



Overview of the regulation and the management of housing policies  
*(Opportunities to use private rental stock for social purpose?)*

# ESTONIA

*Ave Hussar, mag iur  
University of Tartu  
Faculty of Law*

Emerging Private Rental Sector in Accession and Transition Countries:  
Is there an Option for Social Rental Agencies?  
Budapest, September 12-14, 2013



# Plan of the presentation

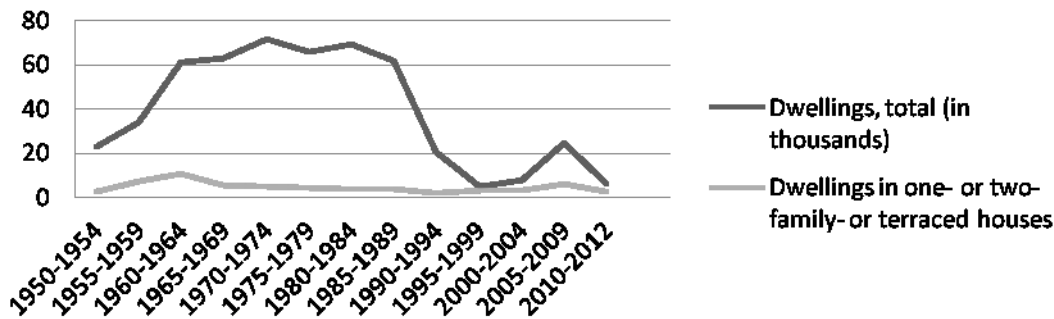
1. Development of the housing sector after the transition
2. New development in social housing sector
3. The analyses of the private rental sector
4. Conclusion: the opportunities to use private rental stock for social purpose?



# 1. Development of the housing sector since 1992

- Common inheritance

- Intensive apartment building 1960-1980
- Limited private ownership of (small) residential houses



Dwelling construction dynamics from 1950 to 2012 in Estonia

- No. of dwellings per 1000 inhabitants EE - **412**, LV - 369, LT - 312 (1990)
- Still shortage 5 % by 1989 (Estonia)



# 1. Development of the housing sector since 1992

- Tenants of restituted houses
  - concerned 47,200 tenants, i.e 3 % of the population
  - regulated rent periods until 2007;
  - rent control until 2004;
  - municipal housing options
    - *problem “solved” in Tallinn by 2009*
- Privatised ownership
  - mainly flats;
  - mainly non-Estonian families.



# 1. Development of the housing sector since 1992

## • Demographic context

- Number of permanent residents in Estonia - **17,3%** from 1,565 million to 1,294 million (1989-2011); (- **5,5%** in period of 2000-2011);
- No of households **599,8** thousands (2011) (575,3 thousands in 2000);
  - *Although the number of permanent residents has decreased by more than 75,000 persons compared to 2000, in 2011 the number of households has grown by 3%. This has brought along the decrease in the size of the average household from **2.33** members to **2.13** members.*



# 1. Development of the housing sector since 1992

## • Housing statistics (2011 National Census)

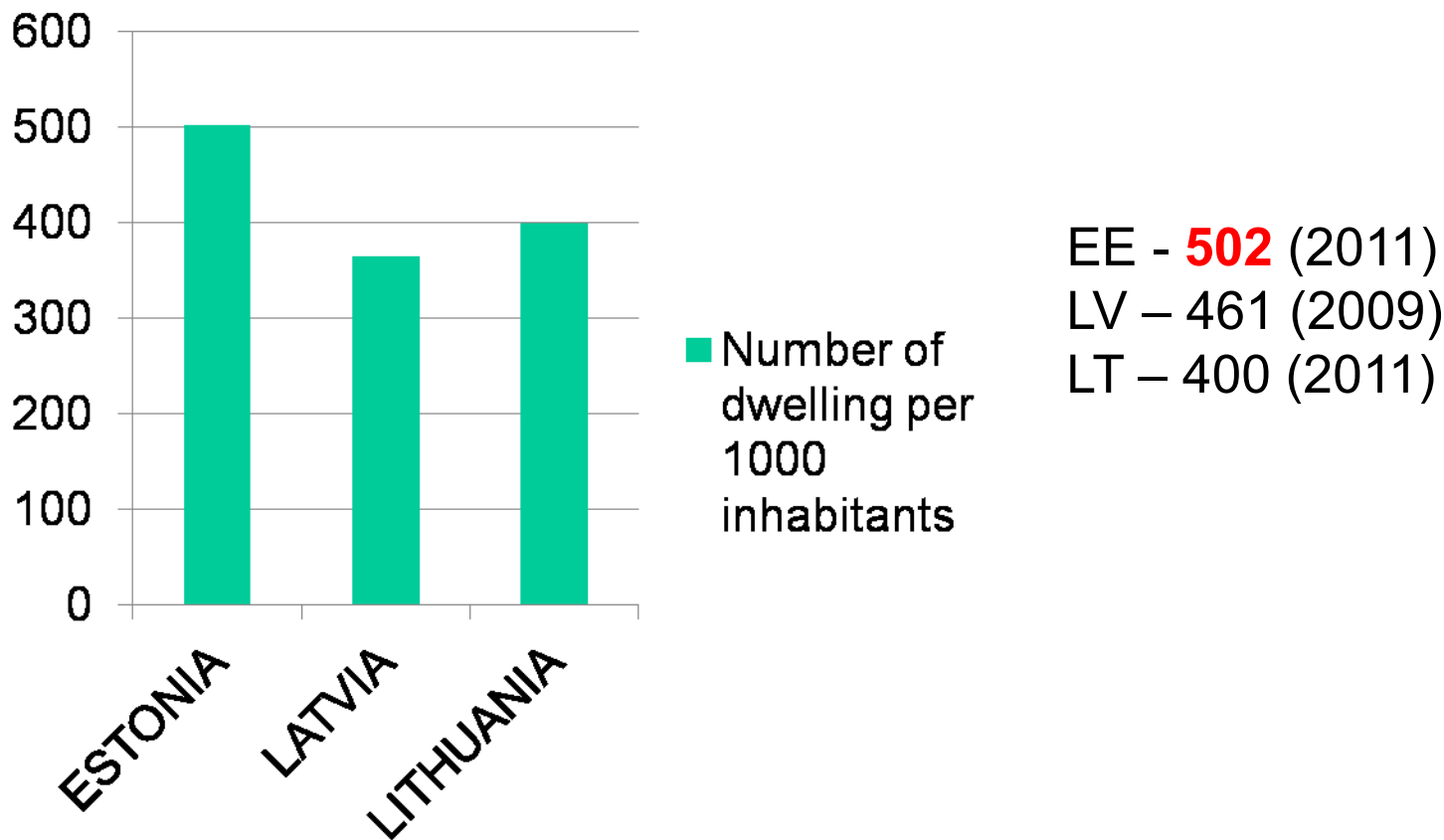
- No of conventional dwellings - 649 746 (+ **5.2%** since 2000)
- Unoccupied dwellings: **14,4%** of dwellings in total (in urban areas: 11,2 %, in rural areas: 21,1%);
- Average number of rooms per inhabitant: **1,24** (in urban areas: 1,18, in rural areas:1,37);
- New construction (1991 and later) – **14,8%** of total dwellings;
- Number of households (13 %) lacking elementary sanitary conditions.



## Number of dwellings per 1000 inhabitants

Source:

[http://www.housingeurope.eu/www.housingeurope.eu/uploads/file/\\_HER%202012%20EN%20web2\\_1.pdf](http://www.housingeurope.eu/www.housingeurope.eu/uploads/file/_HER%202012%20EN%20web2_1.pdf); Statistics Estonia

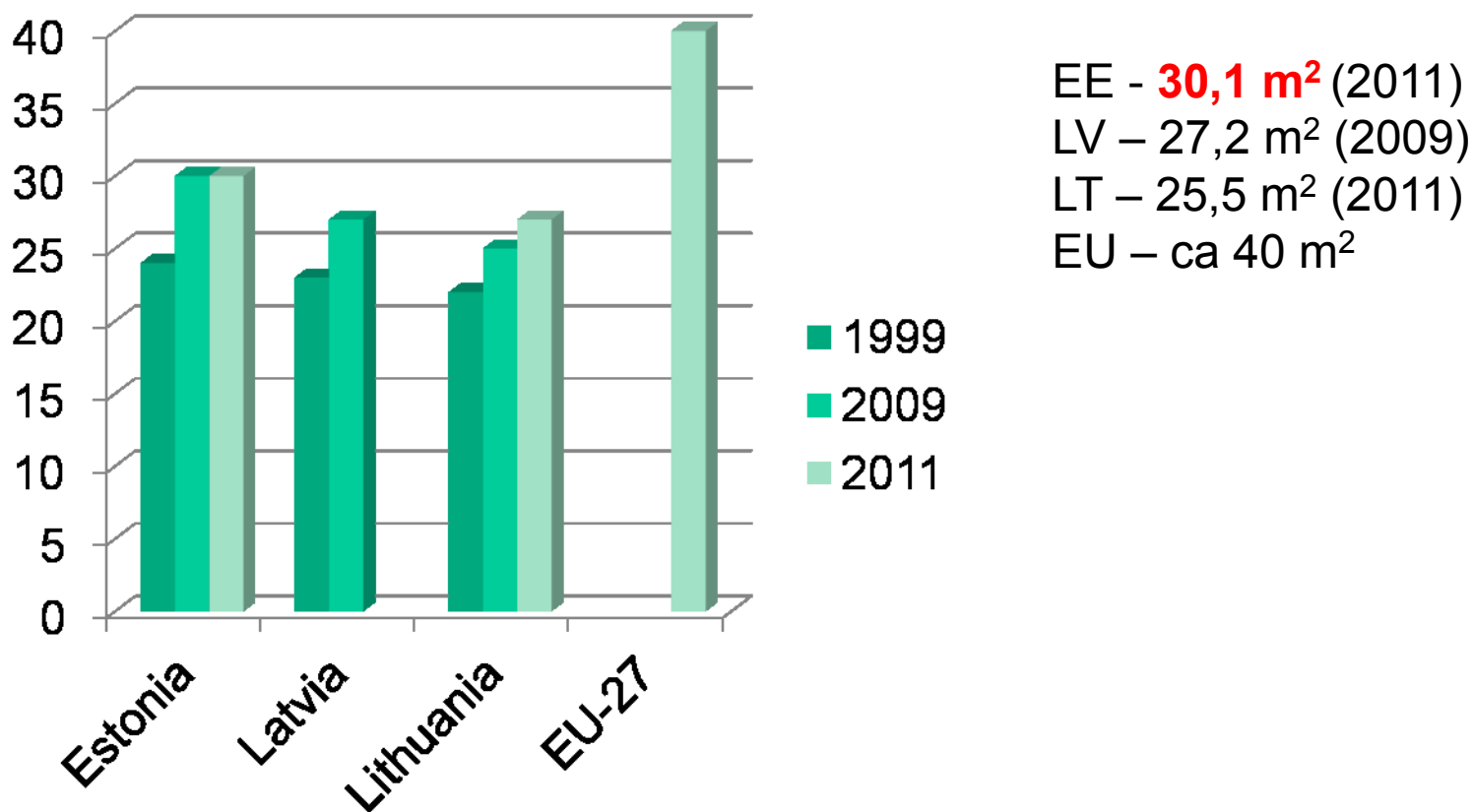




## Useful floor area of dwellings per capita, in m<sup>2</sup> (1999-2011)

Source: National statistics,

[http://www.seb.ee/sites/default/files/web/files/uudised/baltic\\_household\\_outlook\\_oct\\_2012.pdf](http://www.seb.ee/sites/default/files/web/files/uudised/baltic_household_outlook_oct_2012.pdf)

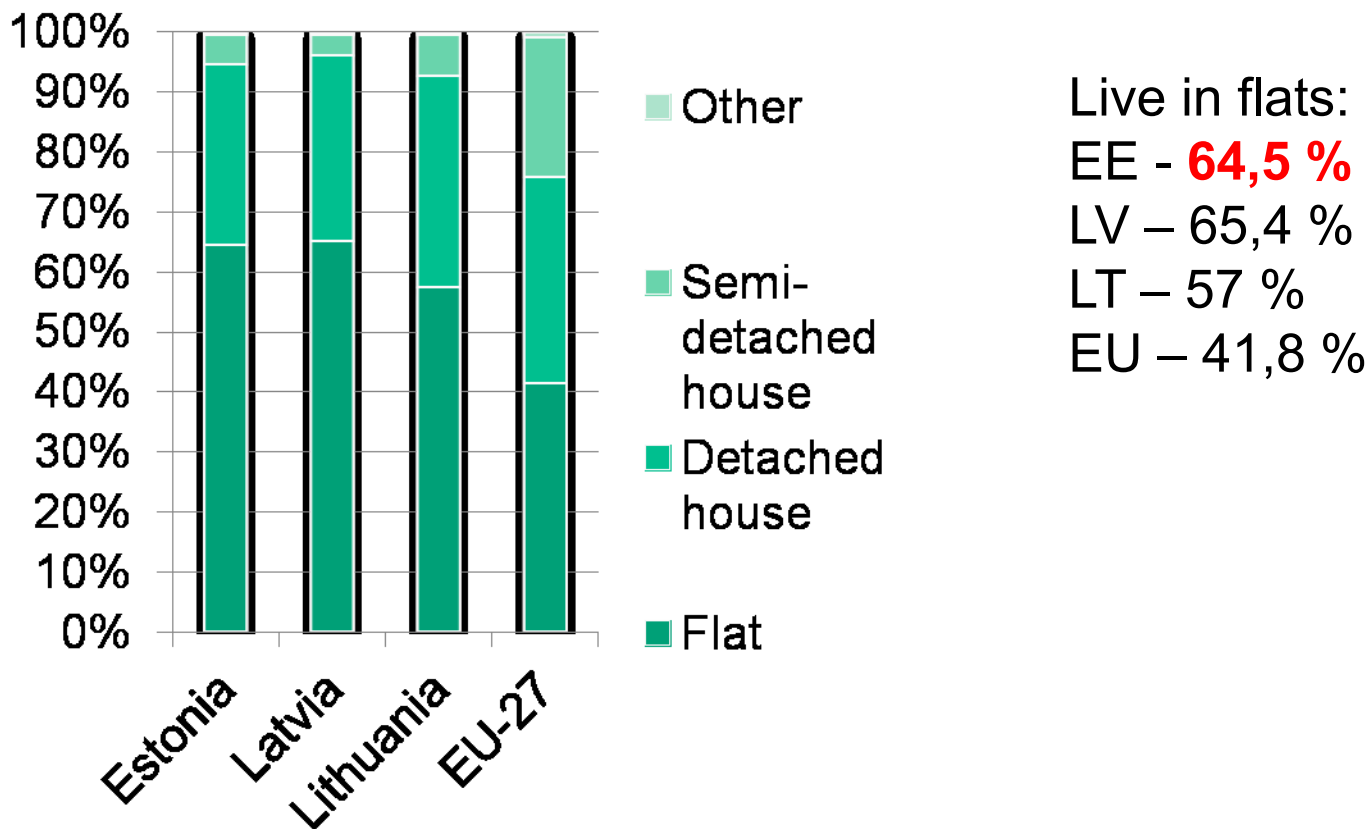






## Distribution of population by dwelling type, 2011

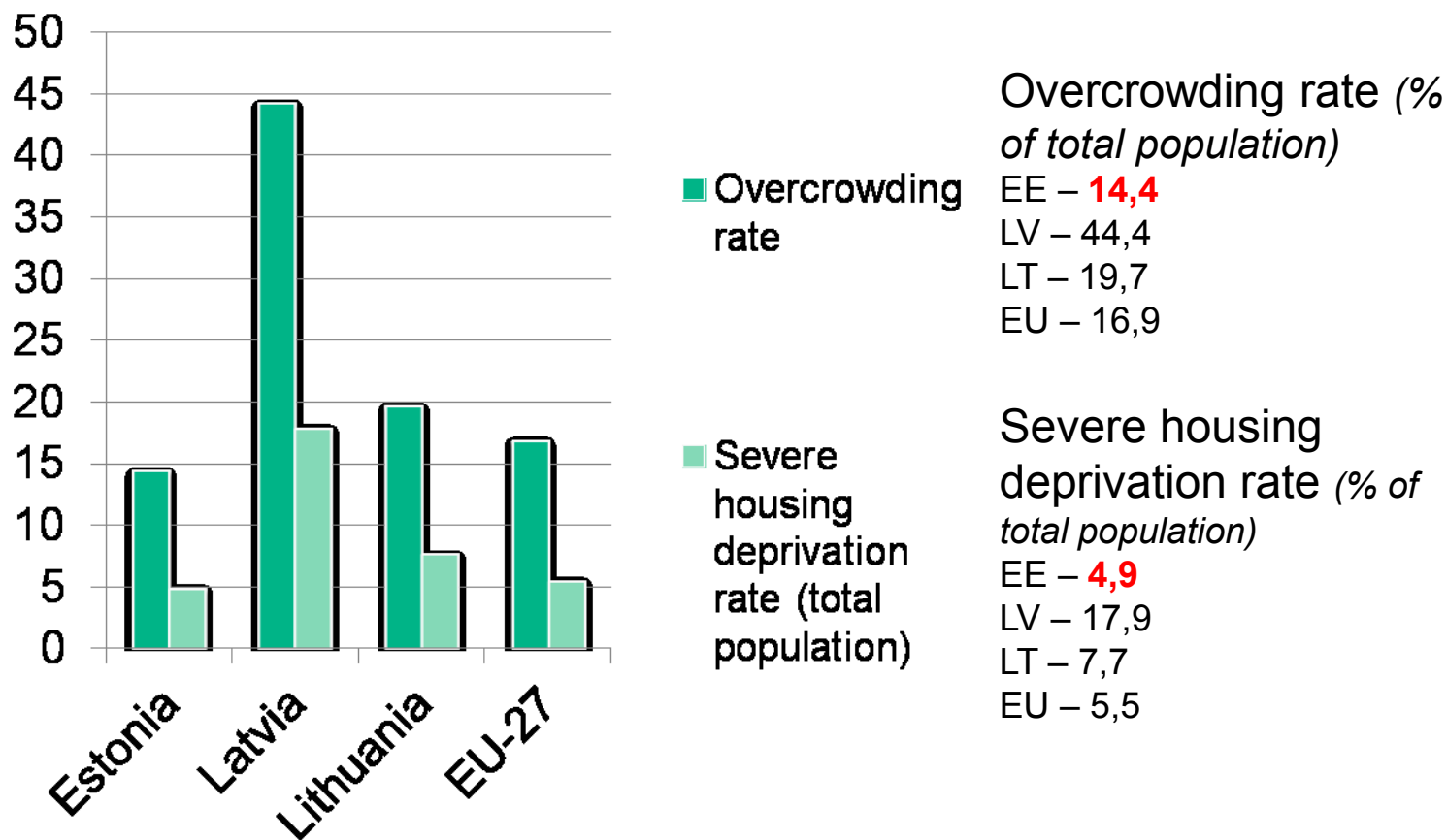
Source: Eurostat (online data code: ilc\_lvho01)





## Condition of housing stock (2011)

Source: Eurostat (online data code: ilc\_lvho01)

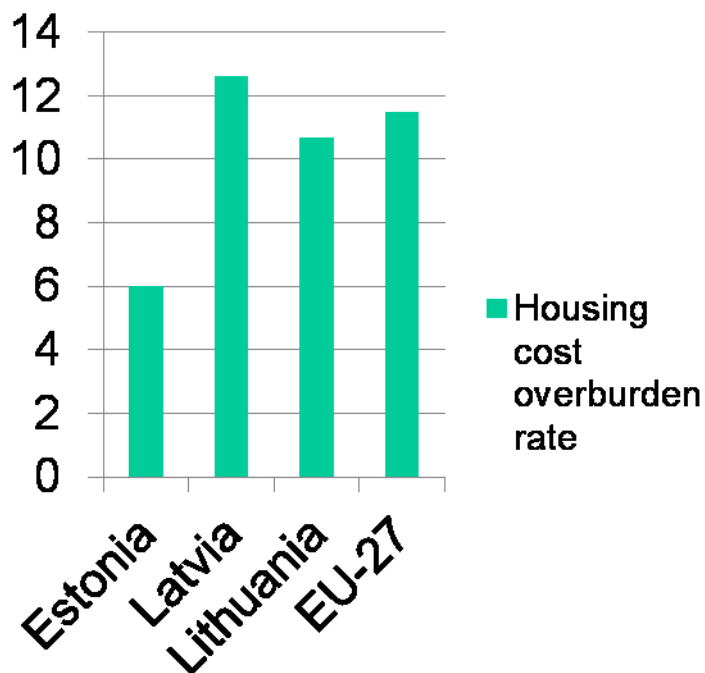




## Economic context

### Housing cost overburden rate (2011)

Source: Eurostat



### Household expenditure:

Estonia (2010) - 19 %

Latvia (2011) - 16,6 %

Lithuania (2009) – 15,9 %

EU 27 (2009) – 22,9 %

### Ratio of private loans to GDP:

Estonia: 44 %;

Latvia: 37 %;

Lithuania: 25 %.

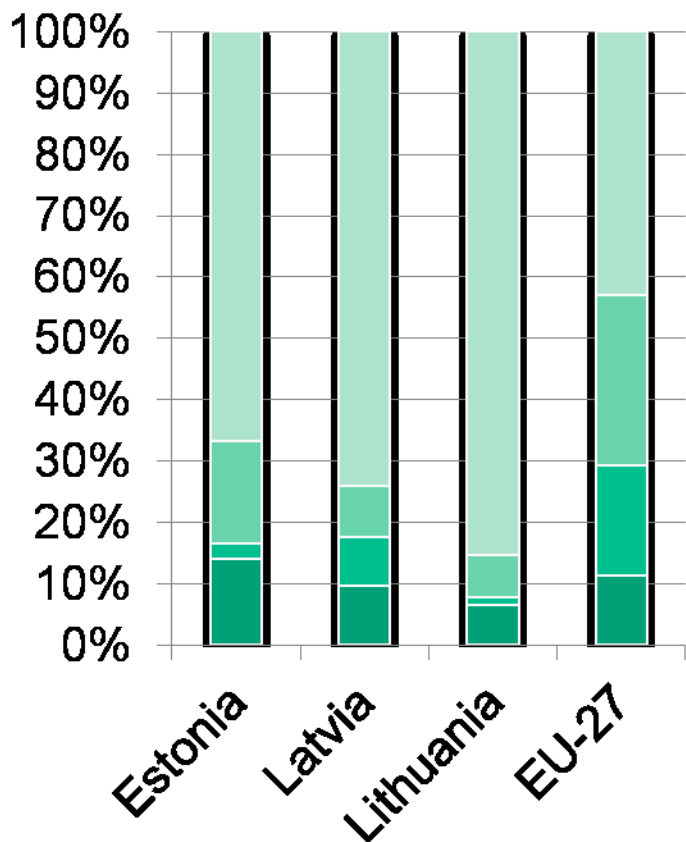
Proportion of housing loans in the overall portfolios: EE - 84 %, LV - 81 %, LT - 79 %.



## Market share of different types of tenure (2011)

Source: Eurostat (online data code: ilc\_lvho02)

[http://www.seb.ee/sites/default/files/web/files/uudised/baltic\\_household\\_outlook\\_oct\\_2012.pdf](http://www.seb.ee/sites/default/files/web/files/uudised/baltic_household_outlook_oct_2012.pdf)



Owner occupied (% of the population):

EE – **85,5 %**

LV – 84,1 %

LT – 93,1 %

EU – 70,7 %

Private ownership of housing stock (% of housing stock):

EE – **97 %**

LV – 97 %

LT – 89 %



# Tenure structure

- Home ownership: 85 % (*in urban areas: 82 %, in rural areas: 87 %*) (*estimation*)
- Rental bases tenures: 15 % :
  - Private rental tenure: 11 %;
  - Public rental tenure: 4 %.
    - Social rental housing (Social Welfare Act Art. 14)
      - disabled persons, persons and families with social needs (*low income etc.*)
    - Other public housing
      - housing for persons from restituted homes (Principles of Ownership Reform Act, Art. 12, para 5)
      - other target groups determined by municipality (or state).



# National housing policy

- **Constitution** – no positive right to housing, but:  
Art 28. Everyone is entitled to protection of his or her health.
  - *Every citizen of Estonia is entitled to government assistance in the case of old age, incapacity for work, loss of provider, or need.*
  - *Families with a large number of children as well as people with disabilities enjoy special care of the national government and of local authorities.*
- **Social Welfare Act, Art 14 Housing services:**
  - ***Local government bodies are required to provide dwellings for persons or families who are unable or incapable of securing housing for themselves or their families and to create, if necessary, the opportunity to lease social housing.***



# National housing policy

## The Estonian Housing Development Plan for 2003-2008

*(Ministry of Economic Affairs and Communications)*

- Expanding the municipally owned housing stock
  - Tenants of restituted houses
  - New labour arrivals
  - Socially vulnerable groups
- State guarantees to housing loans of young families, young specialists and tenants of houses returned to their legitimate owners
- Reconstruction of apartment buildings and the relevant awareness raising
- Allocation of subsistence benefits
- Use of social housing





# National housing policy

## The Estonian National Housing Development Plan for 2008-2013

- **Problems** admitted:
  - Housing is **not accessible** to every resident in Estonia.
    - */.../ about 3 000 – 3 500 homeless persons in Estonia (2 000 in Tallinn). Every year ca 300 children without parental care become adults and need housing; /.../. Ex-convicts also require housing (around 2000). The 65 900 retired households, as well as students with economic difficulties would be the potential tenants of municipally owned housing.*
    - *The demand exceeds the supply in Tallinn and in all major cities. Across Estonia the local governments would need an additional 6 000 municipal and social dwellings.*
  - Limited number of apartments adapted for **person with special needs**.





# National housing policy

## The Estonian National Housing Development Plan for 2008-2013

•**Objective:** to ensure access to suitable and affordable housing for everyone

•**Target group:** Low income households: large families, young families and young specialists, children and adolescents without parental care, disabled persons, the elderly, students, ex-convicts and probationers and also local governments.

•**Measures:**

1. Improving access to dwellings (for persons with special needs)

- Support to adapting the housing to meet special needs.
- Production of guidelines for technical solutions aimed at creating access to buildings.

2. Improving possibilities for acquisition of housing

- Deduction of housing loan interest paid from taxable income - ca 20 million euros/ 100 000 applicants yearly
- State guarantees to housing loans (since year 2000, 23 184 households (young families, young specialist, tenants of restituted houses) have benefited)

**3. Improving housing conditions**

4. Ensuring compensation of housing cost to persons with coping difficulties

- **Subsistence benefit**

5. Improving the legal environment and increasing administrative capacity



# National housing policy

- **The Estonian National Housing Development Plan for 2008-2013 (cont)**
- **Measure: Improving housing conditions**
- **Activities:**
  - Home support for large families – about 2,2 million euros /250 families per year
  - **Support for increasing municipally owned housing stock –**
    - The state assists the construction of a rental buildings, the purchase of rental flats, or the renovation of existing building or flat(s), by covering **50%** of the price of purchase, construction or renovation. **In reality:** measure not implemented during the period of 2008-2013
  - Offering reverse mortgage for the elderly
  - Mapping the rental housing stock
  - Support for PPP projects of the rental housing stock



# National housing policy

- Subsistence benefit

- **76.70** euros a month for a person living alone or firstborn member of a family and **61.36** euros for the second and each succeeding member of a family.
- No of persons receiving the benefit (as from the total population) 1,7 in 2007 to 3,0 % in 2012.
- Example of Tartu: **5,50** euro/1 m<sup>2</sup> in a month vs average market rent august 2013 – **7,1** euro; (Tallinn **6,40** euros vs **8,2** euros)

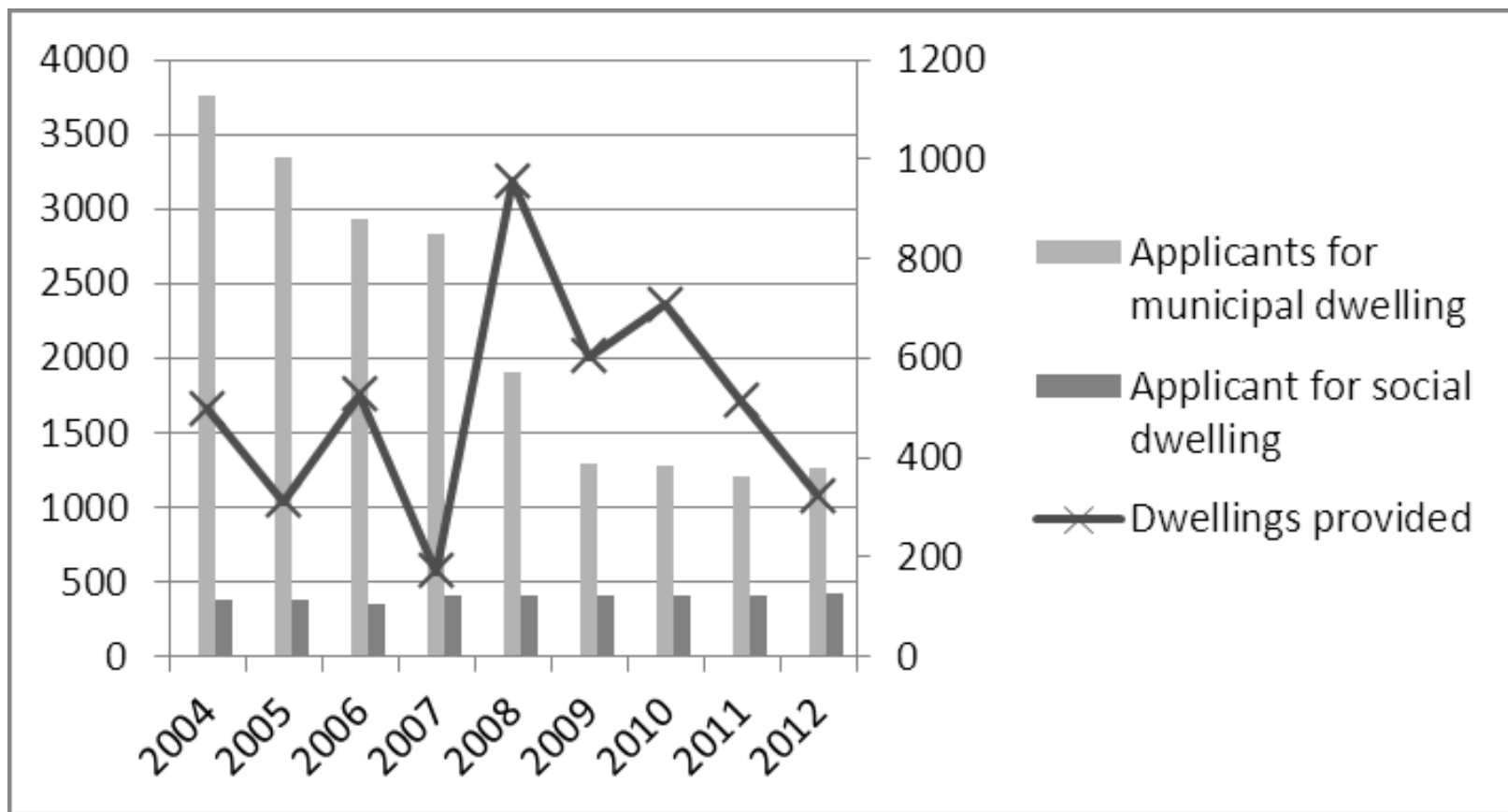


# Local housing policy - Tallinn

- No of inhabitants - **427 894** (growing tendency 2008-2013), i.e. 31% of the Estonian population.
- The residential housing stock owned by the city has currently 4,200 dwellings of which ca **3,500** are suitable for living. (i.e. 2% of the total residential fund in the city).
- The only municipality that have implemented **special residential housing programs**:
  - Residential building program “5000 dwellings to Tallinn” (2002 – 2008). Target group: forced tenants, persons urgently needing dwelling, *incl. PPP pilot project (680 flats)*.
  - II residential building program (2008–2011). Target group - municipal dwellings for employees of institutions administrated by the city, young families, *incl. PPP project (1215 flats)*.



# Tallinn (cont.), as a result:





## 2. New developments

- Development plan as of 2013 - ...?
  - National housing policy as a
    - part of energy saving policy;
    - part of social security policy;
    - subject to political will.
  - It is generally acknowledged that there is need
    - to **support labor force mobility** by providing more rental dwellings,
    - and make **rental market more transparent.**



## 2. New developments

- Development plan of Tallinn 2014-2027
  - **Vision:** in 2027 the percentage of municipally owned rental housing stock for Tallinn constitutes **7.5%** of the total housing stock.
  - One of the sub-objectives: Purposeful housing policy of the city and guaranteeing that those needing help will obtain housing from the municipal residential building fund:

Performance indicators	2014	2015	2016	2017
Number of dwellings in complete buildings belonging to the city	2321	2321	2321	2421
Number of dwellings taken into use from private sector	1895	1895	1895	1895
Number of social accommodation units	6	6	6	6





## 3. Private rental sector

- The supply side
  - Mainly half-professional or „accidental“ landlords; almost no institutional landlords.
  - Rental business is generally profitable only while the existing (usually restituted or privatized) dwelling does not need major repair works or reconstruction.
  - As to the new dwellings – family houses or high-quality apartments
    - properties are often let for rental with the prospective of the owners taking the dwelling back into their own use and/or depending on market conditions (rent covers loan payments while the resale prices do not cover the outstanding loan).
  - Problems connected with personal income tax (21 %)





## 3. Private rental sector

- The demand side
  - Which social groups should be covered by social housing services. Definition “people in need” is more than arbitrary.
  - Home-ownership is still an ideal for most young families, but lack of financial means for initial payment for mortgage loan and the need for mobility may postpone the decision.
  - Irrespective of family status or age group, the perceived need for renting apartment from the municipality can be observed as an economical inevitability, on the other hand as a housing relationship which gives the feel of security.
  - Subsistence benefit



## 3. Private rental sector

- The demand side
  - Measures in favor of home ownership:
    - Guarantees
    - Tax deduction of mortgage interest rate
    - From 2013 the home owner's land tax exemption ( 0.15/0,2 hectares)



## 3. Private rental sector

- Operation of the private rental sector
  - Commercial rental regulation – balanced? However, market conditions may not respond to the need of the potential renter: flexibility of contract terms, possibility to register the dwelling as a permanent place of residence, size of the dwelling, lack of amenities.
  - Informal risk management - selection of the tenant, (unlawful) discrimination, leaving contracts unformalized or forcing term contract.
  - Examples of formal risk management:
    - Contract – no format requirement. However, ...
    - Registration not required, but ...
    - Security deposit in the amount of up to three months' rent can be agreed.
    - Increase in rent is possible only ...
    - Pledge in the movables
    - Upon the termination of the contract (formalized or factual), the former tenant can not be evicted without a court decision.



## 4. Conclusion: opportunities to use private rental stock for social purpose

- Experience with PPP so far?
- Interplay with subsistence welfare benefit system?
- Construction costs and matters of efficient volume?
- Matter of quality and structural problems rather than problem of quantity?
- Is there a necessity?
- Is there political will?



Thank you!