

EXECUTIVE SUMMARY

This summary provides an overview of the housing and land management situation in Ukraine, covering general characteristics, challenges and policy recommendations.

Introduction – Socioeconomic development

Ukraine is among the richest countries in the world in terms of mineral resources, counting nearly 20,000 deposits of 117 mineral commodity types. The country's agricultural sector has enormous potential for development; it has 30% of the world's black soil (an exceptionally fertile type of soil), a temperate climate and flat topography, which are conducive to crop production. Ukraine is among the world's top exporters of grain, coal and steel.

Impact of the economic crisis on the construction sector

However, Ukraine's economy was among the worst hit by the 2008-2009 global economic crisis, which resulted in a GDP decline of 14.8%. The impact was heavily felt in the construction sector, especially in housing construction, which contracted 15.8% from 2007 to 2008 and 48.2% from 2008 to 2009. Housing prices fell because demand decreased, real estate developments were put on hold and housing construction was reduced. For example, between September 2008 and March 2010, housing prices in Kyiv fell by 40.6%. Mortgage payments and construction costs increased, while households' disposable income decreased.

Demographic trends

Unlike most countries in the region, Ukraine has few medium-sized cities *with almost 55% of the urban population living in either small cities of up to 50,000 inhabitants or in big cities with more than one million inhabitants*. In Ukraine, 68.8% of the population live in urban areas. A diminishing population is the most notable feature of Ukraine's demographic development. The country has lost about 6.1 million people in its 20 years of independence.

The process of urbanization has almost stopped; during the last two decades, the share of urban population has stabilized. In 2006, the Cabinet of Ministers of Ukraine endorsed the Strategy of Demographic Development of Ukraine for 2006–2015, which forecasts that the population aged 65+ will increase to 7.6 million by 2020, compared with 7.0 million in 2011, whereas the population aged 0-64 will fall to 35.9 million, from 38.5 million in 2011.

Legal, institutional and policy framework for housing

The country's legal and institutional framework and housing policies have to address challenges such as poor housing conditions, a high percentage of housing stock requiring major repairs and uneven housing availability.

Ukraine has shifted to a market economy; however, it is still using a Housing Code inherited from the Soviet period containing outdated provisions which, for example, ignore communal properties (such as elevators or lobbies in apartment buildings) or ignore the condominium form of ownership. While new laws regulating particular legal relations in the housing sector have been adopted, corresponding amendments to the Housing Code are not being made. This creates confusion and an ambiguous environment in housing legislation.

Legislation does exist to regulate the activities of condominium associations. However, the joint ownership of common property in an apartment building requires unanimous management decisions, which is very often unlikely. This and the unclear legal status of the land plot on which the apartment building is erected continue to challenge the existing regulations concerning condominium associations. The Ministry of Regional Development, Construction, Housing and Communal Services (MinRegion) has recognized these issues and has included in its agenda the drafting of a law ("On Specifics of Ownership in an Apartment Building") that would establish that the land plot is an element of common property of an apartment building and that would regulate its ownership or usage.

For the time being housing policy of Ukraine is based on resolutions by legislative and executive authorities made with a short- or mid-term perspective. Amendments are needed to the inherited Housing Code to allow for long-term State policy on housing.

The structure of the executive bodies (implementing agencies) dealing with housing policy has been reorganized several times during the last 20 years. Construction, housing and utilities used to be handled by different ministries but at present, the Ministry of Regional Development, Construction, Housing and Communal Services is the leading national executive body among the executive national bodies responsible for the implementation of national policy in the housing sector. The Ministry is also responsible for implementing State programmes in the housing sector. However, some housing programmes are carried out by several other national executive bodies without proper coordination with the State programmes supervised by the Ministry.

Housing conditions

Ukraine's housing stock is 93.7% private, which is mainly a result of the privatization of public housing stock, while 3.4% of households live in private-rental housing. The low share of rental housing in Ukraine does not give the real picture of the housing rental market in Ukraine, as the process is often done informally and outside the official tax system. According to some estimates, the housing rental market accounts for almost 13% of the total residential stock.

The housing stock is relatively old; only 7% of the stock was built after 1991. A typical multi-unit building, therefore, is 30-50 years old and badly in need of repair and renovation.

Low energy prices, together with the overall poor condition of the housing stock, contribute to high energy consumption. Ukraine is one of the most energy-intensive countries in the world; it is 3.7 times as energy-intensive as Germany and three times as energy-intensive as Poland. Housing consumes a significant share of the energy used for heat production and of gas (35% and 43%, respectively).

The Government has taken steps to address energy inefficiency in the housing sector by implementing reforms through its State programmes and through 125 pilot projects for modernizing the housing stock and utility networks. These reforms could result in important savings in energy. The institutional weakness of condominium associations and the irregular financing of the State programmes hamper the improvement of energy efficiency in the housing sector.

Housing allocation, needs, demand and supply

There are quite substantial differences in housing consumption in Ukraine; 9.1% of total households have less than half the national average level of living space per person i.e., less than 7.5 m² of living space; Kyiv has the highest percentage of such households, with 16.5% of households having less than 7.5 m² of living space. Statistics show that 3.6% of households are deeply dissatisfied with their housing conditions, while 15.9% are not satisfied at all.

There are no official records of housing needs in the country; analyses are based either on what is contained in the housing waiting list or on an investigation of housing conditions and allocations. According to 2010 data, 1.139 million Ukrainian households were identified as needing housing, of which 779,700 have already been in the housing queue for more than 10 years. Households in the waiting list have the option to either wait for free public housing, where the average waiting period is currently estimated to exceed 100 years, or participate in State-supported programmes using their own means.

In 2013, MinRegion is planning to launch a Unified State Register of Citizens Needing Improvement in their Housing Conditions. The register will serve as an important instrument to support national housing initiatives; it will stimulate the integration of approaches to needs assessment and housing needs information and establish firm eligibility criteria.

Housing affordability is also of concern to Ukrainians. The current average household income does not match current housing prices. For example, the affordability index of the housing market, calculated by dividing the average house price by the average household annual income, in Kyiv is 13.6. An index of 3 to 5 is usually recognized as providing an affordable housing market. The situation in this area is affected by the rapid increase in housing prices since the 2000s and fluctuating household income, interest rates and maturity of mortgage loans.

The need to set long-term sustainable goals and strategies to address challenges in housing is extremely important. Current housing policy measures are driven by the need to react to the most urgent needs of the sector. Affordable housing initiatives should focus not only on cost efficiency, but also on equally important environmental and social development concerns.

Spatial planning and urban development

Dealing with the impact of socioeconomic and urban activities has been a difficult challenge for the Government; this can be seen by, inter alia, growing regional disparities, unbalanced urban development and environmental degradation. Planning reform has not been given a priority by the Government until recently. The efforts of the Government in strategic socioeconomic planning and financing, and the simplification of urban development control, are expected to remedy the situation, but further steps in the field of regional planning should be considered. For example, there is no clear procedure for dealing with unauthorized constructions or for public hearings in cases of the compulsory sale of properties.

Housing developments are also known to have socioeconomic and urban implications. The fast growth of urban areas has prompted a sharp increase in housing demand and prices, worsening the housing affordability situation in the country. Declining urban areas, on the other hand, are not attractive and do not generate jobs, thus triggering emigration and demographic changes. The migration process has contributed to an increasing deterioration of residential infrastructure in the declining areas and to housing shortages and overcrowding in the fast-growing areas. For example, the boom in housing construction in the mid-2000s has had implications for urban development, including urban sprawl, unbalanced development, a shortage of infrastructure and road congestion.

To ensure an integrated approach to housing, the Government should promote better cooperation between planning and housing. Effective planning for housing based on spatial planning principles and practices should be considered. This approach should help reintegrate housing with socioeconomic and urban tasks and improve the governance of housing delivery.

Land administration and registration system

Land administration authorities face the challenges of completing the registration of land, setting up the State Land Cadastre (SLC) and introducing a healthy land market, particularly in rural areas where there is still a moratorium on sales of agricultural land.

The implementation of legislation remains a major task. The country has made considerable progress concerning land, but the two laws that will serve as the cornerstone of the legal framework for land administration are not yet in force, although one has already been adopted. A law concerning agricultural land, which will improve the legal mechanisms for the further development of agricultural land use and ownership based on generally accepted principles, has yet to be adopted by the Parliament.

The country is still setting up a single cadastre database using a new geodetic reference system. This and the automation of its maintenance system are critical for the appropriate management of resources and taxation and should therefore be given priority. However, its implementation is extremely slow and the creation of an automated maintenance system is hampered by the lack of funding. There have been improvements in this area resulting from a collaborative project between the Government and the World Bank. Currently, Ukraine is using a unified coordinate system that allows public access to information on land through a web portal.

To a certain extent, the currently complicated and bureaucratic registration and privatization processes affect the volume and value of real estate market transactions. Some other factors that contribute to the country's underdeveloped real estate market are: the separate ownership of condominiums and their land; unclear boundaries for land plots on which multi-family housing is located, resulting in difficulties in using real estate as collateral for investments; and the lack of a functioning rural land market due to the moratorium on agricultural land sales.

Financial framework for the housing and land sectors

Since 2009, mortgage payments and construction costs have increased and household income has decreased. Households have thus found themselves unable to finance their housing. Investment in construction, especially in residential housing construction, decreased sharply. The Government adopted a law to help mitigate the effects of the global crisis on the construction industry; however, this is not a sustainable solution. Long-term housing strategies and policies, including financial mechanisms that would support residential construction, are needed.

Although the demand for new and affordable housing is overwhelming, the supply is insufficient due to a lack of financial mechanisms to support construction companies. Today, residential construction is financed mainly from proceeds from the pre-construction sale of housing units.

Policies to increase housing financing are critical in alleviating the housing problems of the country but they should be supported by effective land supply policies. The availability of financial tools is expected to increase the demand for housing and, if land supply does not match this increase, house prices could increase, thus reducing housing affordability.

The Government does not view housing as one of its priorities for socioeconomic development. Apart from those housing programmes developed to address the housing needs of the vulnerable population, the State budget for general housing-related programmes is limited.

Further growth in the mortgage sector is affected by the legacy from the rapid pre-crisis development of the mortgage market, which was fuelled by foreign financial resources. There is a very high proportion of outstanding mortgages in foreign currencies originating from before the property devaluation in 2008-2009. Another problem is the lack of predictability and trust in the stability of the country's economy.

As the interest rates on the Ukrainian currency remain unchanged, a future devaluation of the hryvnia is expected. In this scenario, the Government will have to improve mortgage legislation in order to decrease risks because lower risks would, in turn, lower interest rates. The Government should also ensure an easy and inexpensive foreclosure process, both for the debtor and borrower, supplemented by provisions for social assistance.