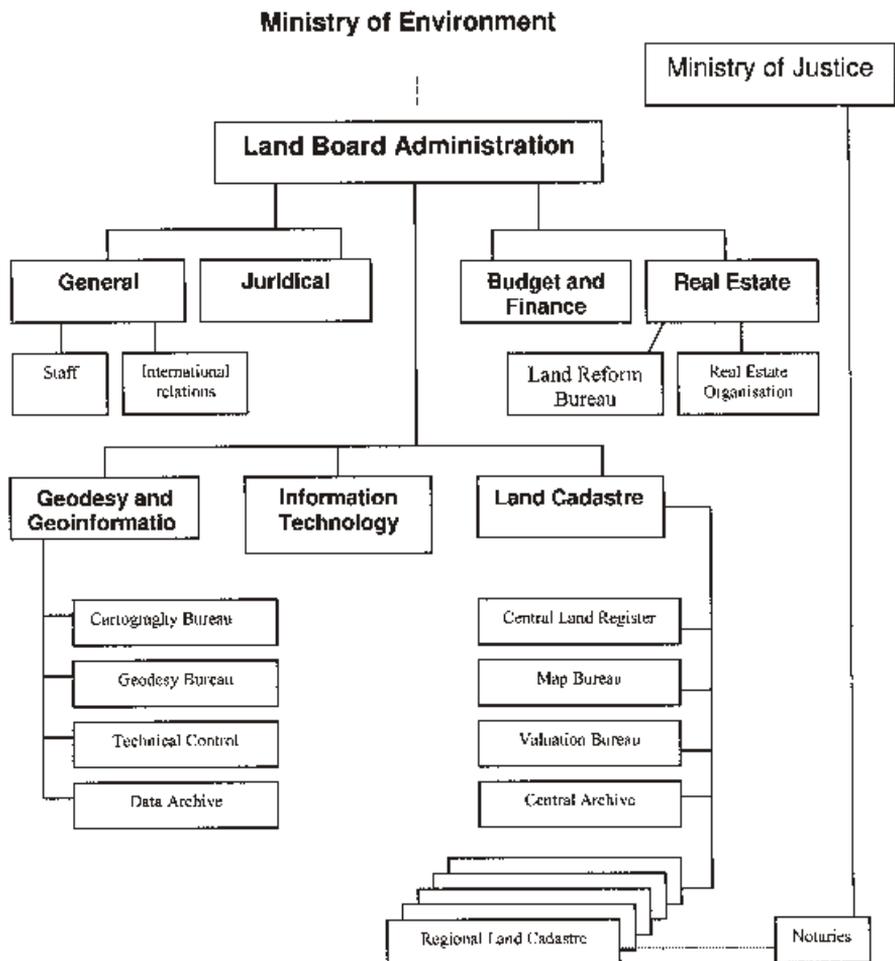


Fig. 4 Organisation of the Estonian Land Board (Maa-Amet).
Source: Estonian Land Board.

Latvia

The two main actors for initiating the forming of cadastral units and registry are the *Land Commissions* and the *Privatisation Commissions*, which are both appointed by the local governments. The land commissions mainly deal with the restitution of unlawfully confiscated property. The housing privatisation commissions prepare flats in publicly owned buildings for privatisation by forming cadastral units of real property including allotment of land and the registration in the central Land Register.

The Central Land Registry is the *State Land Service* that keeps records of the *Land Books* with basic data about the characteristics of the property and information about its value and owner. The *State Land Service* is under the Ministry of Justice. There are 34 Land Book Offices under the five regional courts.

The *State Land Service* is responsible for the technical implementation of the land reform and the privatisation, including inventory, surveying,

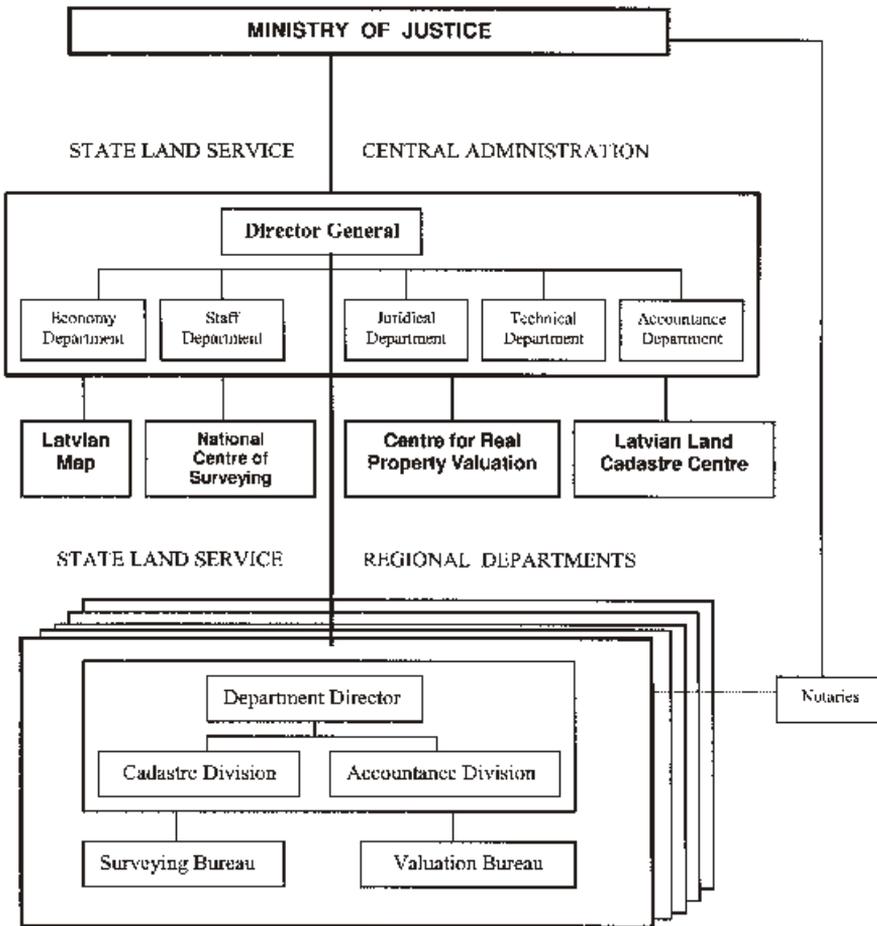


Fig. 5 Scheme of organisation of the Latvian State Land Service. Source: Grutups 95.

property valuation and property registration in the Cadastre Register. All privatised flats form a cadastral unit even before land is allotted. First when land is allotted can the property unit be registered in the Land Book. Abolishing this double record keeping is under discussion. In Soviet Latvia the registry of buildings for civil use was done at the Inventory Bureau – *Inventorizācijas Birojs*. There were 16 inventory bureaus which today are incorporated in the State Land Service.

In mid-1999 there were about 500,000 real property units registered in the the Latvian Land Cadastre Centre.

Lithuania

In Lithuanian SSR the *Inventorizācijas Bjuras* was responsible for the civil building registry.

The Lithuanian State Land Cadastre and Register (SLCR) was established in July 1997 by Government decision. The first part of the privatisation in Lithuania regarded farms and forests. It was therefore logic to subordinate this process to the Ministry of Agriculture and Forestry. Today the SLCR is subordinated two ministries, a circumstance that causes indistinctness in decision making. The SLCR administers the Central Data Bank of Real Property, containing basic information about the characteristics of the real property. The SLCR has territorial units in each of Lithuania's ten counties.

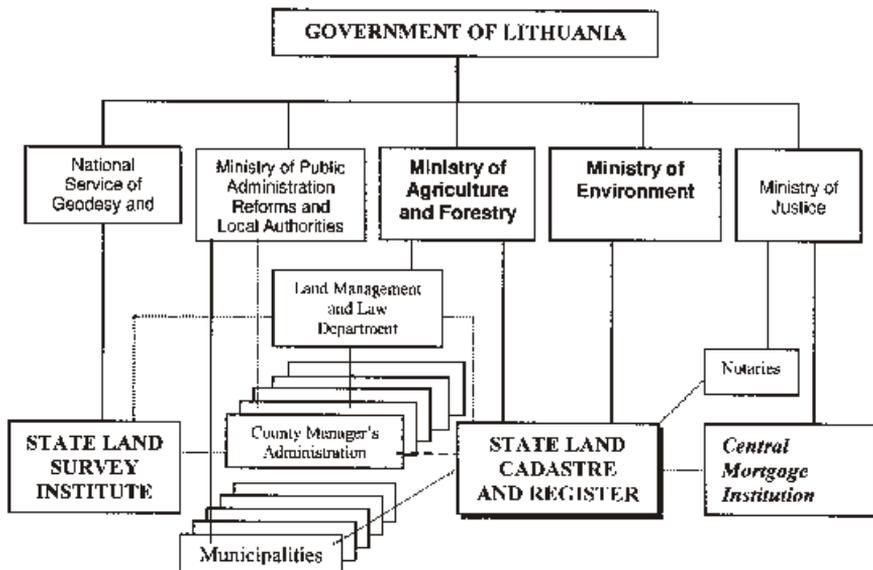


Fig. 6 System of real property administration in Lithuania.
Source: Lithuanian State Land Cadastre and Register.

Private Actors

Home (or Flat) Owners

Home owner or flat owner is the general word used for someone who has privatised his flat, and thus is the owner. The home owner as an individual has no or very little influence on the management of the real estate. The owner has control of only what is on the inside the walls of the flat. A single home owner has the same status as a tenant in relation to the management company. To gain influence the flat owners in a building have to organise themselves into a Home Owners Association.

Home Owners Associations (HOA)

A logical development of privatisation of dwellings in a building is that the home owners gain influence over the management of the building. Management concerns everything from short term activities such as cleaning and urgent repair of common space and building parts to long term activities like improvement of the technical infrastructure, renovation and reconstruction. Short term activities are necessary to run a house. The long term activities are necessary to prevent degradation of building components and to renew the technical infrastructure. If a majority of the home owners in an block of flats participate in founding a *Home Owners Association* (HOA) this will be done. The role of an HOA is to decide about the management of the building, which includes the above activities, and to sign agreements with suppliers to deliver heating, water, electricity, etc. The idea is that the HOAs are free to choose any housing management company they desire to run their real estate. The intention is to break the monopoly of the municipalities in managing the housing stock and hence encourage competition between different housing management companies. HOAs are most frequent and best organised in Lithuania. In all three Baltic States HOAs have a potential to become the most powerful of all pressure groups in housing issues.

Private Landlords

With the restitution of property a new group of owners have emerged, private landlords. According to Paadam (1997) restitution of housing has caused drastic collisions between tenants and new owners. Both parties play their roles as individuals rather than institutional actors. The private landlords are yet not organised to form a pressure group with influence on housing policy. Many of the new private landlords engage private real estate management companies to administer their property.

Tenants

Few tenants organisations have been founded in the Baltic States. No wonder when the tenants become owners! There is only one quite influential tenants organisation – The Estonian Association of Tenants in Returned Houses. Tenants in returned blocks of flats do not have the possibility to privatise their flats, which is regarded as unfair. The Estonian Association was founded to defend the tenants' rights and interests and has become a strong pressure group. The Association participated in the recent proposal for a national housing policy in Estonia (*Asjatundjate Komisioon*). Their activities have also promoted the introduction of special loans by the Estonian Housing Foundation to tenants in returned houses to purchase of a flat (see further chapter Housing Finance).

Housing Management Companies

New private real estate management companies have emerged. These mainly administer property for commercial premises. In all three Baltic States the policy is to transfer duties from municipal to private housing management companies, but this is a slow process.

Real Estate Companies

A lot of new private real estate companies have emerged. There is also a considerable number of foreign companies that have invested in real estate.

Real Estate Agents

The legal changes revived the notion of property and real estate as legal objects and as objects of trade. A developing real estate market also enhances the activities of real estate agents and the establishment of real estate firms. In the Baltic States the realtor is one of the new emerging professions. Everybody is entitled to act as a realtor; there are no requirements for formal education or authorisation. In Latvia there are two national associations for real estate agents *Latvijas nekustamo ipasumu makleru un agentu korporacija*, NIMA (the Latvian Real Estate Agents and Brokers Corporation) and *Latvijas nekustama ipasuma darijumu asociacija – Lanida* (the Latvian Association for Real Estate Transactions), which issue certificates of competence. Together they have about 200 members, representing almost as many real estate agents and agencies. In Lithuania the Medium and Small Real Estate Agencies Association includes 15 real estate agencies.

Notaries

Agreements of property transfer, gifts, wills and business agreements must be certified by a notary to be legally valid. The notary assists in drawing up formally correct documents according to the law. The notary has to assure the identity of the parties involved, the existence and nature of the transaction and that the parties fully understand and agree with the contract. On the registration of real property the certification of the transaction by an authorised notary must accompany the request. The notary profession has existed for a long time in the Baltic States, even during the Soviet era. The profession has become a liberal one since the regained independence, although its activities are subordinate to the Ministries of Justice. The Ministries appoint the notaries and decide on the number of authorised notaries in each court district. A notary must have higher education in law. In Latvia there were 87 notaries in 1998, whereof 46 in the court region of Riga (Mans Ipasums 98). The emerging real estate market and the liberalisation of the profession have turned it into a profitable business.

Banks

Private banking with the possibilities to save and lend money with interest is a relatively new phenomena dating from the re-established independence of the Baltic States. Private banking developed after the liquidation of the Social Bank of USSR and the Agricultural Bank of the USSR. In all the three countries private banks sprang up like mushrooms after rain. During the years of 1992–95 there was considerable inflation which was difficult for the new emerging and inexperienced banks to handle. The top inflation of around 1000 per cent in 1992 in all three countries gradually fell to 30–40 per cent in 1995, after they left the rouble zone and introduced national currencies. Normal interest rates for bank loans in 1995 were about 50 per cent for saving money and about 70 per cent for borrowing money. There were no investment projects with a rate of return of investment over 70 per cent. Bad security for loans to unsuccessful investment projects resulted in a negative cash-flow. The number of banks licensed for full bank operation has continuously dropped during the 1990s due to poor management, imprudent loans and lack of supervision.

Between March 1990 and April 1999, 53 banks ceased to operate in Estonia. The most common reason for loss of banking licences was inability to fulfil the minimum capital requirement. Most of these insolvent banks merged or were acquired by other banks; 11 were declared bankrupt and 6 were liquidated (Bank of Estonia 99). The decline of confidence in the Russian economy by the autumn of 1998 aggravated the solvency of Estonian banks. Many Estonian Banks have Russian Government bonds as security for business with Russian companies. Estonian banks are not getting back enough of their loans and lack funds for further lending. The banks have low liquidity and bad debts which makes it difficult to raise foreign

credits. In April 1999 there were only five authorised Estonian Banks: *Optiva Pank*, *Eesti Krediidipank*, *Eesti Ühispank*, *Hansapank* and *Tallinna Äripanga Aktiaselts*. There are seven foreign banks operating in Estonia.

In Latvia one of the biggest banks, *Banka Baltija*, declared bankruptcy in 1995, which touched off a nation-wide banking crises. The banks that declared bankruptcy held 40 per cent of the banking system's total assets. Many people lost their savings. Reconstruction of the banking sector was undertaken, with a more robust legal and supervisory framework. The number of private banks dropped from about 50 in 1995 to about 20 in Spring 1999, of which *Hansabank*, *Unibanka* and *Pareks Banka* are the biggest remaining. The central bank intervened to restore stability in the foreign exchange market. Public confidence in the banking system in Latvia is being restored gradually. In Latvia banks are entering as institutional owners of real estate. With the decline of the Russian economy the banks look within the country to invest their capital. A new business idea is that banks buy flats and lease them with a "rent-and-buy" agreement. The reason is that banks are restrictive in granting mortgages for the main part of the flat price. Since real estate prices are going up, the banks prefer to invest in real property.

Lithuania was the last Baltic State to experience a bank crises similar to that in Latvia. In December 1995 the two leading banks, Lithuanian Joint Stock Innovation Bank and Litimpeks Bank, were suspended by the Bank of Lithuania. These banks controlled more than one quarter of the banking market in Lithuania. Their suspension led to the withdrawal of a large volume of deposits from many other banks, which caused instability in the whole financial market. In the past four years the Bank of Lithuania has taken measures to stabilise and strengthen the country's banking system, such as strengthening banking supervision, establishing a deposit insurance system and increasing the minimum main capital requirement to 5 million ECU from 1 January 1998. In August 1998 there were ten commercial banks; the two largest private banks are *Vilniaus Bankas* and *Bankas Hermes*. Both of them are majority-owned by foreign capital. *Lietuvos Taupomasis Bankas* (Lithuanian Savings Bank) and *Lietuvos Zemes Ūkio Bankas* (Lithuanian Agricultural Bank) the two State majority-owned were to be privatised in 1998/99. By Spring 1999 only two foreign banks and five foreign representative offices operated in Lithuanian (Lithuanian Development Agency 1999).

Along with the reconstruction of the banking systems in the Baltic States, many foreign investors show great interest in entering as owners and actors in the banking sector. As an example, the Swedish *Skandinaviska Enskilda Banken* have an important number of shares in *Ühispank* in Estonia, *Unibanka* in Latvia and *Vilniaus Bankas* in Lithuania.

Conclusions

The most important guarantee for private property rights is reliable and well functioning property registries meeting Western European standards, and development of national property registries is one of the many important steps towards integration with Western Europe. The organisations of private actors in the housing sector are not yet capable of participating in decision making in the housing sector. Home Owners Associations, private landlords and tenants need public support to organise and become qualified parties in discussions and negotiations. Continued development of the real estate market will increase the credibility of real estate as security for loans and enhance the development of functioning mortgage systems in the Baltic States. Such a development will gradually turn the private banks from rather passive to active parties on the housing market. The perspectives for founding tenants organisations appear limited, since housing privatisation aims to turn all residents to home owners. Home Owners Associations have a great potential to become key actors in the privatisation of housing management.

Sale of Public Housing

All legal residents in the Baltic States, regardless of nationality, have the right to take part in the privatisation of State and municipally owned flats. Sitting tenants are given the pre-emptive right to privatise their flat, provided that they have no rent debts, with the exception of tenants in buildings that have been returned to former owners or their heirs. As mentioned above, a principle is that parts of the national property should be redistributed to the people who helped create it. There must be ways to define who has the right to participate in privatisation, and to what extent. In all three Baltic States a system of privatisation vouchers was created to assess the rights to privatisation. Rights were based on factors such as age, years of work, years in the country, number of children. The rights allotted are expressed in a number of privatisation vouchers. Once it is clear who has the right to these vouchers, it is also clear who has the right to participate in the privatisation of State and municipality property. The holder of a tenancy right can transfer privatisation rights to a relative or a “third person” (a person who is not related).

The sale of publicly owned housing is undertaken in two steps:

- 1 privatisation of individual dwellings,
- 2 privatisation of building and land.

This chapter describes the procedures for transformation over these stages and discusses some of the problems.

Estonia

Privatisation Vouchers

The Law on Privatisation of Dwelling Rooms from 1992 outlines the privatisation process of the publicly owned housing stock. The law introduces special national capital vouchers as means of payment for privatisation – *Erastamise Väärtpaber* (EVP). EVPs are measured in points, each with a nominal value of 300 EEK (Eesti Kroon, the national currency). Each year of university or vocational studies and each year of work between January 1945 and January 1992 is worth one point. Mothers receive five points for each child raised during this period. Children are given ten points at the age of 18. The assessment of EVP points was administered by local authorities. There are thus two parallel currencies in housing privatisation: EEK-kroon (the national currency) and EVP-kroon. The cost for privatising a

flat is 300 EVP-kroon (one point) per square meter. This means that practically everybody with a tenancy right to a flat in a publicly owned building has the possibility of buying the flat without cash. The deadline for housing privatisation with vouchers was initially set to 1 March 1995, a deadline that has been postponed several times because the desired level of privatisation degree had not been reached. The use of EVPs as means of payment for privatisation of other state property is set to 31 December 1999.

In Estonia trade with EVPs is allowed. This means that if you do not have enough EVPs you can buy what you need. The commercial banks buy and sell EVPs. The extent of trade and the market value of EVPs are reported daily on the business pages of newspapers in the same manner as transactions on the equity market and the exchange rate for foreign currency. The market value of the EVP kroon fluctuates and had a trade value of about 0.20–0.40 Eesti kroon autumn 1998 – spring 1999. The considerably low market value, compared to the nominal value, indicates a low credibility of the EVP. The reason is that there are considerably more EVPs issued than could be used for available privatisation objects.

Privatisation of Flats

On 1 January 1995 the total dwelling stock was 618,300 dwellings of which 56 per cent was in public and 44 was in private ownership. Three years later, 1 January 1998, the total dwelling stock had increased to 623,100 dwellings (Statistical Office of Estonia 1998). The public dwelling stock had decreased to 10 per cent and the private dwelling stock had increased to 90 per cent. In Tallinn 12 per cent of dwellings were in public ownership and 88 per cent in private ownership. In the whole of Estonia 8 per cent of the total dwelling stock is owned by local governments and 2 per cent by the State.

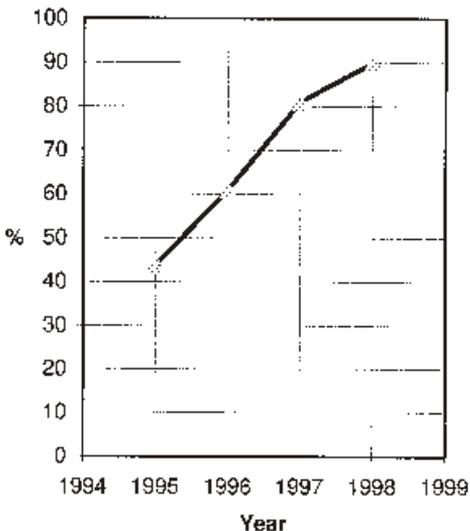


Fig. 7
Dwellings in private ownership in Estonia as share of the total dwelling stock by 1 January 1995–98.
Source: Estonian Statistics 8/98.

The process of housing privatisation in Estonia, from the tenants' point of view, contained the following steps.

- 1 The tenant received an offer from the housing management department of the local government to privatise the flat occupied.
- 2 The tenant signed an agreement with the housing management department. The agreement contains personal data, number, address and size of the flat, legal share of the building and the amount of EVP to pay.
- 3 The tenant signed a maintenance (management) agreement, most often with the housing management department of the local government.
- 4 The tenant paid the amount of EVPs.
- 5 The tenant applied to register the flat as private property at the National Land Board (Riigi Maa-amet), documents attached to the application were the privatisation agreement, the management agreement and the payment receipt.
- 6 The privatisation of the flat was finalised when the tenant got the confirmation of property registry from the National Land Board.

Privatisation of Land

Land with buildings constructed after 1940 is not returned to former owners. They get compensation in vouchers. The intention is to proceed a land survey and allot land to each building with privatised flats. The principles for land allotment are still discussed.

Housing Privatisation in Mustamäe District of Tallinn

The case of Mustamäe District Council in Tallinn gives a concrete example of the process of housing privatisation.

Mustamäe District covers about eight square kilometres south of the City Centre and has about 65,000 inhabitants. This figure could vary by 2,000, because many people live there without being registered in the district. The District Council keeps the record of registration and is also responsible for the management of almost all dwellings in the district. The Mustamäe District was constructed 1964–75 following the same town planning principles as in the western European cities of the time and similar large-scale blocks of flats. Here are 230 buildings, 3–16 storeys, with about 20,300 flats. Most of the buildings are so called “panel houses,” constructed of prefabricated concrete elements. A small number of the buildings are brick stone construction.

About 98 per cent of the flats were privatised by November 1998. The main part of the privatisation took place 1992–96, only a small number of flats have been privatised the last two years.

The City District Council is responsible for driving the housing privatisation process. Five people of the total staff of 50 in the housing management company deal with privatisation. After the achievement of flat privatisation they work with developing proposals for cadastral units of land to be allotted to each building. In the first stage a master plan for the cadastral units in the whole City District is drawn by the Tallinn City Planning Department. There is no common agreement among the politicians on what principles should be adopted on defining the cadastral units of land. Discussions swing between two main principles: the first is that only the land area under the building shall be allotted to the building; the second one is that the land area under the building plus the land up to six metres from the building shall be the cadastral land unit. A third principle discussed is that all land except land for the main streets be surveyed and allotted to buildings. There is political unity on one point of view, the principle of one building – one cadastral unit.

In Mustamäe there were 22 Home Owners' Associations (HOA) in December 1998. According to the law the housing management company, in this case the Mustamäe District Council, is responsible for promote establishment of HOAs.

On the privatisation of flats each flat is attributed a legal share of the common spaces of the building (staircase, basement, etc.), common installations and other building parts (external walls, roof, etc.) in relation to the size of the flats' share of the total living area. From a legal point of view the city does not own 98 per cent of the flats, but still has responsibility for management. A law proposal is on the way to abolish the compulsory establishment of HOAs. Where there is no HOA, the housing manager should have the duty of assembling the residents once a year to agree on management plans and which organisation should be responsible. The law proposal states that investment plans approved by a majority of the flat owners are binding for all the owners in the house. Further it should be possible to evict those who not pay their rents regularly. The housing manager should have the authority to sell the flat. The passing of such a proposal would reduce the risks for investments undertaken by the housing manager and would probably increase credibility for mortgaging flats. Today a mortgage is possible in theory, but banks rarely dare take the risk.

The municipal housing management unit for the Mustamäe District was transformed to the joint-stock company *AS Mustamäe Kinnisvarahaldus* on 1 July 1997, with a capital of three million EEK and 100 per cent of the shares are owned by the municipality. The new company has 50 people employed for housing management.

Up till now no private housing management companies have taken over the responsibility for former publicly owned housing. According to Jüri Kröönström, executive director of *AS Mustamäe Kinnisvarahaldus*, the greatest obstacle to a sound development of housing management is that the incomes of the residents are too low to afford a rent increase that would allow investment for necessary renovation (Kröönström 1998).

Most local governments have started transforming the municipal housing companies into joint-stock companies.

Estonian law foresees HOAs as the legal entities for decisions about the management of privatised blocks of flats. According to the law the housing management companies are responsible of establishing HOAs if the flat-owners do not do so. In Estonia quite few HOAs are founded by the flat-owners. According to Kröönström the obligation to assist the foundation of HOAs should be abolished. “The owners should not be forced to found HOAs against their wishes. If the owners don’t do it on their own initiative, the perspective of a functioning HOA is very small” (Kröönström 98).

Latvia

Privatisation Vouchers

In Latvia special government bonds, compensation vouchers – *kompensācijas sertifikāti*, were introduced by Parliament on 15 May 1991. These vouchers were given as compensation for unlawfully nationalised property, when the former owner wanted compensation instead of restitution, or when the property could not be returned due to its present use. The vouchers can be used as payment in buying state owned land that is subject for privatisation. Since there is not enough state owned land and the value of the vouchers is steadily decreasing, there are discussions to get the State to redeem the vouchers at their nominal value of 28 LVL (USD 47).

Privatisation vouchers – *Privatizācijas sertifikāti* – were introduced with the law “On Privatisation Certificates” on 4 November 1992. Latvian citizens resident in Latvia had the right to one voucher for each year present in Latvia during the period 1945–1992. The same amount minus five, was allocated to resident non-citizens. A special allowance of between two and four vouchers per year of exile was given to those who had been exiled during the Soviet period. Latvian Citizens not resident in Latvia had the right to 15 vouchers. Each privatisation voucher gives the right to privatise a half square metre of flat area. In Latvia trade with compensation vouchers and privatisation vouchers is allowed and is reported daily in the newspapers. The nominal value of privatisation vouchers was set to LVL 28 (LVL 1 = USD 1.7). The market value of the Latvian vouchers have been steadily falling, and in December 1998 had a trade value of between 1.7 and 1.8 LVL depending whether buying from a physical person or an institution. The last date to apply for privatisation vouchers was set to 1 January 1996. The deadline to use privatisation and compensation vouchers was initially set to 31 December 1999 but has been extended to 31 December 2000.

Privatisation of Flats

In Latvia the Central Housing Privatisation Commission (*Centrālā Dzīvojamā Mājas Privatizācijas Komisija – CDzMPK*) is responsible for preparing the flats in State ownership for privatisation. Flats in municipal ownership are prepared for privatisation by commissions appointed by the local governments. The privatisation commissions are professional bodies consisting of jurists, architects, engineers, economists and other professionals that are needed to monitor the process. The size of the commission depends on the size of the municipality and the size of its housing stock. The Riga Housing Privatisation Commission (*Rīgas Dzīvojamā Mājas Privatizācijas Komisija – RDzMPK*) had 120 employees in September 1999 to administer the privatisation of 182,307 dwellings in municipal ownership, while the small town Talsi only had five employees to administer 2,311 dwellings. To prepare a flat for privatisation means to define a flat's physical and legal shares of the building and land (see section 6.1), make a property valuation and register the flat as real property in the Land Book.

When a flat thus has become real property it is offered for sale to the sitting tenant who has to accept or turn down the offer within six months. In case of a turn down the flat is registered as State or municipal property in the Land Book. This process is time consuming. A so called accelerated process has therefore been introduced in which the sitting tenant can request privatisation of his flat before it is formed and registered as real property. A fee of 20 LVL (USD 33.5) is paid to the privatisation commission for this service. After paying the decided number of vouchers the commission issues a certificate proving the ownership right to the flat. The owner has to register the flat in the Cadaster to be able to sell or mortgage the flat. When the building and land are registered in the Land Book also the flats get registered and thus is regarded as real property.

According to a survey among tenants in April 1998 by The Riga Housing Privatisation Commission 80 per cent of the respondents were reluctant to privatise their flats. The Commission estimates that 40 per cent of municipal dwellings were privatised by May 1999.

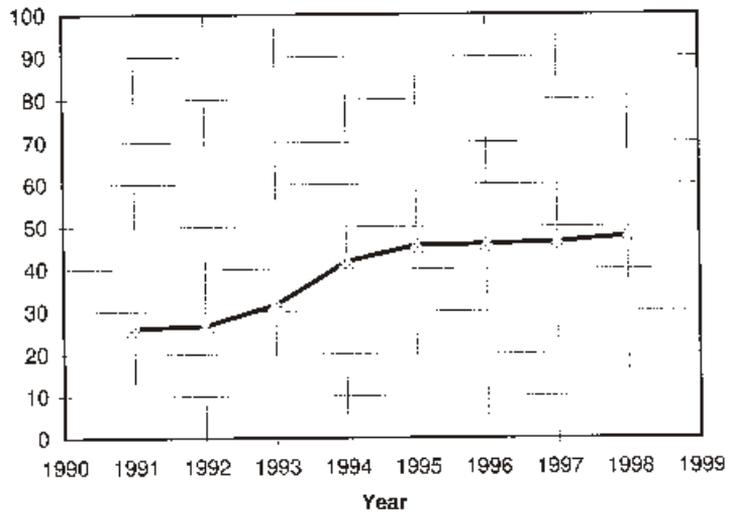
Until 1 April 1999, 258 907 tenants in Latvia had received proposals to privatise their flat. This figure represents 51,3 per cent of the publicly owned housing stock. Until 1 May 1999 the Central Housing Privatisation Commission had decided on privatisation of 103,331 flats in municipal ownership and 14,583 flats in State ownership in the city of Riga. At this time 72,325 (70 per cent) of the municipal and 6,045 (41.5 per cent) of the State owned flats were prepared for privatisation.

Privatisation of Land

In Latvia where all land is returned to the former owners or their heirs, complications arise when buildings are located on more than one land property. The current land user has to sign a lease agreement with all the land owners, or buy the appropriate piece of land from each of them. This

cannot be done unless the land is surveyed and parcelled. In Latvia the land user often has to negotiate with one or more private owners, while in Estonia and Lithuania there is only one other party – the local or the central government. The city government of Jurmala uses an excellent procedure to facilitate land privatisation. In Jurmala land is not returned in its original shape if many buildings, with different owners, are constructed on it, or when a building is located on plots with different owners. In these cases the local government surveys, parcels the land and establishes new land property adapted to the current land use. First when this is done the new property units are returned. A new land property in Jurmala can thus have many owners. The advantage of this procedure is that the current land user does not have to negotiate with many land owners to establish new property units, only about the conditions for lease or purchase. In Riga another quite rational standpoint results in difficult land management problems. The Riga Housing Privatisation Commission considers it important that land in large-scale residential areas is parcelled so that each block of flats is assigned a share of new land property proportionate to its floor area. Rational land management would rather consider the type and amount of land around the building. This would mean different land taxes for the same type of flats, which would be seen as a glaring piece of injustice.

*Fig. 8
Dwellings in
private owner-
ship in Latvia as
share of floor
space of the
dwelling stock
by end of the
year.
Source: Statisti-
cal Yearbook of
Latvia 1998.*



Lithuania

Privatisation Vouchers

Privatisation vouchers – *Valstybes vienkartinės ismokos bei kitos tikslinės kompensacijos* (State single payment and other target compensation), abbreviated *Investicinis Cekis* – were introduced in the law of Housing Privatisation in June 1991. Only permanent residents of Lithuania were eligible to receive *Investicinis Cekis*, regardless of citizenship. The system for allocation was quite simple. Residents up till 18 years were eligible to receive 1000 *Investicinis Cekis*, between 18 and 30 – 3000 and over 30 years of age – 5000. The last date to apply for *Investicinis Cekis* was 31 December 1991. The residents had to apply and queue at the local authority to receive an attestation of the amount they were entitled to. Then they had to queue at the State Savings Bank (*Taupomas Bankas*) to receive a special *Investicinis Cekis* bank book. The idea was that the holder of the tenancy right of a flat in a publicly owned building could use the *Investicinis Cekis* to buy the flat occupied. The system for calculating the price of the flat depends on factors such as age of construction, construction material, equipment, geographic situation, balconies, etc. The price was set by a local privatisation commission (*Seniunijos Butu Privatizavimo Komisija*) appointed by the local government.

The price for buying a flat could be paid up till 80 per cent in *Investicinis Cekis* and the rest in cash, or only in cash. In the case of land privatisation, e.g. in connection with the privatisation of a one-family house, only *Investicinis Cekis* can be used to pay. An ordinary price for the privatisation of a 70 square metre flat in Vilnius in autumn 1991, in 80–20 proportion, was 20,000 *Investicinis Cekis* plus 1000 roubles in cash (litas, the national currency was introduced in 1993). Maximum sizes of flat area for privatisation were set at 50 square metres for one resident, 60 for two persons, 75 for three persons, and another 20 square metres for each person over three. A double tariff had to be paid for each extra square metre over these maximums.

Trade with *Investicinis Cekis* is not allowed in Lithuania, but they have a market value. Initially, in autumn 1991, the value was 70 *Investicinis Cekis* = USD 1. In the autumn of 1998, the value was estimated at 400 *Investicinis Cekis* = USD 1. Trade was most intense during 1992–93. Those who wanted to speculate in *Investicinis Cekis* founded investment associations where people could deposit their holdings. This was perfectly legal since formally it was a group of individuals who compiled their *Investicinis Cekis* to purchase larger real estate – land, forests or buildings.

The first round of housing privatisation was completed with the close of voucher privatisation, July 1 1995. At this time 90 per cent of all issued *Investicinis Cekis* had been used for privatisation, of which 24 per cent for the purchase of flats (Lithuanian Ministry of Economy 1998). The final

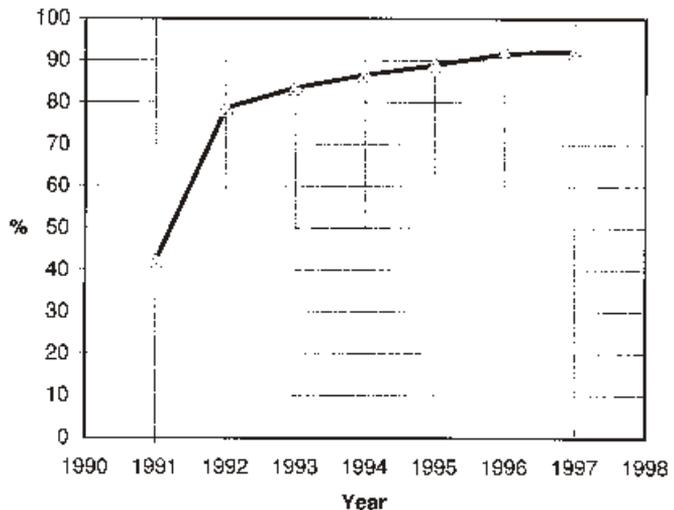
deadline for the use of *Investicinis Cekis* as means of payment for privatisation of other privately owned property was 31 December 1998.

Privatisation of Flats

The procedure for privatisation of flats in Lithuania was very simple and proceeded extremely quickly compared to Estonia and Latvia. A current assessment of the speed is that the political situation in 1991 was so unstable that the Lithuanian government wanted quick and dramatic changes to make reversion more difficult.

The offer to the tenants to privatise their flats was made by the district housing management company. These were all parts of the municipal administration. If a tenant wanted to privatise his flat, all family members had to sign the agreement of privatisation and the required amount of *Investicinis Cekis* and cash should be paid to the State Savings Bank. The housing management company issued the document of ownership after having receiving the signed agreement and the bank receipt of payment. The ownership document contains information about region, address, year of construction, flat size, distribution of rooms, flat number and a provisional cadastre number for future registration as real property. The simple procedure is one reason for the high privatisation rate. The other reason is the threat of the privatisation vouchers losing their value if not used quickly. The initial deadline for privatisation of flats was 31 December 1991. At this time about 80 per cent of possible flat privatisations were accomplished. This figure was not considered satisfactory and the deadline was extended several times until 1 July 1995. By this time 94 per cent of possible flat privatisations were accomplished.

*Fig. 9
Dwellings in private ownership as a share of floor space of the dwelling stock in Lithuania as of December 31.
Source: Statistical Yearbook of Lithuania 1998.*



Privatisation of Land

Land plots of the former publicly owned blocks of flats remain State property according to the law of land reform. To gain control of the land the HOA of a block of flats can lease it indefinitely. No land tax is paid by the flat owners or by the HOA since they are not the landowners. Since land can only be owned by physical persons, only land to dwellings in one-family houses are privatised.

Conclusions

Lithuania was the fastest to sell publicly owned dwelling stock, followed by Estonia and Latvia. The rapid privatisation in Lithuania is partly explained by the simple procedure. The low degree of housing privatisation in Latvia is due to a relative late start and the principle that privatisation of flats must be preceded by the creation of new land property and the assigning of legal shares of building and land to each flat. This time consuming process was not followed in Estonia and Lithuania. The main reason for a low rate of privatisation is the lack of clear incentives, and the main incentive was negative, the threat of missing a chance before the deadline – “it’s now or never!” No other options than privatisation and the time limit have pushed people into privatising their flat. There are many reasons for reluctance. The tenants have little idea of how responsibilities and rights will be shared among residents in a building, or their new relationship to the housing management company and to local and central authorities. The consequences of privatisation are not clear enough for them to make rational choices.

In all the three countries there are similar conflicts of interest in parceling land. Some public servants advocate allocating as little land as possible to the owners of a block of flats and as much as possible to the local government, because they do not consider the private owners capable of organising the management of shared spaces such as walkways, parks and roads. The opposite view is to give as much land as possible to the owners of the buildings so that local government can avoid the responsibility for managing as much land as possible.

The conflicts of interest in the principles of land parcelling and the lack of a common official standpoint delay the establishment of new land property and thus the completion of the housing privatisation.

Home Owners Associations

Tenants are being replaced by home owners. As shown in the previous chapters, the ultimate aim of housing privatisation, in the three Baltic States, is to make everyone a home owner with responsibility for decisions about the management of their building and its land. To make everybody a home owner has almost succeeded in Estonia and Lithuania, where more than 90 per cent of all housing units are privately owned. By the end of 2000 Latvia is expected to have reached a level of 70 per cent of private housing ownership. This means that the word tenant, in the Western European meaning, will represent only a small minority of households. Tenants will be those who, for various reasons, not have privatised their flat, residents in returned blocks of flats, in social housing units (for disadvantaged and vulnerable groups) and residents who subrent. When talking about people living in residential areas it is therefore more relevant to talk about home owners than about tenants.

The home owners' responsibility and power in deciding about housing management is expected to be exercised by Home Owners Associations, HOAs. HOAs are thus envisaged as key actors in the management of the privatised blocks of flats. The general model is one building – one HOA. Of the three main moves in housing privatisation – apartment privatisation, land privatisation and foundation of HOAs – the success of the latter is the most crucial for the success of the whole process. The foundation of HOAs and their responsibility for deciding about the management of their building and land are intended to lead to a decentralisation in decisions and execution of housing management. With no HOAs the local authorities will have to continue to manage buildings and land in residential areas. For the former publicly owned residential buildings, local governments still have the management responsibility through their housing committees and departments. This is still the case even in Lithuania where almost all flats have become private ownership.

The power and activities of HOAs are limited because they do not dispose of any real property to use as security for loans, and banks usually do not consider them eligible for loans. The individual home owner can use his flat for a mortgage, provided that the flat has a market value. Technically it is possible that each home owner makes an agreement with their HOA on mortgaging their flats for the benefit of their HOA but it is probably not realistic to expect all home owners to commit themselves in such an activity.

A short overview is given below of HOAs in the three countries.

Estonia

The Apartment Associations Act from 1995 provides the legal framework for establishing Home Owners Associations (HOA). This process was stagnant until the Tallinn Bureau of the Union of Apartment Associations was founded in the Spring of 1997. By 1 January 1998 there were 2648 associations registered in Estonia, according to the Ministry of Economic Affairs (1998). The figure for 1 January 1997 was 2061. The Ministry considers progress too slow.

By 1 January 1998 only 16 per cent of the privately owned dwellings, 88,018 of 559,461, were part of apartment associations. A majority of these are in the cities. Compared to 1 January 1995, the number of dwellings of apartment associations has increased more than 2.6 times; 71 per cent of these, 62,602 of 88,018, are dwellings in new Home Owner Associations created under the law of Apartment Associations (Estonian Statistics 8/98).

Latvia

Latvian law does not provide special legislation for establishing Home Owners Associations (HOA), and HOAs come under the legal framework of founding associations and cooperatives. An amendment to the Law of Apartment Privatisation was taken the 2 June 1998 to set rules for founding HOAs.

According to Riga Housing Privatisation Commission there were 165 owner associations for housing management registered in Riga up till September 1999. Most of these associations are cooperatives founded before the start of the privatisation of blocks of flats in 1995. Only a few home owners associations have been founded by new owners of flats in privatised buildings. The most notable of these are Brivibas Street 90 with 234 flats (80 HOA members) and Brivibas Street 115 with 40 flats (35 HOA members).

According to Maija Rubina (1998), chairman of Communal and Apartment issues at Riga City Council, the speed of privatisation is not satisfactory. The recently founded private housing management companies do not inspire enough confidence for the HOAs to entrust them with management. There seems to be a great doubts about how serious and stable they are. Tenants and flat owners consider it a great risk to hand over management to a private company.

Lithuania

Lithuania was the first Baltic State to give a legal framework for the foundation and the activities of Home Owners Associations. The first HOAs

were founded in 1995. Individual HOAs are geographically organised in federations. At the end of 1998 the Federation of HOAs of Vilnius had more than 600 registered members. Nevertheless, incentives for founding Home Owners Associations are regarded as too small. In Lithuania the HOA is responsible for the participation of all home owners in covering costs for maintenance investments, which many people consider too high a risk (Paulavicius 98). This obstacle could be avoided by letting each individual apartment owner pay the costs for heating and hot water directly to the supplier.

Conclusions

It is evident that so far there are too few incentives for home owners to join HOAs, and through them take responsibility for decisions about housing management. In general the individual home owner does not see any obvious and immediate advantage in working in HOAs, but many of them see inconveniences, and are afraid there could be great economic risks. Even if the individual home owner does not object in principle to a HOA, then why should just he/she take the initiative and make the effort?

Without driving forces, there are no HOAs. The privatisation of a former publicly owned block of flats becomes a reality first when the flat owners form an association to take responsibility for management of the building and land. This is however a quite slow process. Central and local authorities should therefore provide real incentives, such as reduction of, or even exemption from land tax; or creation of a system that makes HOAs eligible for loans. This could involve financial guarantees from central and/or local authorities combined with favourable loans for renovation and improvements. This certainly also demands a control mechanism for the authorities involved. These two real incentives should be accompanied by the offer of active assistance in monitoring the foundation and administering of the Home Owners Associations at an initial stage. There should be support given to federations of HOAs. So far there are no alternatives to the creation of HOAs. The home owner thus cannot make a rational decision about creating one or not, because there is no visible alternative. Therefore there should be regulations providing deadlines and mechanisms that allow the local governments to assign a manager for a residential building and/or area where there is no HOA.

Housing Management

There have been discussions of privatising the public housing management companies since the start of privatisation. The first steps in privatising the management were taken in Estonia and in Lithuania.

Estonia

On 1 July 1997 the Tallinn City Government transformed the municipal housing companies into 14 joint-stock companies. The city owns 100 per cent of the shares. The company boards are appointed by the City Government and consist of an equal number of representatives from the City Council, City Government and professionals within the housing sector. Since the boards of these companies have five members, the principle of one third from each is not applicable for each individual company. The land around the buildings has not yet been surveyed and registered which means that the buildings belong to the flat owners while the land still belongs to the City or the State. The few flats that not have been privatised are still owned by the City. In a legal sense the building, which means the sum of all flat shares of the house, is still personal property until the land has been surveyed and registered in the land book (*Maaregister*). The Tallinn City Government is preparing to sell shares in these recently founded real estate management companies to physical and legal persons during 1999 (Kröönström 1998). Many of the local governments in Estonia have started to transfer responsibilities for managing the former publicly owned houses to joint-stock real estate management companies.

Latvia

In Latvia all the municipal housing companies still exist under the direct control of the local government housing departments. None of the municipal housing companies has yet been transformed to legal persons. The regulations for such a transformation are under discussion and not yet decided. No clear statements have yet been made about privatising these companies.

The Government has established a number of new private housing management companies that are assigned the management of blocks of flats in former State ownership. They also administer the finalisation of privatisation of flats by forming integral cadastral units of the physical share (flat) and the legal share (parts of land and building) for each flat of a building.

Lithuania

In Lithuania all the municipal housing companies still exist under the control of the housing departments of the local governments. Some local governments have transformed their housing companies to joint-stock companies. In Vilnius there are 21 municipal housing companies, one for each of the city's 20 districts and one for the municipally owned hostels. Accommodation in hostels consists of one room with shared facilities such as kitchen and bath. Originally hostels were intended only for temporary housing. About 50 per cent of the hostel dwellings are privatised. In 1996 the municipal housing companies in Vilnius were transformed into joint-stock companies with a capital of LTL 100,000 – 2,000,000 (USD 25,000 – 5,000,000) each, depending on the size of the housing stock to be administered. Vilnius City Government prepared to start privatisation of 19 of these housing companies during 1999. The city will retain ownership of one of the normal housing companies and the hostels company (Paulavičius 98).

In Lithuania there are also private housing companies that have taken over the management of former publicly owned housing. In Vilnius the joint-stock housing management company *Namu Valda* was founded in 1994 by a City Government employee. The capital of the company is LTL 220,000 (USD 55,000). An emission of new shares is being prepared that will increase the capital to LTL 2.2 million (USD 550,000). The City of Vilnius owns 33 per cent of the shares, two foreign companies own 40 per cent, the founder of the company owns 14 per cent and the remaining shares are owned by private investors. The board consists of four persons, one from each of the foreign companies, one from the private investors and one from the city of Vilnius which also appoints the president of the board. *Namu Valda* administers 18 buildings with 60 flats each. It is a member of the Lithuanian Associations of Housing Management Companies (*Lietuvos Butu Ukis*) which has a membership of about 40 companies.

Conclusions

When Home Owners Associations are founded, they decide which company will manage their building. Privatisation of at least a part of the municipal housing companies appears to be inevitable, and a necessary means to compete with existing private housing management companies. In Estonia and Lithuania the first steps have been taken by transforming the municipal housing companies of Tallinn and Villnius into joint-stock companies. It appears very likely that most of the municipal housing companies will be transformed into independent enterprises, instead of being a part of the local government, in a near future.

When privatising municipal housing companies other organisational forms, such as foundations, should be considered to allow the development of alternative solutions in the management of housing.

Housing Finance

The most common way for private persons to raise capital in a market economy is to mortgage property, ie to borrow money using the property as a security. For it to be possible to mortgage a property its value has to be defined, and this kind of value can only be defined for a property if it can be sold. In the Plenary of the Latvian Parliament on 2 June 1994 Egils Levits expressed the following:

Mortgage is the best loan security only if it can be converted into cash, that is if the land can be sold. Only then can mortgage be of any significance and only then can it be any ground for granting credit. (Hipoteka ir labakais kredita nodrosinājums tikai tad, ja to ir iespējams realizēt, t. i. ja šo zemes gabalu iespējams arī pārdot. Tikai tad hipotekai ir jēga, tikai tad arī hipotekai ir arī pamats kreditam)

(Grutups 1995)

This quote may illustrate the official standpoint for all the Baltic States, whose governments acknowledge the importance of creating a functioning mortgage system. The legal and institutional framework for such systems were created but the actors of the real estate market do not yet show confidence in using it. Presumably it is a question of time, information and familiarity before it functions efficiently.

The problem appears to be that the banks have too little funds available and that only a small group of people are considered as eligible for loans. It is estimated that only 23 per cent of the residents in Tallinn are credit-worthy for housing loans from banks. The most credit-worthy category is well-educated men under the age of 50, and the least credit-worthy are pensioners (Loogma 1997).

There are no general national systems for housing finance. This chapter will treat the attempts of government supported housing finance and the conditions on the capital market to lend money for housing construction and purchase.

Estonia

Bank Loans

Officially the Estonian commercial banks will approve loans for housing purchase and construction at about 20 per cent interest. None of the

banks are currently able to lend money with a flat or a one-family house as security. There is not yet a developed system of long term mortgage financing of real estate.

The Estonian Housing Foundation

The Estonian Housing Foundation was founded by Government in 1994 to give loans for housing purchase and construction. The Foundation transfers loan money from Government to commercial banks. The annual turn-over was EEK 15 million in 1995, 30 million in 1996, 20 million in 1997 and only 10 million in 1998. At the beginning the Foundation cooperated with the World Bank to borrow money. At the end of 1996 this was cancelled because Estonian banks could offer better terms for lending. Estonian banking was successful until 1997, but underwent a crisis in 1998. Banks had low liquidity and bad debts which caused difficulties in finding foreign lenders. During 1998 most commercial banks were either declared bankrupt, merged, or sold a majority of their shares to foreign banks.

The 10 million EEK of the Foundations's budget for 1995 was channelled through *Eveapank* Bank to support loans to young families. Besides having a reliable income, the borrower must be a married Estonian citizen under the age of 35. The loans were between EEK 50,000 to 500,000, with an annual interest of 8 per cent, repaid over 20 years. The EEK 10 million is far from sufficient considering the purchase price of dwellings. Only about 20 families were estimated to benefit from these loans during 1998.

A special activity of the Foundation is to lend money to tenants in returned blocks of flats, since they cannot privatise their flats. Tenants in returned buildings have the right to stay in their flat five years after restitution. To avoid the first evictions, which would have taken place in 1997, the Government prolonged the right of tenancy another five years, so the first lawful evictions can take place in 2002. The idea of special loans is to balance the injustice caused by living in a block of flats that was nationalised and then returned. It is a question of equal rights for all tenants to privatise the flat they occupy. The loans are given to an annual interest of 12 per cent, repayed over 15 years. The conditions could seem harsh if it were not for a special construction to use EVP, the privatisation vouchers. The "equality trick" is that EVP can be used to repay a loan using the nominal exchange rate of 1 EVP-kroon = 1 Eesti kroon (EEK). This gives tenants in returned houses similar financial terms as tenants in State and municipally owned houses. For example, if the bank offers a Housing Foundation loan of 100 thousand EEK, at an exchange rate of about 0.25 EEK for one EVP-kroon, the borrower can buy 100 thousand EVP-kroon for 25 thousand EEK, repay the loan directly, and then have the possibly borrowed 25 thousand EEK to repay. (If the bank loan is 100 thousand EEK, the loan taker can buy EVP-kroon for 25 thousand and pay off the loan. The real loan is just 25 thousand EEK).

25 per cent of the income of the Estonian Privatisation Agency from selling state owned enterprises is transmitted to the Estonian Housing Foundation to finance housing loans to tenants in returned buildings. Between February 1997 to October 1998 the Foundation transferred 250 million EEK to Estonian banks for such loans. According to Igor Jakobson at the Estonian Housing Foundation about 800 million EEK will be needed to meet the potential demand for loans to all tenants in returned buildings, while the income from sold assets will be about 400 million EEK. So 400 million EEK are needed.

A further inequality is that there are not enough state and municipally owned flats to offer all tenants in returned buildings.

Latvia

Until 1992 most investment in housing construction was covered by the State, but the State's part of these investments fell from 68 per cent in 1990 to 7 per cent in 1994.

Bank Loans

In 1993 the State mortgage bank *Latvijas Hipoteku un Zemes Banka* (Latvian Mortgage and Land Bank) was founded. The first mortgage bonds were issued in autumn 1994 at an interest of 20 per cent. In the summer of 1995 the interest rate fell to 15 per cent. The duration of the loan usually did not exceed five years, but in some cases could go up to nine years as a maximum. In spring 1999 the private banks and the State mortgage bank offer similar conditions for housing purchase loans. The interest rate for loans from private banks is 13–14 per cent and from the State mortgage bank 12–13 per cent. The pay-back time is usually ten years.

In 1997 the Latvian Government presented a long-term crediting system for the construction, reconstruction and modernisation of dwellings. The proposed system forms a basis for the development of a mortgage credit system. The implementation of a new housing crediting programme with long-term low interest loans is expected to be launched by the year 2000.

Lithuania

Bank Loans

Three banks in Lithuania make loans to private persons to purchase a dwelling: *Hermes Bankas*, *Vilniaus Bankas* and *Taupomas Bankas* (State Savings Bank). The banks grant loans up to 70 per cent of the cadastral value or, where none is set, the value assessed by the bank. At the begin-

ning of 1999 loans had an annual interest rate of 9–11 per cent and repayment over 10 years.

Lithuanian Housing Credit Foundation

The Lithuanian Housing Credit Foundation (LHCF) was founded in 1996 by the Government to give loans for energy saving measures in housing and municipal buildings, to municipalities for improvements in infrastructure and to support the implementation of a national mortgage system. LHCF was under the Ministry of Housing and Construction until 1 April 1998, when it was moved to the Ministry of Finance. LCHF has five advisory centres, in Vilnius, Kaunas, Klaipeda, Panevezys and Alytus. The capital for the loans is USD 10 million lent by the World Bank and USD 6.5 million from the national budget. The loans are distributed by *Hermes Bankas* bank at an annual interest rate of 11 per cent and repayment by over 10 years. A precondition for a loan is that the borrower must put up 10 per cent of the investment.

G Bareika (1997), President of the *Medium and Small Real Estate Agencies Association in Lithuania*, advocates establishment of a mortgage bank with yearly interest rates not exceeding 8 per cent (compared to 14–30 per cent at commercial banks). Such a bank could have good prospects to serve the middle class.

Conclusions

There has been no massive public support in housing finance to replace the state subsidised housing programmes from the Soviet period. The existing forms of housing finance are poorly developed, small-scale and available only to a small groups of residents. The nominal conditions for housing loans from private banks, related to interest rates and reimbursement period, are quite good in all the three Baltic States. The banks however have too little funds and only a small group are considered eligible for bank loans.

The system for mortgage loans, with a flat as security, is not yet well developed, and can only improve with the growth of a functioning real estate market. When the the real estate market develops, mortgage loan systems most likely will follow and become the common means to finance purchase of a home.

The urgent need for loans to repair, maintain and improve housing is not likely to be satisfied by ordinary bank loans. The central governments should therefore consider using more of the national budget to develop systems for subsidies to improve conditions in the housing sector. It is especially important to support financing for energy saving measures and for purchase of a dwelling.

Housing Market

The housing construction has fallen dramatically in all the three Baltic States during the 1990s due to abandoned Government subsidies. Mainly one-family houses and terrace houses are constructed on private initiative.

The market for rental housing is very limited. Very few flats in public ownership are available for rent. There is a surplus of renovated flats for rent in the metropolitan centres. These are often of high standards and rent levels, and can only be afforded by affluent people or foreigners. Many flats have been renovated with the purpose of subletting and with the hope that the rent shall repay the investment. A renovated flat in the centre of Tallinn, Riga or Vilnius costs about USD 10–20 per square metre and month to rent.

This section will mainly treat trade with flats as real estate. The detailed regulations and their implementation in the land reforms in the Baltic States is of fundamental importance for the development of a well functioning property market, regarded as a cornerstones of a market economy. The real estate markets in Estonia, Latvia and Lithuania are developing continuously but the knowledge of these markets is very limited. Real estate agencies and their agents probably have most knowledge. Most selling/buying transactions seem to be handled by real estate agents.

Raitis Kalnins, Vice President of the Latvian Real Estate Agents' and Brokers' Corporation (Latvijas nekustamo ipasumu makleru un agentu korporacija, NIMA) characterises the situation as follows:

The market potential is enormous, it continues to develop, thousands of people are involved, real estate is bought and sold, but nobody really knows, what is happening here and on which professional level the transactions are handled.

(Diena 14 March 1998)

The development of trade with real estate is closely linked to the general climate for investment in a country. The design of the legal framework for ownership rights and the efficiency and reliability of the national systems for property registration are important for the development of investment in real property. The development of the new systems for property registration in the three Baltic States are quite similar and appear to be seen as very credible. The legal framework differs though.

In Estonia all physical and legal persons can purchase real property regardless of nationality. That legal persons are allowed to acquire and own real property was controversial but is considered to be of fundamental importance for the development of a well functioning market economy.

In Latvia the purchase of real property is limited to physical persons who are Latvian citizens and to legal persons registered in Latvia. The majority of the shareholders in a joint-stock company must be Latvian citizens to be allowed to own real property.

Lithuania has the toughest restrictions of property ownership. Only physical persons resident in Lithuania and with Lithuanian citizenship are entitled to own real property. Legal persons can not be registered as real property owners which means that legal persons either must lease the land or make contracts with physical persons or the State, as formal property owners, to get control of land.

The real estate market is controlled by the realtors and their agencies. Private selling and buying without an agent is very rare. The real estate agencies advertise in daily newspapers, most frequently on weekends, have their own periodic publications and also post their objects in shop-windows. Most of the serious real estate agents also offer their objects through a home page on internet.

Estonia

The Estonian housing market attracts foreign investors since they may purchase real property. The only markets for housing are Tallinn and big cities such as Tartu and Pärnu. Market prices were quite stable during 1998.

In November 1998 the price for an flat in central Tallinn was EEK 5,800 – 6,400 (USD 420 – 470) per square metre, and in large-scale housing areas in the suburbs of Tallinn it was EEK 2,600–3,850 (USD 190 – 280) per square metre. In Pärnu and Tartu the prices are EEK 2,100 – 3,300 (USD 150 – 240) per square metre. New private one-family houses cost EEK 8,000 – 14,000 (USD 580 – 1,020) per square metre depending on their location. The market price for an old one-family house in need of renovation is about half of the market price for a new house (Eesti Päevaleht 11 November 1998). The market prices for the real estate in central Tallinn have not been affected by the bank crises.

Latvia

During the Soviet period housing and housing construction came under the social sector. In 1992 Latvian law reestablished property and real estate as legal objects and as objects of trade. Since the Soviet period, the rents were regulated and used as a mean to diminish social tension. With the transition to a housing market there are big imbalances to level. One such imbalance in Riga is that many poor households occupy potentially exclusive flats, and relatively well off households have standard flats.

The housing market in Riga is limited. In February 1996 there were only 285 publicly owned flats, 1–3 rooms, available for rent. At the same

time there were 412 flats “illegally” occupied by households without a contract, that is, apartments unofficially taken over after the legal occupant’s death. Publicly owned housing is often in very bad condition. In May 1996 there were about 1000 apartments in Riga that were in too poor condition to be let, because of lack of money for repair and refurbishment (Luse 1996).

Trade in Real Estate

In Latvia there is a market for real estate in Riga and its close surroundings, and to some extent in the towns of Ventspils, Liepaja and Valmiera. The Central Statistical Bureau does not collect information about real estate transactions, and it is difficult to get this kind of information from real estate agencies. Figures are available from the Cadastral Department of the Ministry of Justice where information is collected and published about transactions registered in the town and community (*rajona*) cadastres. In 1994 in the City of Riga, 323 real estate transactions regarding sell–buy and donations were registered, and in 1995 the figure rose to 731. Trade in real estate began in January 1996 with the start of privatisation. 13,727 transactions with real estate were registered during 1997 according to the Cadastral Department (Diena 14 March 1998). Owner occupied flats and one-family houses are the main objects on the real estate market.

Trade in Flats

The first agencies for trade in real estate emerged in 1992 when trade was legalised. Objects for trade are:

- privatised cooperative flats,
- flats privatised with vouchers,
- tenancy rights to a flat.

The first fall in prices came at the end of 1992 and the beginning of 1993 when many flats came onto the market after a wave of emigration to Russia and other former Soviet republics. In the second half of 1993 emigration figures fell; the supply of flats on the market decreased; and prices in Riga rose between 20 and 40 per cent (Luse 1996). During 1993–94 flat prices rose 3–5 per cent per month. Flats and real estate were believed to be secure investment objects. During 1995–96 real estate prices stabilised. This could be explained by the low purchasing power of the population and the lack of possibility to get long term loans on acceptable terms.

According to real estate agencies, in the autumn 1998 flat prices in central Riga reached about USD 500 per square metre before renovation, which is 1.5–2 times more than in other parts of Riga.

Tenancy rights in publicly owned blocks of flats also is an object of trade. The price for a flat in central Riga is close to the market price of a privatised flat, provided that the flat is an object for privatisation. Since

1996 these rights are issued by *Rigas Domes Ipasuma Departements* (The Real Estate Department of Riga City Council). Barter between tenants of publicly owned flats is administered by *Rigas Pilsetas Dzīvokļu Parvaldes* (Riga City Board of Apartments).

Trade in One-family Houses

According to “Latio” real estate agency about 90 per cent of all one-family houses sold in 1995–96 fetched prices of USD 30–50,000 and were on the average 100–120 square metres. The most important factor in the price is location. In the Riga region one-family houses in Mezaparks, Baltezers, Teika, Jurmala and Lielupe-Dubulti had the highest prices.

Trade in Blocks of Flats

The market for trade in blocks of flats is very weak. During 1995–96 many of the publicly owned blocks of flats in Riga were for sale but could not find buyers. The explanation is that the sitting tenants keep the tenancy rights and the low rent levels do not provide enough money for administration and renovation. Many of the flats in such buildings were later sold individually as real estate property.

Trade in Land

Land prices in the centre of Riga were about USD 100 per square metre and in one-family house areas about USD 10 in 1992–93. In 1999 prices in the centre are more than ten times higher and in one-family house areas about double. The market turn over for land is too small to provide a reliable basis for property valuation. The Riga City District Governments have elaborated a method for property valuation based on the distance to the Centre. This method gives theoretical values that often do not correspond at all to prices obtained on sale.

The Centre for Real Property Valuation of the State Land Service has the Government commission to assess cadastral values for land for different zones in all towns and rural areas in the territory of Latvia until 15 October 1999.

Lithuania

Until the bank crisis at the beginning of 1996 the main reason for people to buy a flat was to live in it. With the bank crisis it became obvious that real estate was the most secure protection against inflation, and that it also was an investment increasing in value.

Low incomes meant that one room flats became the most popular real estate investment objects for private persons, mainly because of low heat-

ing costs. In Vilnius the market price for a standard one room flat increased up to six times during 1990–96 (Kvedaraviciene 1997).

The banks do not yet offer an attractive system to finance the purchase of real estate, and very few people borrow money for this purpose. The introduction of an effective mortgage system is most probably one of the keys to creating an attractive finance system for investment in real estate.

The price of a two-room flat in a new Vilnius district rose from about USD 4,000 in 1992 to USD 16,000 – 20,000 in 1996. In country regions and small towns the price of a two-room flat has been stable for four years, USD 2,000 – 4 000 (Bareika 1997). The market price for a flat in Vilnius at the beginning of 1997 was USD 250–300 per square metre and in Kaunas USD 170–200 per square metre (Burinskiene 1997). Market prices for private houses in Lithuania surpass those for Latvia, Estonia and Byelorussia.

Conclusions

Housing construction has fallen dramatically during the 1990s due to abandoned government subsidies. It appears necessary to find appropriate new subsidy systems for housing construction to increase the construction rate and to provide affordable housing. Stable economic and political development continues to encourage investment in real estate. Market prices of real estate increase steadily. A functioning housing market also demands a certain number of publicly owned dwellings to provide housing for people who cannot afford or do not want to buy a flat, including disadvantaged and vulnerable groups.

Housing Policy

Introduction of a Housing Policy

The Estonian Ministry of Economic Affairs (1998) appointed a Housing Commission (*Asjatundjate komisjioon*) in May 1998 to identify the most urgent problems within the housing sector and propose how to deal with them. The Minister is chairman of the commission that consists of 15 experts active in the housing sector. The commission worked in six groups where each group treated specific aspects of housing. These six aspects are:

- 1 Technical aspects of flats and houses
- 2 Management of the housing stock
- 3 Relations between the tenants and owners of returned blocks of flats
- 4 Flat owners
- 5 Financial issues
- 6 Organisational issues

The report of the commission was presented in November 1998 and has been distributed to all ministries for consideration and for decision by the Council of Ministers.

Three objectives to meet by 2010 mentioned in the report are:

- 1 Security and stability regarding technical, social and economic issues.
- 2 Professionalism. The housing sector is characterised by low professionalism. The commission states that there should be one profession that embraces knowledge and competence of all parts of the housing sector.
- 3 Affordability. There are no functioning forms to finance housing construction. The existing housing allowance is more like a general social allowance, given to a household with less than 500 EEK per month after paying for housing.

In Latvia the Building Department at the Ministry of Environmental Protection and Regional Development is preparing a National Building Programme which is expected to be submitted to the Cabinet of Ministers by the end of 1999.

In Vilnius the Department of Power Economy and Housing in Vilnius (1998) prepared a proposal in April 1998 for a housing policy to the year 2005. This proposal is under implementation and includes the following actions:

- 1 Maintain and improve the existing housing stock

- 2 Support people who can not afford adequate housing
- 3 Support for housing to meet new demands

The first field of action includes:

- privatisation of the municipal housing enterprises
- assist to establish and build capacity of Home Owners Associations (HOAs)
- create a special housing company to administer housing retained in municipal ownership
- implement energy saving programmes
- elaborate and implement minimum housing standards, health and safety regulations
- develop and implement a housing strategy for the Old Town and other historical areas.

The second field of action includes:

- assess housing needs in Vilnius
- investigate ways to reduce costs for social or private housing, and ways to generate new housing resources
- improve subsidies and low interest loan credits for home ownership
- prepare a social housing policy including development of new housing for vulnerable and disadvantaged groups

The third field of actions includes:

- develop a policy on the cost of housing development and ways to hasten access to land and provision of infrastructure
- investigate ways to reduce housing costs
- assess special housing needs for vulnerable and disadvantaged groups and implement such housing programmes
- create a housing development advice service to facilitate housing development.

A special City Council Housing Sub-Committee was established to monitor and evaluate the implementation of these actions. A City Housing Division has been created to implement the actions.

Conclusions

The new housing problems that arose with privatisation in the Baltic States cannot be solved by the market alone, but also need to be addressed by national and local housing policies. Inventories of the new housing problems, and proposals for improvement, show the need for an overview of all issues related to housing before elaborating a housing policy.

Summary

The housing stock of the Baltic States is quite young, about 2/3 of the dwellings in the Baltic capitals were constructed since the 1960s, but it is in bad condition and needs urgent investment for repair and renovation. Low household incomes do not allow rent increases to cover these costs. Energy saving measures, however, have shown to be very efficient to reduce dramatically the running costs for housing, and thus create economic space for repair and renovation. The short pay-back periods for investment in energy saving measures should be encouraging enough for central and local governments and banks to support special energy saving loans.

There are clear tendencies toward geographic stratification in urban housing enhanced by privatisation. Privatisation of dwellings poses relatively modest problems for people living in city centres, compared to those in the large-scale housing areas of the suburbs. Flats in city centres attract residents who are prepared to meet the economic and the organisational requirements for maintenance and to participate in new forms of housing management.

The legal framework of each country reflects different views on real property rights. Estonia has the most liberal laws concerning private ownership rights, followed by Latvia, and last Lithuania. Draft laws indicate that Latvia and Lithuania are about to liberalise their laws to make real property available to larger groups of physical and legal persons. The explicit wish of each government to join the European Union will certainly speed up the process of making the legal frameworks of the Baltic States compatible with those of Western European countries.

The notion of privatisation is an intricate, ever developing relationship between the actors implementing the privatisation process and their cultural heritage, economic development and the legal and institutional framework. In the Baltic States the privatisation process includes restitution and selling of practically all publicly owned real property. Noteworthy is also that the idea of real property includes not only land and building(s) as the integral cadastral unit, but also a defined part of a building (flat) with its legal share of land.

The objects for housing privatisation are publicly owned flats and blocks of flats, publicly owned and privately owned land with housing built on it. Restitution of property and privatisation of dwellings and land is treated differently in the three Baltic States. In Estonia and Lithuania former privately owned land that has been built on is not returned to former owners or heirs. In Latvia practically all land is returned. In Estonia and Lithuania almost the whole publicly owned dwelling stock is privatised. In Latvia the level of dwellings in private ownership is expected to have reached about

70 per cent by the close of privatisation, 31 December 2000. It has been impossible to limit privatisation to only a part of the dwelling stock. It would be considered unfair not to let everyone living in a publicly owned flat have the same chance to privatise it.

The most important public institutions to guarantee private property rights are reliable and well functioning property registries. Such registries are being confidently developed after Western European models. The development of national property registries is one of the many important steps towards integration with West Europe. The private actors in the housing sector are not yet sufficiently developed and organised to take active part in decision making. Home Owners Associations, private landlords and tenants need public support to be organised and become qualified parties in discussions and negotiations. A continued development of the real estate market will increase the credibility of real estate as security for loans and enhance the development of functioning mortgage systems. Such a development will help private banks turn from passivity to becoming active parties in the housing market. Home Owners Associations will most likely become key actors in privatising housing management.

Lithuania was the quickest in selling publicly owned dwelling stock, followed by Estonia and Latvia. The rapid privatisation in Lithuania is partly explained by the simple procedure. The low degree of housing privatisation in Latvia is due to a relative late start, and the requirement that a flat privatisation be preceded by the creation of new land property and the assigning of legal shares of building and land to each flat. This time consuming process was not followed in Estonia and Lithuania. The main reason for reluctance to housing privatisation is the lack of clear incentives. The main incentive has been the threat of missing a chance – “it’s now or never!” – if not taking it before the dead line. Lack of options to privatisation and the time limit have scared a lot of people to privatise their flats. There are many reasons to be reluctant to privatise one’s housing. The tenants have little idea of how responsibilities and rights will be shared among residents in a building, and their new relationship to the housing management company and to local and central authorities. The consequences of privatisation are not clear enough for them to make rational choices.

There are similar conflicts of interest in the parcelling of land in the three countries. Some public servants advocate allocating as little land as possible to the owners of a block of flats and as much as possible to the local government. The reason is that they do not consider the private owners capable of organising the management of shared spaces such as walkways, parks and roads. The opposite view is to give as much land as possible to the owners of the buildings so that local government can avoid management responsibilities of as much land as possible. The conflicts of interest in the principles of land parcelling and the lack of a common official standpoint delay the establishment of new land property and thus the completion of the housing privatisation.

The selling of all the publicly owned dwelling stock makes it impossible for central and local governments to fulfil their obligations to offer housing

for disadvantaged and vulnerable groups. A rented sector for housing is also needed by all those who, for a variety of reasons, do not wish to own their dwelling. Therefore it is strongly recommended that a new publicly owned housing stock is built up.

Home Owners Associations (HOAs) are envisaged to be key actors in the management of the privatised blocks of flats. The process of founding HOAs is regarded to be too slow due to lacking incentives. If this is to function central and local governments must provide massive support in founding them and organising their activities. In case the foundation of an HOA is not successful there also should be a legal framework that allows the local government to assign the manager for the property.

Privatisation of the municipal housing companies is regarded as a necessary means to get them competitive with the already existing private housing management companies. When Home Owners Associations are founded they will decide what company will be confined the management of their building. A privatisation of municipal housing companies therefore appears inevitable. In Estonia and Lithuania the first steps of privatising municipal housing companies have been taken by transforming them to joint-stock companies. When privatising municipal housing companies also other organisational forms should be considered to allow the development of many alternative solutions in the management of housing. There is an urgent need for alternative models for housing management in the Baltic States adapted to the changes of ownership and the changes of responsibilities between the actors of the housing sector.

The nominal conditions for housing loans from private banks with regard to interest rate and reimbursement period, are quite good in all the three Baltic countries. The banks have however too small available funds and only a little group of people are considered as eligible for bank loans.

The system for mortgage loans with a flat as security is not enough developed to serve as financing for the purchase of a dwelling. This, however, can only develop with the development of a functioning real estate market. Since housing is not only an object of trade but has significant social dimensions the central governments should put efforts in developing systems for general subsidies for housing finance.

A stable development of the housing market is an essential part of market economy. Trade with existing real property is developing with increasing prices. The supply of new housing projects must be accompanied by available housing finance. A functioning housing market also demands a certain number of publicly owned dwellings.

Last but not least, the scale of the new problems that occurred with the privatisation of housing in the Baltic States is so great that it cannot be solved by the market alone but also needs to be supported by comprehensive national policies, as a basis for housing programmes.

Proposals for Future Research

As shown in the previous chapters a national comprehensive policy is needed as a basis for housing programmes in each country. The development of detailed policy requires background information on different housing issues. Most of this information is probably not readily available in a form that planners can use. Some areas where information is needed, either through new research or synthesis of existing material, are:

- housing laws and regulations
- housing finance systems
- actors in the housing sector and appropriate organisation structures
- management of real estate
- participation of tenants and flat owners in housing management,
- the process of creating a sense of home and belonging in large-scale residential areas.

Appendices

Tables and Figures

Table 13 Monthly housing costs December 1998 for a flat of 89.1 m² in a nine-storey block of flats, completed in 1972 in Mustamäe District Tallinn. USD 1 = EEK 13.

Cost for	EEK/m ²	EEK total
1 cleaning	0.86	80.30
2 emergency service	0.20	18.70
3 emergency repair	0.93	86.85
4 management	0.97	90.60
5 repair-works	2.40	224.15
6.1 general maintenance	0.87	81.25
6.2 maintenance of lifts	0.58	54.15
6.3 garbage	0.37	34.55
7 general electricity	0.29	27.10
8 antenna	—	—
9 land tax	0.123	11.50
10 insurance	—	—
11 water & sewage	(15 EEK/m ³ used water)	
12.1 heating	10.21	909.70
12.2 warm water	—	
12.3 additional		90.95
Total cost		1709.80

8 The flat is switched of from the house-antenna because of cable connection. Payment goes to the Starman Company EEK 57 per month.

10 No insurance system is yet introduced for multi-flat housing.

12.2 In December no warm water was used, but from the previous months the unit price per m³ was EEK 15 to 23. Consumption is measured.

12.3 Cost for payback of the loan for the reconstruction of the heating system.

Gas is paid directly to the gas company with EEK 2.90 per m³ according to measured consumption.

Electricity is paid directly to the electricity company with EEK 0.65 per kWh.

Source: Liias 1999.

Table 14 Monthly housing costs 1998 for a flat of 86.3 m² in a three-storey block of flats in Raua 4, Tallinn city Centre.

Monthly Cost 1998 for	EEK/m ²		EEK total	
	Jan 98	Dec 98	Jan 98	Dec 98
1 maintenance	3.65	3.65	305.15	305.15
2 garbage	0.50	0.60	41.80	50.15
3 repair	0.50	0.50	41.80	41.80
4 cleaning	1.20	1.20	130	130
5 administration	1.20	1.20	130	130
6 antenna			5.50	5.50
7 entrance telephone			5.00	7.00
8 land tax	0.35	0.35	29.25	29.25
9 general electricity	0.15	0.17	12.55	14.20
10 cold water*	(3 × 98.50)	3 × 83.65	295.50	250.95
11 hot water*	(3 × 58.90)	3 × 63.90	176.70	191.70
12 heating	13.37	15.73	1117.75	1315.05
Total cost			2291	2411.35

* Water consumption is calculated per person for each flat if no consumption meter is installed. From January 1999 and onwards water consumption will be calculated per m³ of flat. Water consumption for the whole house is measured and divided between the flats in relation to their size. The price for cold water is 15 EEK per m³ January 1999. The energy consumption for hot water will continue to be calculated per person in each flat. Many people fear an increase of cost for water which will probably result in installation of equipment for the measuring of water consumption.

Table 15 Monthly housing costs January and December 1998 for a flat of 54 m² in a six-storey block of flats, constructed in the 1960s, in Kalnciemu iela 106, Zemgale district, Riga.

Cost for	January 98	December 98
1 rent	8.13	8.13
2 cold water and sewage	7.35	9.42
3 gas	0	0
4 gas subscription	0	0
5 radio cable	0.24	0.24
6 antenna	0.39	0.77
7 heating system maintenance	1.61	1.25
8 own waste water system	0	0
9 garbage	0.90	0.90
10 elevator	0	0
11 general electricity	0.29	0.42
12 heating	25.48	29.73
13 hot water (water meter)	11.10	8.97
14 sewage maintenance		0.83
Total cost	55.49 LVL	60.66 LVL

Gas is paid directly to the gas company. The average gas cost per month for this flat amounts to 2.30 LVL.

Electricity is paid directly to the electricity company at 0.039 LVL per kWh.

Table 16 Valid rent tariffs for a flat, exploitation and utilities service in Vilnius City, January 1999.

Source: Namu Valda.

Electricity	LTL/kilowatt-hour (kWh)
Two tariffs meter	
Night, Saturday, Sunday	0.12
Day	0.26
One tariff meter	
one day tariff	0.22
with electric cooker	0.18
Two tariffs meter with electric cooker	
Night, Saturday, Sunday	0.11
Day	0.21
Gas	LTL/m ³
cooking and heating water	0.696
cooking, heating water and space heating	0.59

Heating

no meter: according to heating power, estimated medium outside and inside temperature with introductory meters	108.80 0.0988 LTL/kWh
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Hot water

all residents	12.73 LTL/m ³
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Cold water and sewage

for all residents	3.11 LTL/m ³
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*Remark: residents pay for cold water according to consumption,
if residents do not have a meter, they pay a monthly rate based on 4.2 m³ per person.*

Rent of non-privatized flats

	LTL/m ² per month
occupancy until 1997	0.20
occupancy after 1997, residents with social support	1.70
commercial price	5.00 LTL/m ²

House (with privatised and non-privatised flats)actual cost/m²**Supervision of heating and indoor hot water systems**

water heated in common boiler-house	0.09 LTL/m ²
water heated in the house's heating station	0.27 LTL/m ²
water heated with a tubular heat exchanger	0.37 LTL/m ²

Garbage removal

	2.27 LTL/person
liquid garbage	0.99 LTL/person
if there are refuse chutes in the house	0.75 LTL/person

Cleaning common areas

staircase cleaning	0.75 LTL/person
basement cleaning	0.03 LTL/person
staircase and basement cleaning	0.78 LTL/person

Lightning common areas

according actual cost

Antenna

Payment depends on which firm supervises after it: 0.83 or 1.00 LTL/per month;

Repairs

according actual cost.

Administration

Municipality has not a confirmed tax for administration, municipality decision is under discussion. There is a foresight administration tax – 0.12 LTL/m² in this decision. Every district has its' own administration tax, defended by district and confirmed by municipality. Also in this decision is foresighted accumulation tax – 0.18 LTL/month with coefficients of correction according to the year in the house was built.

Lifts

269.98 or 344.19 LTL/month depending on which firm supervises it.

*Remark: all tariffs and taxes are set by the Municipality except for electricity,
which is set by Government.*

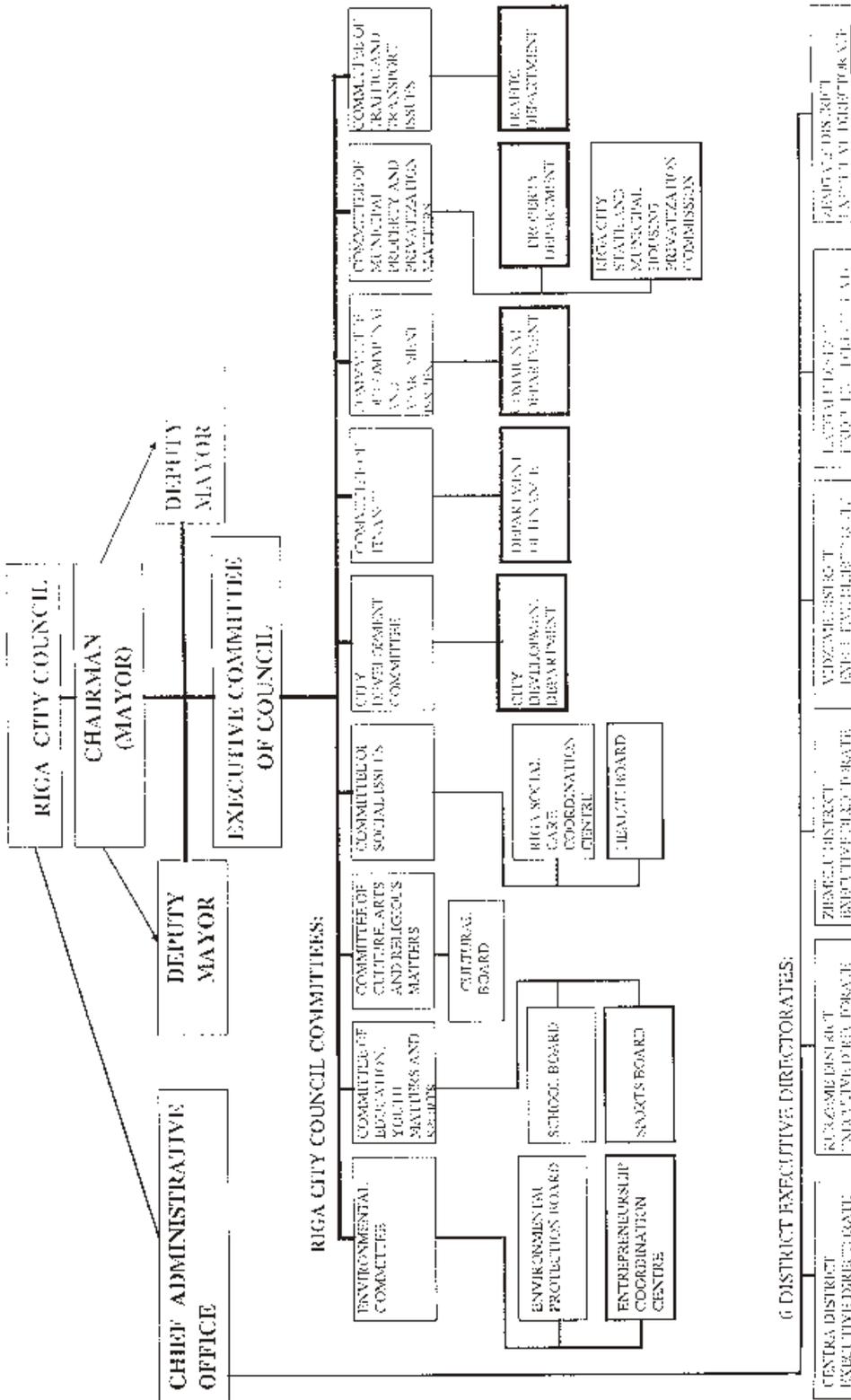


Fig. 10 Organisation Chart of Riga City Council. Source: Riga City Council.

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