HOMEOWNERS’ ASSOCIATIONS IN CENTRAL AND EASTERN EUROPE:
OPPORTUNITIES AND CHALLENGES FOR THE REAL ESTATE MARKET TWO DECADES AFTER HOUSING PRIVATIZATION
prepared by Carol S. Rabenhorst
Preface

Carol Rabenhorst, a graduate of Georgetown University Law School in Washington, DC, is a real estate lawyer and international consultant who has specialized in housing law and policy in transitioning and developing countries for the past 20 years. She worked throughout Central and Eastern Europe (CEE) on housing privatization and condominium development programs beginning in 1992, and continues to provide advice in CEE and other regions of the world on related issues, such as land tenure and property rights, housing development and management and mortgage finance.

The International Housing Coalition (IHC) is a non-profit advocacy organization located in Washington, DC that supports housing for all and seeks to raise the priority of housing on the international development agenda. IHC supports the basic principles of private property rights, secure tenure, effective title systems and efficient and equitable housing finance systems—all essential elements to economic growth, civic stability and democratic values. For more information, visit the IHC website at www.intlhc.org.
Acknowledgements

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Executive Summary

Housing privatization was one of the first steps taken in the transition that began in the early 1990s from socialism to a market economy in the former socialist republics of Central and Eastern Europe (CEE). Large apartment buildings, built and maintained by the central government and rented to citizens at highly subsidized rates, were sold on extremely favorable terms and sometimes given away to the tenants who occupied them. The buildings were transferred to the condominium form of ownership, with the residents becoming owners of their own apartment and a share of the common property. In most countries in CEE, more than 90 percent of former state tenants became homeowners within a few years—something most of them never thought possible.

Acquisition of ownership at little or no cost was a mixed blessing, however, because the new owners became responsible for maintaining and repairing buildings that were poorly constructed and largely ignored thereafter by the public maintenance enterprises. After privatization, it became apparent that improvements in the condition of the housing stock would only occur if there were a strong legal framework for ownership and management by the new owners. The most successful privatization programs mandated or at least strongly encouraged the formation of legal entities known as Homeowners’ Associations (HOAs) that were authorized to represent the individual residents; could plan, finance, and implement repairs and capital improvements through contracts with third parties; and could enforce the owners’ obligation to pay their share of common area expenses.

In Section III, this report discusses the background and history of HOAs in CEE, the obstacles they have faced, and the successes they have achieved. It concludes that in addition to a strong and comprehensive legal framework, successful HOAs depend on the presence of affordable, high-quality property management. In many CEE countries, the old public housing maintenance enterprises were also privatized, forcing them to compete with new private sector management services. In others, the public enterprises continued to maintain the privatized housing. Although the owners theoretically have a choice for obtaining these services, a competitive market has not developed to challenge the public companies’ hegemony.

Section IV provides snapshots of the current situation of HOAs and privatized housing in four countries: Hungary, Slovakia, Romania, and Serbia. Each has similarities and differences, and three of them share a fundamental problem—a surprisingly low percentage of buildings with HOAs. Buildings without HOAs are maintained by the owners acting informally or individually through contracts with public or private maintenance companies, or on their own by engaging contractors for ad hoc repairs or minor construction projects under the supervision of the owners. In most cases, conditions in such buildings have not markedly improved since the time of privatization. Without HOAs, owners almost never engage in major renovations or even substantial improvements to their buildings because they lack a framework for planning, financing, and implementing work on that scale.

Common problems and obstacles that result from an inadequate legal framework, lack of enforcement of the law, and the absence of a private property management sector are discussed in Section V, including issues in the relationship between condominiums and utility providers and the inability of condominiums without HOAs to access bank credit for buildings improvements.

Section VI discusses some of the main differences between housing privatization in the former Soviet Union and in CEE.

Recommendations. The report concludes in Section VII with recommendations for increasing the number of HOAs in the region and increasing their effectiveness in improving housing conditions. The recommendations include:

- Donor assistance;
- Assistance through private international housing and real estate associations;
- Additional research on the status of HOAs and the obstacles they face;
- Additional legal reform to mandate HOAs and ensure compliance with this requirement; enforcement of obligation to maintain common areas; and
- Public information campaigns to inform owners of the importance of HOAs and how they can improve the comfort and value of their homes.

Finally, there is an appendix to the report that provides a case study on one condominium in Slovakia with an HOA that has successfully completed several major renovations, with information on how the projects were selected, financed, and implemented.

1 In Hungary, the Condominium Law mandates that HOAs be formed before a property can be registered as a condominium, whether one formed through privatization or construction subsequent to the privatization period; no sales may take place in a building not properly registered. Slovakia allows the owners to choose between forming an HOA or entering into individual contracts with a management entity. Romanian law requires HOAs, but this provision is not adequately enforced. Serbian law is ambiguous, but is interpreted by experts to require HOAs; however, as with Romania, the requirement is not enforced.
Objectives and Methodology

This report follows the twentieth anniversary of housing privatization and the establishment of condominium housing in Central and Eastern Europe (CEE). In the early 1990s, shortly after the fall of the Berlin Wall and the end of socialism in the eastern bloc countries, a wave of new laws and procedures swept through each country in the region to privatize formerly state-owned property. The state-owned multifamily apartment buildings—a well-known feature of life under socialism—were among the first of the major state-owned assets to be sold. As a result, the former tenants—the majority of the population in urban areas—became owners of their apartments with property rights and responsibilities previously unknown to them. This publication recounts what has happened in the multifamily housing stock since then, focusing on several countries that illustrate various challenges and successes experienced throughout CEE.

The report is based on information and statistics provided by housing experts in the CEE region in response to an IHC questionnaire, as well as on reports, studies, and data available on a regional basis and from the individual countries surveyed. In addition, the report’s author has worked extensively on related issues throughout the region for the past 20 years, since implementation of housing privatization began.²

The data provided is not the product of a comprehensive or scientific statistical analysis. It was not possible to find comparable databases from country to country, and information from the individual countries may have been compiled with different factors and assumptions in mind. Rather, the purpose is to provide an informed sense of what has happened from place to place since privatization, what factors appear to be responsible for variations in success, and what impediments remain to additional market-based reform and development of the real estate sector.

This report is a companion to IHC’s earlier publication, “Homeowners’ Associations in the Former Soviet Union: Stalled on the Road to Reform.”³ Where relevant, it makes comparisons between reform efforts and progress made in the CEE region and the former Soviet Union.

Background and History of HOAs in Central and Eastern Europe

Housing Privatization. Housing played a critical role in the restructuring from socialism to market economies in the republics of CEE. No other sector has directly affected the lives of so many people and their ability to participate in the new free market for goods and services. From the time major economic reforms began in the early 1990s, there have been two major initiatives relating to housing: (1) the end of widespread central government control and subsidization of housing production and allocation, and (2) the increase in the range of choices available to citizens in the location and quality standards of their housing. The major effort underlying both initiatives was housing privatization—the transfer of ownership of the multifamily housing stock from the state to the apartment tenants, together with the responsibility for maintaining and operating the buildings. Almost uniformly across the CEE region, apartment buildings were privatized by transferring ownership of an individual apartment together with an ownership interest in the common property (the roof, stairways, foundation, mechanical systems and so on).⁴ This legal form of ownership is generally known as “condominium,” and that term or a local translation of it has been widely adopted in CEE.

Cost and Condition of Housing. Each country’s privatization law provided that housing units were in almost all cases to be sold to the sitting tenants, usually at steep discounts from what was calculated to be market value. Prices were based on apartment size and year and type of construction, not on location or current condition. In some cases, the housing was given away, either because of its age and poor condition, or under special programs for the elderly, disabled, war veterans, or others in disadvantaged circumstances.

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² Except where specific citations are included in footnotes or the text, the opinions and conclusions expressed in this report are those of the author.
³ Lipman, 2012.
⁴ A key difference between CEE and the former Soviet Union in their privatization programs and the subsequent success of the programs has been whether or not the common property was privatized and transferred to the apartment owners through co-ownership interests. The privatization of the common property, which gives owners of the units control of the entire building through joint ownership of the common property, is probably the single most important factor in the relative success of the CEE programs.
Since state-built and owned multifamily housing had been so pervasive throughout the region—particularly in urban areas and population centers built around state-owned factories and enterprises—the change of ownership represented a massive shift of wealth from the central governments to the citizens. However, the condition of the housing was usually so poor that the value was less than it might have seemed at first. The multifamily housing was often shoddily built at the outset using substandard materials, such as industrialized concrete panel block that had already exceeded its technical life span, and was almost always poorly maintained by the state-owned enterprises responsible for housing allocation and repair. After factoring in deferred maintenance and the cost of putting the building into decent operating condition, the cost might have represented something close to true value at the time of privatization, at least until the market for secondary (post-privatization) sales took off. Improvements have been most likely to occur in the more desirable housing areas—central cities, seacoast locations, and the like—and secondary sales in such places began to proliferate in the late 1990s and have continued since, often at prices close to western European levels.  

Owners’ Responsibilities and the Need for HOAs. In the aftermath of privatization in CEE, the new owners were required by law to assume management responsibility for their buildings, but very rarely had the financial, legal or technical skills to fulfill their obligations. Today, condominium owners in transition countries continue to face problems such as unclear delineation of their rights and responsibilities, lack of meaningful choices in contracting for management and maintenance services, and inadequate financial resources to make needed repairs or undertake renovations of their apartment buildings. Without a well-drafted condominium law and the formation of an HOA, there is no system for managing the common areas of the apartment building and for enforcing rules and obligations imposed on the apartment owners and, therefore, building conditions have remained the same or have continued to deteriorate.

Because of the poor condition of the housing, it rather quickly became clear to housing experts that providing an effective legal, operational, and economic framework for the operation of condominium housing would be critical. This is especially true because housing under socialism was usually not assigned in accordance with income of the tenants; apartment buildings were generally similar, and rent was extremely low for all without regard to ability to pay. The state provided maintenance out of the rent collected, usually with heavy state subsidies since the political purpose of the state-owned maintenance companies was to provide employment for workers rather than to provide maintenance services to tenants. Therefore, both the financial ability and the interest among post-privatization owners to participate in renovation programs presented a decidedly mixed picture. A legally empowered HOA that could make decisions and enter into contracts on the basis of a majority vote of the owners proved to be not only the best framework for improvements in general maintenance and repairs, but is probably essential for accomplishing major repairs and renovation, such as new roofs and facades or energy retrofitting, either from the owners’ own funds or through access to bank credit.

Condominium Law and Enforcement Issues. While there were fundamental similarities in post-socialism housing reform programs throughout CEE, differences from country to country in the legal, economic, and political context have resulted in mixed success for condominium development. The differences usually co-relate to the laws and whether they clearly authorize the owners to control decision making about maintaining and upgrading the common areas of the building and confer legal authority on an association of owners to enforce its right to collect maintenance fees and other assessments from the owners. A major deficiency in most laws has been the failure to mandate the formation of an HOA. While the laws often provide a sufficient basis for operation of HOAs, when they are not required, the owners of the vast majority of buildings have not formed them. In most countries, less than 20 percent of the multifamily housing has an HOA legally authorized to act on behalf of the owners. In Hungary, on the other hand, the Condominium Law required HOAs in all buildings before the units were privatized as well as for those built afterward; as a result, HOAs are almost universal.

Similarly, if the law does not provide a basis to vigorously enforce the obligation for each owner to pay his/her share of common area expenses, there is a greater tendency to let conditions continue to deteriorate. Most laws allow an HOA that is a legal entity to sue to collect the debt; but if there is no HOA or it is not properly registered, this remedy is not available. A few countries also allow the HOA to place a lien on the property of a debtor-owner. This has been used in rare cases where the condominium law is strong in terms of the HOAs rights, such as Hungary, Slovakia, and Romania. Experience has shown throughout the region that it is not inability to pay that results in high levels of delinquency; rather, it is the lack of an HOA or the weakness of the HOA’s authority to enforce obligations placed on the owners imposed under the law.

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5 Between mid-2008 and early 2009, the beginning of the worldwide drop in real estate prices, market prices in some CEE capital cities that are now EU members decreased by as much as one-third (Budapest and Bucharest), yet decreased only slightly in Warsaw and remained stable in Bratislava at EUR1,500-2,500/sq. meter. See Amman, 2009.
6 Tsenkova, 2005.
Public versus Private Management and Maintenance. A second major difference is whether the state-owned maintenance enterprises continue to exist, and whether a private property management sector has grown up to replace or compete with them. Without an HOA to organize the building and exercise the legal authority to enter into contracts with service providers and the availability of property managers in the private sector, the tendency in a number of countries has been for owners to continue to contract with public enterprises for maintenance of the common areas of the building. Contracting can take place individually if there is not an HOA.

Post-privatization experience has clearly demonstrated that private management services, where available, are less expensive and more effective than government-owned maintenance enterprises. In Slovakia, public maintenance enterprises were privatized shortly after the housing. There is now a competitive market for property management services, which manage at least 95 percent of multifamily buildings, usually at lower cost and almost always with better results than services provided by the few remaining public maintenance companies. In Serbia, on the other hand, public housing maintenance enterprises continue to operate under the aegis of local governments, particularly in larger cities, and provide services to approximately 85 percent percent of the privatized apartment buildings. The other 15 percent are maintained by the owners on an as-needed basis.

Other Issues. Whether or not there is an HOA is largely determinant of a condominium’s ability to successfully address several other important issues. Primary among these are the building’s relationship to utility service providers, and whether or not the building is able to obtain bank credit for common area improvements. These issues, as well as those relating to the legal framework and property management, are discussed more fully in Section V.

Current Status of HOAs in Four CEE Countries

Hungary

Hungary is unique among the former communist countries of Central and Eastern Europe in that it had privately-owned condominium property and a functioning condominium law throughout the socialist period. This meant that many people, at least in larger towns and cities, had some familiarity with privately owned multifamily buildings that had homeowners associations, even if they themselves were tenants of the state and never intended to live in such a building. The Condominium Law of Hungary (first passed in the 1920s and revised numerous times through the years since, with a major post-privatization revision passed in 1997) also provided that a homeowners’ association must be formed in any building before it could be occupied and the property registered as a condominium. These differences gave Hungary a major advantage over its neighbors in CEE, where this form of ownership and management by owners was virtually unknown during the socialist years.

State-owned housing was still prevalent in the multifamily sector, however. Privatization of state-owned housing in Hungary proceeded quickly and pervasively in the early 1990s, as the table below indicates:

Table 1 – Extent of housing privatization in Hungary

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1993</th>
<th>1994</th>
<th>2011 (year of data)</th>
</tr>
</thead>
<tbody>
<tr>
<td># State-Owned Units</td>
<td>154,841</td>
<td>287,365</td>
<td>379,324</td>
<td>721,000</td>
</tr>
<tr>
<td>Privatized</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% State-Owned Units</td>
<td>21.5%</td>
<td>39.9%</td>
<td>52.7%</td>
<td>97.3%</td>
</tr>
<tr>
<td>Privatized</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7 In most countries, control of the housing enterprises for maintenance and allocation of multifamily housing was transferred from the central government to the municipal or local governments as a first step prior to actual privatization. It was the local governments that carried out the actual process of privatization, and that continue to control the maintenance enterprises where they still exist.

8 These figures are for the whole country. They are generally representative of the larger towns throughout Hungary, including Budapest, except for Miskolc, an industrial center where state-owned apartments were prevalent and the number and percentage of privatized units has been even higher as a result.
One of the major revisions passed in the Condominium Law in 1997 was the percentage needed for owners to undertake a major renovation project, which was lowered from 100 percent (virtually impossible to obtain, especially in buildings with large income disparities among the owners) to a simple majority.

Another advantage in the Hungarian context has been the willingness of lenders to make renovation loans to condominiums. This took place earlier than other CEE countries, perhaps because the condominium system was well established in Hungary before privatization and therefore, more familiar to lenders. Several banks have created special loan products for renovation of common property in condominiums, which has led to increases in both the amount of major improvements undertaken and the development of the property management sector, as HOAs often realize that professional management would be especially beneficial when complicated financing and major construction must be designed and implemented.

The condominium development program following privatization received substantial assistance from the United States Agency for International Development (USAID), including help with rewriting the Condominium Law in 1997. Training programs and manuals were created for condominium leaders and property managers, and experts worked with lenders to encourage the creation of loan products for condominium renovation. Associations of HOAs and property managers were also developed and supported until the end of the 1990s, when USAID phased out its technical assistance programs in Hungary.

It is estimated that at present about 30 percent of privatized buildings are operated by private management companies, 60 percent by individual entrepreneurs who have specialized skills in financial and property management, and 10 percent by the owners themselves.

There is now strong competition in the construction and repair markets, and continuing interest among HOAs in borrowing for larger repairs and renovation, especially for the energy efficiency projects where there are immediate savings available to help amortize the loans. Four banks, two contract savings institutions, and several savings cooperatives are currently making renovation loans for condominium common property. There are several programs under the Hungarian Development Bank (MFB) that subsidize interest rates for loans for condominium energy renovation, allowing for rates substantially below those for regular commercial loans at market rates. To be eligible, an HOA must be legally formed and demonstrate its ability to manage the construction and financing properly. In addition, the building must have established a renovation account with the lender in an amount the meets the requirements of the Condominium Law, its internal debt (fees owed by owners to the HOA) must not exceed a defined limit, and payments to service providers must be current.

Romania

Privatization of state-owned housing became legally permissible in Romania in the 1960-70s, but proceeded very slowly and only among the wealthy or politically powerful until the passage Decree-Law 61/1990. The 1990 law enabled the sale of public housing units to tenants, usually with a small down payment (10% of a modest purchase price) and a 25-year loan from the government on extremely favorable terms. Many of the least desirable housing units were given away.

The Housing Law of 1996 mandates that HOAs be formed in each owner-occupied apartment building, and amendments enacted to the law in 2007 reinforced this provision. An HOA, once formed, must be registered as a legal entity. There are no current statistics on how many buildings have complied with the law, however, and no penalties for noncompliance, so it is believed to be a relatively small number compared to the 96 percent of state-owned buildings that were privatized. Experts estimate that the number of buildings with HOAs is around 50 percent. The law also requires that each municipality have an office to assist owners with condominium matters, or at least a designated staff person in smaller towns. This part of the law is generally complied with, so there is some support available for owners who wish to organize and register an HOA.
Table 2 – Extent of housing privatization in Romania

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1993</th>
<th>Present</th>
</tr>
</thead>
<tbody>
<tr>
<td># State-Owned Units Privatized</td>
<td>4,500 (est.)</td>
<td>2,730,600</td>
<td>3,648,000</td>
</tr>
<tr>
<td>% State-Owned Units Privatized</td>
<td>.001%</td>
<td>72%</td>
<td>96%</td>
</tr>
</tbody>
</table>

There are government and development bank-sponsored subsidy programs for renovation, including a program to fund up to two-thirds of the cost of heat service retrofitting, but this generous program has not been widely used. The reasons seem to be the lack of coordination among owners, particularly in buildings with large disparities in income, and lack of public awareness of the program. Although the condominium law mandates that each HOA establish a bank account and collect assessments for building maintenance and other expenses on a monthly basis, it is not clear how regularly that provision is followed and such an account is a prerequisite to participation in the energy retrofitting subsidy.

In the 1990s, USAID sponsored a major condominium development project in Romania, which offered training in organizing an HOA and in basic property management skills. When the USAID program ended, the training materials and curriculum was institutionalized with an NGO, Opportunity Associates-Romania (OAR), which continues to provide training and other assistance in this sector. In addition to OAR and the HOA offices on the municipal level, there are a number of private NGOs that have been developed to support HOAs and the condominium housing sector. The most active are the Federation for Owners’ Associations and Liga Habitat.

**Slovakia**

Under Slovak Law No. 182/1993, On the Ownership of Apartments and Nonresidential Premises, passed in July 1993, residents of privatized apartment buildings were given two options for future management: they could manage the building themselves as individuals and enter into individual contracts with a public or private management company, or they could form and register an association of owners that could manage the building itself or enter into one contract with a public or private management company. A selection of one option or the other is mandatory under the law, to be decided by majority vote of the owners in the building.

At present, Slovakia has 11,253 legally registered HOAs, which represents nearly 19 percent of all multifamily buildings.

Table 3 – Extent of housing privatization in Slovakia⁹

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>2009 (year of data)</th>
</tr>
</thead>
<tbody>
<tr>
<td># State-Owned Units Privatized</td>
<td>0 (Privatization law passed in 1993)</td>
<td>706,000 units</td>
</tr>
<tr>
<td>% State-Owned Units Privatized</td>
<td>0</td>
<td>92%</td>
</tr>
</tbody>
</table>

In buildings constructed after privatization, which tend to be built to a higher standard than the state construction pre-privatization, HOAs are also the exception. Most developers sign contracts with management firms—often a subsidiary of the construction company, but sometimes an independent private firm, and the owners continue this arrangement after the building is sold out. Sometimes, especially if there is dissatisfaction with the management services inherited from the developer, the owners then organize themselves into an HOA and engage a new manager. In the cases of both new construction and resales of apartments in privately-built apartment buildings, however, the trend to establish an HOA has actually declined in recent years because there are declining sales and many vacant units due to the financial crisis beginning in 2008-09.¹⁰ This has also reduced the availability of mortgage lending for the purchase of apartments.

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⁹ In Slovakia, many thousands of apartment buildings were built by state-supported maintenance and construction cooperatives, with the residents as members of the cooperative. Because of the role of the state, figures for this type of housing are included with state-owned rental housing in the number cited. Cooperatives were transformed to condominium ownership in the mid-1990s, making tenure in them after privatization indistinguishable from that of the former state-owned rental housing.

¹⁰ It is estimated that there are 3,000 to 4,000 vacant units in Bratislava, the capital of Slovakia, and 3,000 in Trnava, another major population center.
In Slovakia, management services are offered through private sector firms and also through some municipalities that have maintained the public housing maintenance companies after they were devolved from the state to local governments in 1992. At that time, all district and central government-level maintenance enterprises were closed. Also in 1992, maintenance prices were deregulated, so that municipalities could charge higher fees for the services than the very minimal fees that were charged by the state as rent prior to privatization. Since then, municipalities had the choice of continuing to offer housing maintenance services through municipally owned enterprises that operate on market principles, or allowing the existing services to be transformed into wholly private enterprises. It is estimated that more than 95 percent of former municipal maintenance companies have been privatized and now operate as part of the private business sector without government support or intervention.

Private management firms that were established with no prior relationship to the local or central government are also operating and for the most part of thriving, particularly in larger cities and towns. They are often subsidiaries of or related to companies that engage in other real estate businesses, such as real estate brokerages or residential construction companies, but sometimes they are separate firms offering only property management services. Because of the privatization of former municipally owned maintenance enterprises and the growth of the private sector firms, virtually all multifamily housing in Slovakia is now managed through the private sector, which is quite competitive in terms of pricing and the menu of services offered.

Slovakia has a long-established association of HOAs, the Union of Homeowners’ Associations (UAHO), which currently has a membership of 1,175 apartment buildings. UAHO was established with the assistance of USAID and a private Slovak housing consultancy firm, Institut Byvania, not long after housing privatization began in 1992. It began operating independently without US donor assistance in 1999 and has five regional centers and seven local clubs of HOA chairmen. Its headquarters is in Košice, a major city in eastern Slovakia. The headquarters publishes a bimonthly newsletter for members, in both print and electronic versions. In July 2012, UAHO held a symposium attended by 235 members on renovation of the housing stock. It offers regular training programs for its members and staff of its regional offices; the training has recently been accredited by the Ministry of Education of Slovakia. UAHO also offers comprehensive training manuals on building management (including budgeting and financial planning, building maintenance, meeting procedures, and elections) and on building renovation.

UAHO also maintains good relations with firms interested in the condominium market, including real estate agencies, insurance companies, construction firms, and lenders. In cooperation with First Construction Bank, it has developed a training curriculum on renovation for energy efficiency and retrofitting which is offered by Slovak University through all UAHO regional centers. Information about access to loans for reconstruction is included in the training.

Serbia

In Serbia, approximately 25 percent of the housing stock mostly concentrated in the larger cities was publicly owned prior to privatization. Transfer of ownership to occupants began in 1990 under the Law on Housing Relations and was virtually complete several years later upon passage of the Law on Housing of 1992, which is still in effect today. A Housing Maintenance Law went into effect in 1995, but has done little to change the situation of privatized housing. Recent efforts to amend one or more of the housing laws to strengthen provisions relating to HOAs and housing maintenance, or to pass a new Condominium Law, have not yet been successful.

Table 4 – Extent of housing privatization in Serbia

<table>
<thead>
<tr>
<th></th>
<th>Beginning of 1990</th>
<th>2002 (latest available data)</th>
</tr>
</thead>
<tbody>
<tr>
<td># State-Owned Units Privatized</td>
<td>0</td>
<td>670,320</td>
</tr>
<tr>
<td>% State-Owned Units Privatized</td>
<td>0</td>
<td>97.8%</td>
</tr>
</tbody>
</table>

Serbia housing reform lags at least a decade behind other CEE countries in a number of respects, due largely to the delay of reform efforts throughout the 1990s after the breakup of the former Republic of Yugoslavia and the subsequent Serbian wars with Bosnia and Croatia and then with Kosovo. Conditions worsened during that time because of the general decline in the economic situation.

11 UAHO is known in Slovakia by its Slovak abbreviation ZSVB. Its address is Južná trieda 93, 040 01 Košice, tel. +421 55 6782 483, email: zsvb@zsvb.sk.
the elimination of subsidies for construction and maintenance in the housing sector, and the massive influx of refugees and internally displaced persons from conflict areas. War-time population movements brought the growth of unplanned settlements, and bombings damaged a substantial amount of the already-deteriorating housing stock. Neither public nor private funds for housing maintenance or reconstruction were available during or after the wars.

A new Serbia Housing Policy was adopted in 2002, and changes have been considered to the condominium provisions of the 1992 Law on Housing but not yet enacted. The law contains many of the necessary provisions for management of the condominium stock, including language that has been interpreted to require HOAs and a clear provision that maintenance must be provided under a contract with the costs shared among the co-owners. If no maintenance contract is entered into, the municipality may appoint a public (municipal) company and charge the owners directly or through the uniform billing system for public services such as heat, water, electricity, and garbage collection. The language on HOAs in the Serbia law is somewhat ambiguous, however, and there have been virtually no efforts to enforce the apparent requirement that HOAs be formed or that management contracts be entered into by the owners. There is very little private-sector property management activity (there were no private residential property management firms in existence as of late 2009), so most owners continue to contract as individuals with the public maintenance providers as the default option. The law provides that an HOA may sue an owner who is delinquent in payment of common area maintenance fees, but such cases are exceedingly rare as there are few HOAs and those that have been formed remain uncertain about their enforcement powers.

As a result of this inadequate legal and institutional framework, little has been done to improve conditions in condominium housing in Serbia. There have been no major donor-funded efforts to organize and train owners, to improve the legislative and regulatory framework, or to build a private property management sector. Statistics gathered for a 2009 conference on condominium housing in Serbia showed the following:12

- At least 60 percent of the urban population lives in condominiums;
- The current condominium housing stock is valued at $52 billion;
- A reasonable estimate of funds needed for routine maintenance of the stock would be $260-550 million;
- $10.5 billion worth of renovation and capital improvement work is required to put the stock into good condition;
- Renovation and major repairs at this level would result in up to 23,000 new jobs in construction, renovation and management; and
- Renovation and major repairs at this level would increase GDP by up to 3 percent.

These figures demonstrate the enormous opportunity available in Serbia for development of a new private property management sector, as well as for jobs in construction and manufacturing of materials and for the overall economy.

Legal and Policy Issues, Obstacles and Problems of Condominium Management

As discussed, the four countries have had varying levels of success in the establishment and effectiveness of HOAs in privatized buildings. Table 5 indicates factors that underlie the range of penetration of HOAs into the multifamily housing sector. These factors are discussed in more detail in this section.

Table 5: Factors affecting number and success of HOAs

<table>
<thead>
<tr>
<th>factor</th>
<th>Hungary</th>
<th>Romania</th>
<th>Slovakia</th>
<th>Serbia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of buildings with HOAs (estimated)</td>
<td>95%</td>
<td>50%</td>
<td>20%</td>
<td>5%</td>
</tr>
<tr>
<td>Legal requirement of HOA</td>
<td>Yes</td>
<td>Yes</td>
<td>No; other option is management contract</td>
<td>Law unclear; if yes, not enforced</td>
</tr>
<tr>
<td>Legal requirement of HOA enforced</td>
<td>Yes</td>
<td>Uneven</td>
<td>Uneven</td>
<td>No</td>
</tr>
<tr>
<td>Major support for HOAs from donors or local government</td>
<td>Early donor support after privatization</td>
<td>Early donor support after privatization; now local government offices and NGOs</td>
<td>Early donor support after privatization; now local government offices and strong NGOs</td>
<td>No</td>
</tr>
<tr>
<td>Sufficient legal authority for HOAs to enforce rules</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>In law but not followed</td>
</tr>
<tr>
<td>Access by HOAs to financing for common area renovation</td>
<td>Bank loans and government grants</td>
<td>Some bank loans; energy efficiency renovation grants</td>
<td>Bank loans and energy efficiency renovation grants</td>
<td>No</td>
</tr>
<tr>
<td>Availability of private management companies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Legal Framework

Without a well-drafted condominium law, there is no regulatory system for managing the common areas of a multifamily building or for establishing an HOA to enforce rules and obligations imposed on the apartment owners, including the obligation to pay a share of common area expenses. If the building is not properly maintained, the value of individual apartments may decrease, even if the owners maintain their individually owned apartments at a high level. Lack of an HOA also prevents buildings in poor condition from being renovated with bank financing because there is no legal entity to organize the individual owners and enforce their obligation to pay their share of the debt. Because privatized housing makes up a substantial portion of the housing stock, particularly in cities and larger towns, failure to maintain and improve the privatized housing not only diminishes its value to the current owners, but also limits the role that condominiums can play in development of real estate markets and the overall economy of every country in the region.

In general, the countries of CEE have adequate condominium laws. Where there are problems, they result from lack of enforcement of the legal requirements by the governmental authorities and insufficient power on the part of the owners or the HOA to enforce rules within the building.

Each condominium law should provide at a minimum for the following:

i. Registration of Property

Two types of registration are necessary for condominiums to function effectively in the property market. The first is registration of the property in the land records or cadaster, and the second is the registration of the owners’ association as a legal entity that can enter into contracts and enforce obligations among the owners and with third parties, such as construction contractors, management companies, and utility service providers.
The correct way to register condominium property is to register individual parcels of real estate within an apartment building comprising an apartment and a proportionate share of the common property (e.g., hallways, staircases, the roof, plumbing and mechanical systems, the land around and under the building) appurtenant to the apartment. Procedures for registering condominium property are included in some countries’ laws on real estate registration, or in the condominium law, but some countries have failed to implement the laws correctly. Since the size of each owner’s individual property usually determines the amount of fees to be collected from that apartment, it may be difficult to enforce the obligation to pay if the property and its size are not correctly registered. In addition, mortgage finance will not be available if there are incorrect or missing property records against which a mortgage could be filed to secure a loan. This would apply to loans taken out by individual owners to purchase an apartment on the real estate market or to renovate, and also by the HOA if it borrows as an entity to finance major repairs or improvements.

ii. Legal Status and Registration of HOAs

To attain legal status, an HOA must be registered as a non-profit or non-commercial entity, or as a voluntary association for the purpose of managing the common property jointly owned by the members. Legal standing is necessary for the HOA to enter into contracts and to enforce obligations of the owners to the association or against third parties. The process of registration can be cumbersome and entails at least minor expenses. This may be a stumbling block to the formation of more HOAs in the region. Where there has been support for this process, as in Hungary and Romania, the percentage of buildings with HOAs is higher. In buildings without legal entities as HOAs, repairs are usually done on an ad hoc basis, with apartment owners voluntarily contributing and dealing with contractors as individuals rather than through a legal entity.

iii. Mandatory HOAs and Operating Procedures

The better laws, such as Hungary’s, provide that before condominium property can be registered in the land records, an association of owners must be formed and legal documentation regarding the building and ownership must be filed with local authorities. Similarly, the privatization laws in Hungary required an HOA to be formed in all former state-owned rental buildings where apartments were sold to tenants. Other countries, such as Romania, require an HOA, but compliance is not monitored or enforced. In Serbia, the law is ambiguous—while experts believe an HOA is required, it is not monitored or enforced. Slovakia law allows the owners to decide whether to form an HOA so long as the owners provide for regular maintenance and repair services through contracts with either a private firm or a public enterprise. Where the law makes HOAs optional, or requirements are not enforced, the result is relatively low percentages of HOAs in privatized apartment buildings.

In addition to lack of enforcement, there is often little if any organized effort to inform owners about why an HOA is beneficial to managing their property and maintaining its value. This seems to be the case in Serbia. Given the lack of clarity in the law and the failure to enforce the obligation by any authority as well as the lack of understanding among owners, HOAs are very rarely formed and individual owners are powerless to enforce rules against the others.

Each country’s law should clearly state that an HOA must be formed and that it have the authority to enforce obligations among the owners, including the obligation to pay their share for managing and maintaining the common property. Unless an HOA is required as a condition of registering the property as a condominium and guidance is provided by local governments or NGOs (such as in Hungary, Romania and Serbia), owners tend to lack the know-how, the skills, and often the will to organize themselves as an HOA and to go through the steps of registering the association as a legal entity. In addition, they lack the technical experience to take on the tasks involved in assessing the condition of their building’s structural and mechanical components and deciding what improvements are most needed, as well as the sophisticated financial planning and implementation skills needed to carry out a major repair or renovation.

The law should also provide at least basic operating procedures for the HOA—how it is established, what its rights and responsibilities are, what the rights and responsibilities of individual owners are, how funds are collected and managed and how delinquencies are handled, how elections and meetings are held and so forth. The laws in each of the four countries discussed in this report provide this framework, whether HOAs are mandatory or optional. The laws also provide that the owners are collectively...
responsible for maintaining the common property as well as individually responsible for maintaining their own apartments. However, all countries in the region are lax in enforcement of these requirements to varying degrees, and there is rarely any penalty imposed for failure to comply. If a building is in such poor condition that it presents a danger to the occupants or to the public, there may be housing code regulations to address this, but even in those cases enforcement rarely occurs.

The abrupt transformation to privatization means that guidance on the condominium laws must be provided and that governments should vigorously enforce maintenance and other owner responsibilities. The transition from state-owned allocation and maintenance of housing to resident ownership and responsibility came without adequate preparation and support for the new owners. Where training programs were provided under international donor programs, both for the residents and for local governments charged with regulating the safety and soundness of the condition of the private housing stock, more HOAs were formed and more buildings have been renovated. Yet even today, when the private housing market is well developed in larger population centers, most people fail to understand the relationship between the overall condition of the building and the value of individual apartments and they lack the skills to plan and carry out major repair and renovation projects.

Public versus Private Management of Condominium Property

Housing management in multifamily buildings is a major challenge, particularly when the construction was poor from the outset and systems and components have not been properly maintained or improved since. Exacerbating the physical problems are the social problems resulting from widely varied incomes in one building and the fact that most current owners expected to be tenants throughout their occupancy of the building. Costs have climbed steeply for utilities and other services, and some people remain nostalgic about socialism when basic needs were provided at very low cost. The Council of Europe and the UN Economic Commission for Europe, as well as leading housing policy experts and academicians, have all recognized that privatized housing maintenance and improvement is one of the biggest technical, social, and economic problems facing CEE today. 13

A major difference among CEE countries and the success of their privatized housing is whether or not property management services are widely available through the private sector. If not, owners are forced to fall back on the publically owned maintenance enterprises that, in the absence of competition, may continue to offer the same poor service they did under socialism. The presence of multiple private-sector firms has created a lively residential property management market in larger population centers in Hungary, Slovakia, and Romania. Serbia lags behind, as municipalities continue to offer public maintenance services to privatized buildings; this is the default choice, especially because so few buildings have HOAs. In a few cases in Belgrade and other major Serbian cities, residential developers have management subsidiaries that may take over after the new building is constructed, but there is reportedly widespread dissatisfaction with these services as well. In the case of this form of management as well as the public enterprises, the owners have no choices from a competitive private sector market, so service providers see no reason to improve. While the condominium laws of all countries allow the owners to select their form of management, the owners’ lack of organization makes it difficult for entrepreneurs to market private sector services successfully. This in turn makes it difficult for the owners to plan and finance major projects for building improvement.

The figures from Serbia on the value of the privatized housing and the projected costs to improve its condition demonstrate that development of private sector services can be attractive to entrepreneurs with financial and engineering skills. There is no shortage of these in CEE. As seen in Slovakia, when the government decided to privatize all maintenance enterprises, including construction and maintenance cooperatives, many skilled workers transitioned into the private sector and now provide better services at lower cost. Governments can continue to do their part to help the private property management sector grow by easing the cost and complexity of regulations that must be met to start new small businesses, particularly if the goal of the business is to serve the privatized housing sector. This will help build the country’s economy by providing jobs, encouraging the manufacture and sale of construction materials, and increasing the use of the commercial financial sector for renovation loans. As we know from experience in the United States and other developed economies, housing construction is a key indicator of overall economic health and has an advantageous multiplier effect in the economy. There is no reason that scenario should not also be true in CEE, especially as the region moves toward full integration with the European Union.

The real estate sales sector is well developed in all the countries in the region. Combining construction and property management partners or subsidiaries with real estate sales and development firms is a logical path for development of the management sector.

Condominiums and Utility Services

The relationship between privatized condominiums and utility service providers has been complicated and problematic since privatization, especially when there is no HOA. During the socialist period, heat, water, gas, and electricity were provided by state-owned enterprises with highly subsidized rate structures. Heat was often produced at neighborhood-wide plants rather than facilities serving one building or a small number of buildings. Residents had no control of temperature in the building or how much heat was consumed. Individual apartment metering for heat and water was virtually unknown (electricity was sometimes individually metered), so billing was ordinarily building-wide and divided among the renters on a per-unit or per-person basis—a further disincentive to conservation efforts.

Before privatization, amounts due were collected from the tenants by the housing allocation and maintenance enterprise, usually in the form of one payment along with the rent. This remains true in Serbia where public housing enterprises continue to provide maintenance services in the vast majority of buildings. Elsewhere, after privatization of housing and maintenance enterprises, state utility subsidies were phased out and utility services were often privatized, leading to much higher rates and more delinquencies in utility payments. Utility companies would prefer to contract with an HOA, which can be responsible for paying for services for the whole building and collecting fees due from the individual owners through monthly fees owed to the HOA. In some cases, discounts are offered when there is an HOA because management of collection is easier and less expensive for the service provider. Thus, the service providers could be strong partners in donor or private efforts to encourage formation of HOAs

Access to Finance for Renovation

Because of increasing utility costs, energy-saving projects such as installation of smaller scale heat supply sources (usually boilers for one or a small number of buildings), improved insulation, energy meters, and thermostatic controls have held highest priority for condominium renovation. As noted, projects of this magnitude are difficult to organize and implement without an HOA. In addition, they often cannot be accomplished with the owners’ available funds, even with a well-organized HOA, so access to bank loans or grant money from governments or donors is required.

Banks throughout the region are actively engaged in lending for the purchase of condominium units because condominiums make up a large portion of the housing stock, and the unit as an individual parcel of real estate can be used to secure a mortgage loan. On the other hand, bank loans to HOAs for common area improvements and renovation—either mortgage loans secured by some or all of the units or commercial loans secured by a combination of property and the income stream of the HOA—are possible but difficult to obtain. Even where there is an HOA it may not qualify for a loan because it lacks a history of regular collection of fees from the owners and strict enforcement of other HOA rules. And many banks remain unfamiliar with or uninterested in loan products suitable for HOAs.

The case study in the appendix illustrates successful bank lending to a well-run HOA in Slovakia, which accomplished a number of major renovation projects with a combination of owners’ funds, bank loans and grant programs available from the government of Slovakia. The HOA had to establish a clear record of successful operations to qualify for each form of outside funding.

Comparing CEE with the Former Soviet Union

IHC has previously published a report on HOAs in the Newly Independent States (NIS) of the former Soviet Union: “Homeowners Associations in the Former Soviet Union: Stalled on the Road to Reform.” As the title indicates, the situation in NIS is substantially more difficult than that of CEE. This is the result of the partial privatization process that the NIS followed: the apartments were transferred to the residents, but the common areas were left in public ownership. While homeownership rates are extremely high—around 90 percent in most countries—there are few HOAs because the owners have no obligation to maintain or

14 Lipman, 2012.
improve the common property, and neither the interest nor the means to do so.

With the common areas still in public ownership, most countries kept their public maintenance enterprises active at close to the same level as during the socialist period. This is regarded as a political decision, to maintain jobs for the pre-reform maintenance workers and to continue some level of government control in the privatized housing. As a result, maintenance standards remain the same, occupants have no sense of control over or responsibility for their buildings, and the private property management sector has failed to develop.

Another difference between NIS and CEE is the natural tendency for the CEE countries to follow EU standards and policies, as most of them are on the road to or have already achieved EU accession. CEE standards of housing size and condition are more like Western Europe’s than those of NIS. Cross border trade and employment between CEE and Western Europe is also prevalent, while countries in the NIS look to each other for models rather than to the West.

Seeking to correct problems caused by the failure to privatize the common areas, several countries in NIS have adopted second-generation housing privatization laws. These include Kyrgyzstan and Armenia, where donor-assisted programs pushed for further reform, and have funded a limited amount of renovation work, such as installation of water meters in buildings where there is an association to contract with the water company. The newer laws sometimes require HOAs or other form of building management. However, enforcement of these laws has been more difficult than in CEE. Because the countries of NIS were governed by a communist regime for a longer period of time than those of CEE, housing is in an even more deteriorated condition, and there is little trust among neighbors or between citizens and the government to foster the cooperation needed to make large-scale projects possible. Technical, social, and financial conditions all make the situation for privatized housing in NIS very dire indeed.

Overall, the situation in CEE shows more promise for developing HOAs that understand their legal responsibility for maintaining and improving the common areas, and for engaging owners in the process of renovating their buildings through cooperative efforts and with the assistance of professional financial and technical advisors from the private property management sector.

**Recommendations for Further Reform in CEE**

There are still many problems remaining in the establishment and effective operations of HOAs in CEE. Although the economic recession prevalent throughout Europe will be a factor impeding progress for some time to come, there is reason for optimism as a new generation of owners takes over—a generation that is likely to have higher incomes than their parents, the original privatizers, and grew up in a market economy. This will give them a clearer understanding of the benefits of organizing an HOA and improving the condition of their property and how these steps increase property values.

The following are suggestions for accelerating the formation of effective HOAs:

**Donor Assistance**

CEE countries that have shown the most progress in terms of organizing effective HOAs and making improvements in their buildings are those that received intensive technical assistance from international donors, particularly USAID. These include Hungary, Slovakia and Romania. Support was provided to national and local governments in drafting housing privatization laws and procedures and adopting comprehensive condominium laws; to citizens in understanding their rights and responsibilities as homeowners; to public property maintenance enterprises in the process of transformation to the private sector; to NGOs that would support and advise HOAs through the transition; and to the new homeowners to help them understand their rights and responsibilities.

These efforts continue and should be encouraged. As CEE countries move into full European integration, donor assistance is more likely to come from the European Union and the United Nations than the US or international development banks, and CEE central governments should continue to provide soft loans or partial subsidies for renovation projects, particularly those that increase energy efficiency. A requirement for participation in such programs should be a functioning HOA with a demonstrated
track record of properly collecting and managing funds and carrying out limited projects within the means of the owners. Engagement of professional financial and property managers and competitive bidding for construction projects should also be prerequisites to receiving subsidized loans or grants for building improvement.

**Assistance from Related International Associations; CEE Regional Conference**

There is open opportunity for private sector firms and real estate organizations from more developed economies, including the United States and other places outside the EU, to participate in the reform process, particularly in building a professional private property management sector. Partnership with international real estate, asset management, and appraisers' associations would be very beneficial in accomplishing this goal.

For example, IHC could lead an effort to organize a regional conference that could be used for networking and exchange of ideas and experience among CEE and US participants. It would also allow international real estate and property management associations to give presentations on how they might assist with development of their counterparts and cooperate with CEE partners in the private sector. Technical assistance could be provided in financial and physical management, energy auditing, maintenance and other services, and in responding to RFPs from condominiums.

**Additional Research on Status of HOAs**

As noted in several places in this report, there is a dearth of good data about the number of HOAs in the respective countries, what the main problems are that impede their formation and effective operation, and how these problems can better be overcome. This would take more intensive investigation than was possible within the resources available for this paper. CEE academic institutions and research organizations with an interest in housing and local realtor and small business associations could be engaged to assist with this work.

**Legal Reform to Mandate HOAs and Privatize Maintenance**

While most countries in the region have condominium laws that are serviceable for managing and operating privatized housing, some fine tuning and clarification would be beneficial. It should by now be apparent in the countries where HOAs are not required that the straightest road to improvement in the management and condition of the housing stock is to require that a legally authorized HOA be established in each building. Local governments and NGOs, including real estate and small business associations, can assist with the effort to organize and train owners to take over their responsibilities and to develop leadership skills necessary to overcome long-standing social and technical problems in their buildings.

This requirement must not only be mandated, but also enforced. After a period of time to allow for compliance, sanctions should be imposed on buildings that fail to form an effective HOA, i.e., a ban to selling individual apartments or to qualifying for loans, and fines for buildings that fail to meet basic health and safety standards. As a positive incentive to form HOAs, local governments can temporarily waive any fees normally required for registration of legal entities in privatized housing.

In addition, municipalities that still have public maintenance enterprises under their aegis should be required to privatize them. This will encourage the development of a competitive private property management sector.

**Public Information Campaigns**

Further reform efforts will require strong public information campaigns to convince citizens that HOAs are in their best interest; their housing will be more comfortable and more valuable if its condition is improved and this is far more likely to occur if the owners are officially organized. Mandatory HOAs will also help build the real estate market, leading more people to trade up or downsize as their needs require and helping apartment units to maintain or increase their value. Strong and effective HOAs would also help open condominium housing to the commercial mortgage sector for financing capital improvements.

Information dissemination will also help governments understand the connection between vibrant condominium and property management sectors, and their positive impact on overall economic development. This will help to overcome any lingering political
resistance to market-rate housing that operates wholly within the private sector, without government involvement.

Conclusion

Starting two decades ago, housing privatization throughout CEE was an early and hugely transformative reform effort on each country’s path from socialism to a market-based economy. The vast majority of apartment dwellers became homeowners, with all the rights and responsibilities that status implies.

Much work remains to be done, however, for the privatized housing sector to reach its potential in terms of value of the properties and satisfaction of the owners. There are many solid examples of major renovation projects to make the housing more comfortable, energy efficient and attractive, accomplished usually with a combination of the owners’ own funds, bank financing and partial grants or subsidies from government or donor institutions. These examples demonstrate the importance of having a well-run, legally authorized HOA to organize and implement large-scale improvements. To increase the rate of HOA formation in countries where it remains low, efforts must be made to improve laws and more strictly enforce their provisions, to encourage the development of private, professional-level property management, to provide commercial loans and partial grants to effective HOAs to make renovation more affordable for owners of all incomes, and to broadly disseminate information on the benefits of HOAs through government, NGOs, and the private sector.
Appendix

SUCCESS STORY: Major Renovation of Condominium at Miletičova 46, Bratislava, Slovakia

Prepared by Jaroslava Zapletalova, Bratislava, Slovakia

This is a case study of the conversion of a housing cooperative to a condominium with a homeowners’ association (HOA), and the subsequent major renovation of the building, which is located in Bratislava, Slovakia. The study documents the successes achieved by an active, well-managed HOA over the past 10 years. Major renovation was possible because the association is active, the building is well managed, sound construction practices were used, and cost effective repairs and improvements were selected. Funding came from the owners themselves, together with a number of other available resources described below.

Miletičova 46 is a 14-floor apartment house with 97 apartments and several commercial premises on the ground floor. It was constructed in 1968 by a Housing Construction Cooperative, a common practice in Slovakia during the socialist period. The ferroconcrete structure has panel/brick infills on the facade, and a basement with its own gas boiler room. There are seven apartments on each floor, with two elevators for vertical transportation.

Until 1993, in spite of the fact that the tenants had been accumulating a Repairs and Maintenance Fund, only small repairs had been carried out on an ad hoc basis without any long-term financial or maintenance planning. In 1993, the Act on Ownership of Flats and Apartments was adopted in Slovakia, giving apartment dwellers the opportunity to purchase the titles to their flats and a share of the common property in the building. The transfer was gradual at the beginning. In 2003, once there was a majority representation of apartment owners with title in the building, the HOA was established.

As one of its first acts, the HOA, having legal authority to act on behalf of the general assembly of owners, signed a contract for services with a specialized housing management company operating in the private sector. The management company prepared a technical audit of the building and an estimate of the financial costs for the individual repairs. The focus of the first year of the repair program was safety and security, since there had been an increasing number of burglaries in the building. The old entrance door was replaced with one that had a secure safety closing system. In addition, a second door was constructed in the entrance hall in order to prevent massive heat loss due to the height of the building and inadequate caulking of the exterior door.

In 2004, problems with the boiler room resulted in an emergency situation. At that time, the boiler’s efficiency was gauged at 56 percent. The HOA organized a bidding process and had the boiler room reconstructed in 2006. Since the existing repairs and maintenance fund was not adequate to cover this reconstruction, the HOA took out a loan in the amount of SKK 3.6 million (EUR 119,500). The reconstruction was combined with new thermostatic regulation of the heating system and other construction improvements in the basement, resulting in better use of the premises. The reconstruction of the boiler room resulted in a 35 percent drop in gas consumption in the building.

The following years brought about massive problems with a leaking roof, soaking down to the 5th floor. As a result, the owners realized that the roof of the building is problem for all the owners, not just those on the top floor. The complete reconstruction also required a loan in the amount of SKK 2.1 million (EUR 69,700). Complete reconstruction including insulation was implemented, based on an expert assessment of the conditions and a detailed project plan. A supplier was selected on the basis of a competitive bidding, and the HOA managed the reconstruction together with contracted supervising experts.
Recent increases in utility prices brought about consideration of how to achieve further energy savings. At the same time, the balcony railing were deteriorating, representing a threat to users of the balconies and pedestrians, with potentially fatal consequences. A bidding process was organized for projects to improve insulation of the building, including filling of the air gap in the gable walls with insulation foam, and replacement of the balcony railings.

The insulation of the building was completed in 2011, after three years of discussion among the owners, consultations with experts, and financial calculations. During this time, the HOA made use of the opportunity to qualify for a state subsidy for eliminating systemic building failures. This state program is designed to assist in elimination of such failures that had been caused by substandard construction at the time the building was built. The HOA also applied for a contribution offered by Ekofond, a foundation established by the Slovak Gas Company supporting projects aimed at decreasing boiler gas consumption and other measures aimed at reducing heat consumption, such as insulation and replacement of windows. The HOA was awarded subsidies in the amount of EUR 132,400 and EUR 75,783 from Ekofond for the work described, and it is eligible for an additional EUR 27,000 once it demonstrates 20 percent savings in gas consumption through 2012. Together with the money from the Repairs and Maintenance Fund in the amount of EUR 75,000 and another commercial 20-year loan in the amount of EUR 550,000, with the interest rate of 4.9 percent, the building was fully insulated and the balconies and their railings were repaired. Funds remaining after this work was done were used to replace both elevators, which were becoming safety hazards due to poor maintenance and substandard installation.

All works were contracted based on biddings—with 12 companies competing for the construction work and 13 companies for the replacement of the elevators. A special ad hoc selection committee consisting of experts from among the owners and the property manager reviewed both projects. The projects were implemented under the supervision of authorized experts with appropriate state certificates, with the supervision funded by the HOA. The reconstruction of Mileticičova 46 was awarded second prize in a contest for the best renovated building in Bratislava, with 19 buildings competing, and received a financial award of EUR 700.

Annually, a minimum of two general assemblies of owners are held, with average participation rate of 56 percent. From the beginning, the owners understood the importance of building-wide communication through the HOA, making informed decisions about the contributions to the Repairs and Maintenance Fund, and the best ways of investing accumulated funds. As a result, there are no long-term defaulters on payments owed to the HOA. Delays in payments are negotiated after a 3-month period, while the HOA, having the authorization from the general assembly of the owners, also considers social issues (sudden unemployment, illness, etc.). Those cases have been resolved through individual payment plans such as payments in installments.

Payments into the Repairs and Maintenance Fund have been gradually increased, from the original EUR 0.10 for a square meter to the current EUR 1. There has been no delay in payments of the loan taken out by the HOA, while 20 percent of the monthly sum accumulated in the Fund is earmarked for routine, on-going costs, such as revisions, mandatory technical controls, and small repairs.

Further repairs needed in the building include replacement of the electric vertical networks, to be finished by 2013, and detailed inspection and replacement of the water and gas networks, now planned for 2014 and 2015 when the first two loans to the HOA have been paid off.


