

Financial aspects of apartment building management, best practices

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Different types of financial needs

- Financing related to apartment buildings can be distinguished between regular monthly payments and financing of major (capital) repairs.
- The regular monthly payments are needed firstly for daily management and maintenance activities and secondly for costs related to public services (heating, water, garbage disposal etc.)
- The allocation for monthly payments should be determined by the general meeting of the association.
- A detailed reporting upon the use of monthly payments ought to be provided to the apartment owners.

Basic options for financing capital repairs

- There are four basic options for financing major repairs: 1) the use of reserve funds of the owners' association which are collected over a period of time for this purpose; 2) a cash contribution of the owners; 3) a grant provided by national or local authorities; and 4) loan finance from financial markets or from public authorities.
- In principle, the use of reserve funds together with loan finance should be used as a main part of the total financial package. The reason is that because the benefits from refurbishment activities are of a long-term nature, also the costs should be divided over a longer period.

Financing of capital repairs for common parts is an unsolved challenge in most post-socialist countries

- The challenge for the loan finance from capital markets is that mortgage collateral can, in most cases, only be used if individual owners pledge their dwelling for this purpose. It is understandable that not all owners are willing to pledge their dwellings for loans as collateral for certain types of capital repair activity. This hampers greatly the use of mortgage collateral.
- Several Western European countries, namely, for instance, Austria, France, Germany, the Netherlands, Norway, Spain, Sweden and Switzerland, as well as the United States and Canada, have solved this problem by using statutory (or privileged) liens. This approach would allow the owners' association to start recovery proceedings against individual co-owners who are not fulfilling their obligations, without asking the consent of the owners.
- This approach has not been used in post-socialist countries except in the Czech Republic, Hungary, Poland and Georgia.
- As a whole, there is a lack of well-functioning means to enforce the collection of payments.

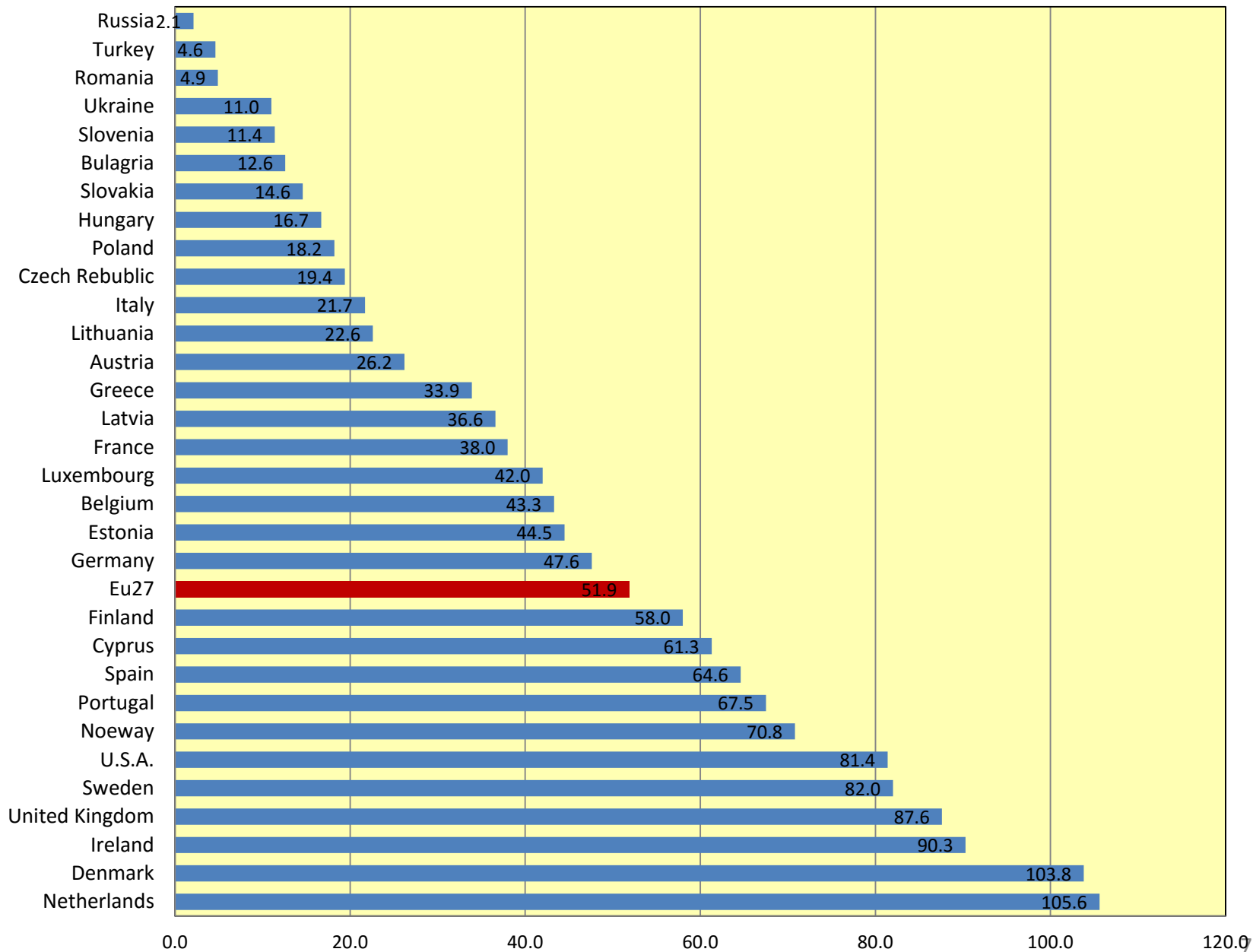
Potential financial tools by public authorities

- Support by public authorities can, in principle, include means to provide grants, loans or loan guarantees. These types of interventions should be combined with measures which increase the use of the resources of the owners or of the financial market.
- A good example of these approaches are the Russian Apartment housing renovation funds (Фонд капитального ремонта многоквартирных домов) which is existing, for instance, in Moscow.
- An important governmental tool in enhancing capital repairs is to improve the legislation. These amendments can include, for instance, the means to enforce the collection of payments.

The relative amount of housing loans

- There are great differences between different countries as regards the level of housing loans in relation to the GDP.
- In some post-socialist countries this ratio is less than 10 per cent. On the other hand, in some established marked economy countries this ratio is over 100 per cent.
- This information can be clearly seen in the slide which is presented below.
- This comparison shows that there is scope to increase the lending to housing purposes in all post socialist countries.

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- The following example from Bulgaria shows that in case there is not a functioning mechanism to carry out capital repairs at the building level, the individual owners have been forced even to change the part of the wall which is outside their dwelling. The result is that some owners have done it, some have not.



Conclusions

- In conclusion, it can be stated that the legislative and financial problems have often had clear and visible consequences. One of these is the wide-spread gradual deterioration of the common parts and structures of owner-occupied apartment buildings.
- Contributing to the deterioration, and often hastening the process along, is the constant neglect of day-to-day maintenance. At the same time, measures to improve the energy efficiency of buildings have been scarce even if the increase in energy prices has, in many cases, made these improvements economically viable.