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Housing Market and Labor Mobility

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“In Search of Opportunities: How a More Mobile Workforce Can Propel Ukraine’s Prosperity”

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The views expressed in this paper are those of the author and do not necessarily represent the views of neither the World Bank, its Board of Directors, or the countries they represent, nor the institution with which the author is affiliated.

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1. **Delineate conceptually what are the different ways in which the housing market can matter for labor mobility**

Labour mobility is determined by a whole set of different factors, but housing market is clearly one of the most important ones. Individuals do not make employment decisions without taking into account options of housing market. Economy constantly changes and diverse opportunities arise in different locations at different points of time. Badly functioning housing market can cause low labour mobility and restrain the ability of employers to match vacancies in specific locations. The issue of labour mobility is especially vital for developing countries. According to Paci et al. (2007), labour mobility in the EU tends to be lower in new member states located in Central Europe and Baltic region comparing to advanced European countries. Synovate, a global marketing research company, conducted survey of labour mobility in Russia, Ukraine, Bulgaria and Serbia (Synovate, 2010). Results of the survey showed extremely low desire to relocate in Russia and Ukraine. If offered 1.5 times increase in salary, around 80% of respondents in Russia and Ukraine would still refuse to relocate, though in Bulgaria and Serbia only 50% of respondents would not change their location on this conditions. Answering to the question what would change their mind, more than 50% of respondents in Russia and Ukraine indicated provision of free housing. Moreover, imperfections in housing market were mentioned in this survey as one of the main reasons for low mobility in Russia and Ukraine. Different characteristics of housing market that can influence labour mobility are discussed below.

**Homeownership generally reduces mobility compared to renting.** According to many studies, home owners are less likely to change their location compared to those, who rent their dwellings. The main idea is that home owners face high transaction costs if they wish to relocate. In fact, homeownership has two contrary effects on employment:

I. Increases unemployment due to low mobility (see Figure 1). This was confirmed by studies of Green and Hendershott (2001), Nickell (1998).

II. Decreases unemployment due to higher incentives to keep current job and stay at present location. Van Leuvensteijn and Koning (2004), Munch et al. (2006)

According to Oswald (1999), there are five factors that support argument why homeownership leads to higher unemployment:

1) There is a direct effect from owning a home. Selling home and finding new dwelling is expensive. These expenses can be direct (actual losses if selling price for old house is lower compared to buying price for a new one, transportation cost of moving, buying new furniture, etc.) or indirect (costs of familiarizing with new area, looking for another school for children, problem of social isolation in a new place, etc.). If new opportunities arise in different location, home owners can be reluctant to move since transaction costs might be too high for them.

2) Immobility makes economy inefficient. If labor market is immobile, workers may take jobs that do not correspond to their abilities. Labour productivity drops, production costs rise and real income becomes lower. Comparing to mobile society, in this situation real wages have to be lower and prices higher. Inefficient economy lowers number of new vacancies.

3) Home owners tend to commute over longer distances compared to renters, since the former prefer to stick to homes they own. This leads to transport congestions and makes getting to job more costly for commuters. Thus, it reduces the gain from having a job and increases attractiveness of not working.

4) Housing markets dominated by home owners can impede newcomers (mostly youngsters) from settling in their neighborhoods close to their jobs (this idea was first mentioned by Kain,1968). Even if certain area is attractive from the point of view of employment opportunities, but is dominated by home ownership, young people and people with low income will not be able to come and work there.

5) Home owners are less likely to let entrepreneurs to start their businesses in residential areas than renters. Residents that own dwellings consider adjusted areas as part of their homes and may feel hostile towards new developments. Since home owners can form strong political lobby groups, they can enforce land development restrictions and tougher planning laws and discourage business start-ups.

*Figure 1.1 Unemployment Rates and Owner-Occupation Rates in the EU Countries in the 1990’s*
Development of financial markets in a number of ways determines labour mobility. Main factors are following:

Better access to credit and lower down-payment requirements increase mobility as was supported by studies of Hoj (2011), Oswald (1999), Coulson and Fisher (2009), Haurin and Gill (2002), van Ommeren and Leuvensteijn (2004). This factor is especially important for young workers. Usually, social housing is not widely available, especially if demand for housing rapidly increases due to inflow of labour force. Renting housing may be considered inferior to owning it, since people may want to plan their future such that they wish to be living in their own dwellings. In this matter, ability to obtain affordable credit for housing can be of crucial importance for potential employers. When people will be deciding whether to relocate to another region in response to new employment opportunities, well developed financial institutions can facilitate labour migration. Ability to obtain mortgage without long decision period or option to transfer mortgage from one region to another will be important for people with some financial savings. Low down-payment requirements and affordable interest rates on mortgage are of special importance for young employers.

Bridge et al. (2003) also argue that reduction in housing costs may have an indirect effect on young families: less spending on dwellings gives families greater resources for purchases of educational resources. Educated people will tend to be more flexible and can easier change their location if demand on labour markets changes.

Deregulated housing market and responsive supply evens out housing costs across regions and increases mobility. (Barker, 2004; Cameron and Muellbauer, 1998). In conditions when demand for labour force is dynamic and migrates from one region to another, ability to change dwellings efficiently is crucial for labour mobility. As was mentioned above, giving up old housing and finding a new one can be quite costly. If supply on housing market is inelastic and overregulated, such transaction costs can be too high and residents will be reluctant to change their housing. They would rather stay in their old dwellings, though employment opportunities in other regions can be brighter. On the other hand, if housing market can respond rapidly to increased demand, employers will be able to follow labour market requirements. It is important that separate regions do not impose too many regulations on the way of building new houses, selling or renting out existing ones. If regulations of a housing market are not burdensome and uniform across country, it will support labour mobility.

Moreover, those who have mortgage have incentives to remain employed or to be re-employed and are more mobile (Bridge et al., 2003). Those who are obliged to repay mortgage generally have more rigid financial discipline and are more organized compared to those, who rent dwelling, not to mention occupants of social housing. Since loosing mortgage is costly, mortgage takers will make serious efforts in...
order to keep their existing dwellings, and thus they have to be employed. In order to do so, this category of dwellers will consider a wider selection of job offers even if it requires commuting or changing location.

**Negative equity at housing market** can cause immobility. If house prices significantly fall, job seekers are unable or unwilling to sell their property without significant loss. Thus, even if they agree to relocate, they cannot do it and become “house locked”. Ferreira et al. (2008) use data from 1985 to 2005 of American Housing Survey and estimate that negative home equity and rising mortgage rates have negative influence on household mobility. The effect is rather large: owners with negative equity are almost 50% less mobile than the average American household. Henly (1998) employs UK household longitudinal data to study the impact of negative housing equity on residential moves. The author finds that homeowners, who experienced negative equity in the early 1990s did not move in response to changing labor market conditions. Recent evidence has showed that negative real estate equity in USA hinders from changing location since owners cannot sell their properties without losses.

**Social housing** makes labour less mobile compared to private rentals. There are several components in support of this argument. First of all, tenants would like to keep their subsidized social housing and pay lower rate than market one (Dujardin and Goffette-Nagot, 2008, Menard and Sellem, 2010; Flatau et al., 2003; Hughes and McCormick, 1987). Since housing expenditures is as a rule the largest single item of the households expenditures, affordability of the accommodation will dominate decision of households in respect of taking a new job. Having subsidized and guaranteed dwelling, households may prefer to keep current job, even if it’s less rewarding than new opportunity in another location. They may even stay unemployed rather than relocate. Second, social housing is usually associated with rigid government policies. Queues to get social housing are usually long due to its insufficiency and it’s difficult to transfer this kind of dwelling to another region. Once people settle, they prefer not to risk and keep their current housing (Battu et al., 2008). It might be the case that if social housing is administrated by local authority, it is possible to change apartment, but only in local area (Boyle, 1995). This factor also seriously reduces mobility of laborers: in the best case they will commute to their jobs, but still in their local area. Finally, it is argued that high concentration of low-income and unemployed people in social housing areas decreases the quality of social networks and it becomes more difficult to move out of such area (Reingold, 1999). People in social housing areas are likely to have less information about availability of jobs, especially in other areas. Also, people in such areas might tend to form closed communities with a culture of refusing to take any job and abusing social benefits, a phenomena called “benefits culture” in many countries.

**Housing allowances**, if they are portable, do not reduce mobility as much as social housing (Hughes and McCormick, 1987). If authorities do not provide social housing directly, but rather help low income households by monetary subsidies, which are portable, the former will be less “house locked”. Comparing to direct distribution of social housing, housing allowances are especially beneficial if they can be spent on any type of rental houses, both social and private. In this case low income households will not be limited only by dwelling from authorities, but can choose from private housing and the latter tends to react to changing market demands much quicker. Thus, Households will be able to bypass government rigidities concerning long queues due to insufficient quantity of social housing as well as restrictions to stay in certain area if housing is provided by local authority.
2. Is the rental market underdeveloped? Why is that?

Ukraine lacks efficient rental supply both from private and public rental markets. Similar to many former communist CEE countries Ukraine used to have large public rental stock (see box 2.1). The state largely controlled the housing sphere in the USSR. Prior to the 1990s, housing ownership was restricted to peasants’ private houses in villages, with most urban housing being municipal, state or cooperative owned (Unicredit Group, 2008).

**Box 2.1. Housing Policy in the former Soviet Union**

Dwellings from public housing stock were allocated to citizens who were registered in waiting lists and were eligible to upgrade their living conditions. Such housing was provided under unlimited in time rental contract. The occupants and their families enjoyed extraordinary tenant protection, called “quasi-ownership” tenure. Once they occupied an apartment, it was almost certainly theirs for life and it could be passed on to their relatives (UNECE, 2005).

The housing was provided at a very low cost, as state (via housing management companies) ran and maintained the houses. Tenants were supposed to pay fee for the use of dwelling (rent) and for communal utilities. The rent constituted just about 1% of the median family income. State subsidized up to 90% of the utilities costs.

The state also dominated in housing construction. As funding available for housing construction was never sufficient to cover demand, housing allocated by the state was in chronic deficit in the Soviet Union. Most of the households had to wait from several years to a decade or two to obtain the separate dwelling.

Massive “give-away” housing privatization after the collapse of the former socialist system downsized rental market to very low levels. During 1993-2007 almost 1/3 of housing stock in Ukraine (6464 thousand dwellings) previously owned by the state and provided for unlimited in time rent was privatized. At the same time, remaining public rental stock is gradually diminishing and disappearing (see figure 2.1)

**Figure 2.1** Dwelling stock by tenure status, 2000-2009

![Dwelling stock by tenure status, 2000-2009](image)

*Source: the State Statistics Service of Ukraine*

Collapsed in transition, but then revived residential construction has been oriented completely towards ownership construction. Professional investors and developers do not enter rental housing construction market. The situation is caused by the following reasons:

- Rental housing development is a long-term business. However, housing developers are oriented towards getting short term benefits. They often are subsidiaries of the construction companies and long-term investment is not their core business (Amann, 2005).

- Underdeveloped financial markets lead to additional shortage of housing developers that may rely on the institutional financing.

- Weak tax incentives/subsidies for private rental investors. In countries with significant rental market (e.g. US, Germany, France, and Australia) landlords are eligible to a wide range of cost deductions (interest payments, local property taxes, depreciation) from rent revenues before being taxed; they may count on loan finance at favorable interest rates for investment in rental stock. Also reductions in capital gains taxation are used to stimulate long-term rental investments (see Oxley et al., 2010).
Amann (2005) points out to other factors that continued determine strong preference for property in post-transitional countries after “give-away” housing privatization has been mainly completed:
- Previous negative experience. Before housing market crunch in 2008, real estate was viewed as the most secure asset to invest in which keeps its value while savings in the form of cash or banking deposits might get lost.
- Limited choice of other investment instruments due to underdeveloped financial market.
- Pooling economic potential of several members of family, including those working abroad, in order to purchase housing.
- Low running costs of housing maintenance subsidized by the state.
- Reliance on support from parents. The decline in population in many countries allows a reliance on inherited inter-generation assistance (UNECE, 2005).

As a result, Ukraine maintains one of the highest nominal homeownership rates in the region (see figure 2.1). Owner occupancy rate in Ukraine (95.1%) is comparable to that in Romania (96.5%), Lithuania (91%), Hungary (89.8%), but is much higher than in Germany (46%), Austria (57.5%), France (63%), USA (67.2%) and overall in EU - 27 (73.5%).

Small formal rental sector leads to flourishing of a grey market often with undocumented rental arrangements, tax evasion and insecure landlord/tenancy rights which discourages higher residential mobility and labor market flexibility in Ukraine.

The regulatory environment
Legal provisions regulating the rent of housing are set in the Civil Code (CC, chapter 59), Housing Code (HC, chapter 6) and Tax Code (TC).

Private leases are not subject to obligatory notary certification and registration. The Housing Code requires that all private rent contracts shall be registered at the executive committee of the local council (registration typically is carried by municipal servicing housing company – “Zhek”). Nevertheless, there is no explicit liability in case of the absence of such registration. The procedure of registration is not definite, and usually it is avoided.

Private leases are not subject to strict rent controls:

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1 In October 2010 Ministry of Justice issued the instruction implying that obligatory registration of property rights is not extended to rental contracts. Therefore they are not subject to registration neither in BTI (Bureau of technical inventory), nor in specially authorized body responsible for registration of property rights (territorial entities of Ministry of Justice) – since January 1st 2012. http://www.minjust.gov.ua/0/11759
2 http://www.yurpractika.com/article.php?id=10006902
The CMU passed the Resolution “On approval of methodology for assessing minimal rental payment for lease of private real estate”. The rates shall be calculated by local councils and are taken into consideration by state tax administration when it verifies lease income declared by the landlord. In practice the rates are far below the market level. For example, in Rivne the rate is set at 5.15 uah per m², Ivano-Frankivsk – 5.76 uah per m². It is equivalent to 206 – 230 uah for standard one-room dwelling (average 40 m²) – 6–7 times less of market price. So far only limited number of city councils adopted minimal lease rates.

The Civil Code, on the contrary, contains the provision limiting maximum rental payment to officially set level (if it is envisaged in the law). However, such cap is not legally set.

As a result, the amount of rent is usually determined by market forces, and its increases are freely agreed between the parties. The sides may agree on periodic increases, e.g. inflation adjustment.

Rents for social housing and hostels (dormitories) in municipal stock are regulated by local authorities, and are highly subsidized (for details see chapter 7).

Gross rental income is taxed with PIT at the rate of 15(17)% - for individual investors not registered as private entrepreneurs. The registered ones may operate under simplified tax system (STS) paying up to 200 UAH per month if their income doesn’t exceed 0.5 million UAH. In the draft law#8521 submitted by the CMU and passed in the 1st reading it is envisaged that STS is not spread on landlords who lease the dwelling with useful area over 100 sq. m. Rates are to be tied to minimal wage. No tax deductions are allowed.

In recent years the number of individuals who rent housing on legal grounds has been growing. For example, in Kyiv, according to STA, it has grown from 23.14 thousands in 2008 to 67.55 in 2010. However, tax evasion is still a widespread practice feeding shadow rental market.

Accounting of corporate’s investment property (the one which might be used for investment properties, e.g. receiving capital gains or rental income) and taxation of its use for CIT purposes is ambiguous. Until the Tax Code was passed the state tax administration widely refused to take into account amortization deductions arguing that the latter could be applied only to fixed assets used in production. The Tax Code which came into effect on 1st April 2011 allowed amortization of fixed assets used in business activity (including expenditures on repair not exceeding 10% of asset’s book value). However, due to peculiarities of financial and tax accounting, application of new norms is uncertain. According to accounting standards, investment property may be accounted either by its fair (market) value, or by its book value. If the company chooses the book value, it may gradually amortize the property under the third group of assets which envisage minimum 20 Y of amortization period. Such property assessment does not reflect market conditions as housing prices could be extremely volatile during the boom and bust cycle. Under the first option property valuation is adjusted to market prices resulting in corporate’s operational income or losses. In this case amortization payments are not deductible for the purpose of financial accounting, yet it is unclear whether they can be deducted for tax purposes under the new Tax code.

Tenant and landlord rights are reasonably balanced in the CC (to compare see box 2.2. on Germany):

**Tenant**:  
1. Has the preferential right (a) to negotiate a contract for a new tenancy term if the previous one has expired; (b) to purchase rented dwelling in case it is proposed for sale;  
2. Not later than 3 month before expiry of rental contract the landlord may propose a tenant a new agreement (on the same or other terms) or to inform him about refusal to conclude a new one. If the landlord didn’t warn the tenant, and the tenant didn’t vacate the premises, the contract is concluded on the same terms and period. However, if the landlord refused to negotiate a new agreement, but within one year contracted tenancy with other person, the ex-occupant may claim in court to restore his tenant rights under the new agreement and to compensate relative losses.  
3. The tenant may at any time terminate the lease by giving three months’ written notice to the landlord, or without notice, if the property has become unfit for habitation.

**Landlord**:  

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3 The Resolution of the CMU #253 (29.12. 2010)  
4 For more details see “All about accounting” #34, 11.04.2011; Investment property vs. Tax Code - [http://tax.in.ua/sitem.php?id=30&class=30&item=123](http://tax.in.ua/sitem.php?id=30&class=30&item=123)  
5 Points i, ii are applicable to long-term contracts (over one year)
i. The contract may be terminated at the request of the landlord: (a) in case he or his family members need the premises for living (tenant should be notified 2 month prior that in written form); (b) by applying to court in case the tenant accumulated 6 - month rent arrears for over one-year contract (2 month – for less than one year contract), or destructed or damaged the housing.

ii. If the tenant vacated premises without prior notification, the landlord may request compensation of losses for 3 month, if he can prove inability to conclude a new contract on the same terms.

Box 2.2. Pro-tenant rental policy in Germany

Rent setting

Rents and rent increases can be freely negotiated and agreed upon. However the landlord can be fined if, in a time of limited housing accommodation he demands rent in excess of 20% above the rent charged for comparable premises. The contract may contain: gradual rent increase clauses, or indexation clauses. But the rent must remain unchanged for at least a year. The tenant must be informed, in writing, when an index-linked increase is due.

Where no indexation clause is included, a landlord may require the tenant to accept a rent increase to the level customary in that area, provided that the last increase of rent took place at least 15 months prior to the date when the increase is to take place. Generally this type of rent increase is limited to 20% over three years. The landlord must state reasons for the rate increase, with expert opinion, three ‘sample’ rents charged for comparable properties, or show a so-called ‘qualified rent table’—a statistical measure of rents issued by the local authorities and approved by landlord and tenant associations. The tenant has two months to accede to the demand; if he refuses, the landlord can sue him.

Landlord’s and tenant’s rights with respect to duration of contract and eviction

A tenancy agreement may be concluded for a ‘limited’ or ‘unlimited’ time.

Unlimited contract is the dominant, normal form of contract. Limited contracts can only be narrowed for very good reason e.g. that the landlord will, at the end of the contract, need his property for himself or his family or renovations will be done at expiration. There is no maximum period for ‘limited’ agreements, but they are in theory not renewable (a provision intended to protect tenants).

Germany has two forms of termination notice:
- ‘Ordinary’ notice, only applicable to unlimited contracts;
- ‘Immediate notice’ which must be based on a specific reason, normally the breach of an important contractual duty by the other party, e.g., non-grant of use, or default of payment of rent. In this case the contract terminates with immediate effect.

The landlord can only give ‘ordinary notice’ if:
- The tenant is manifestly in breach of contract;
- The landlord needs the premises for himself or his family;
- The lease contract prevents the landlord from making an economically justifiable use of the premises.

The tenant can object to the notice, and demand continuation, if termination of the lease would give rise to hardship for himself or his family that would be unjustified, even in the light of the landlord’s legitimate interests. The notice period for ‘ordinary notice’ can be between three to nine months (if the tenant has lived long in the premises). The tenant does not need justification to give notice. He must generally give three months’ notice.


The main factor undermining security of tenant and landlord rights is weak court enforcement. Ukraine scores badly in different ratings measuring level of corruption, judicial independence and protection of property rights.

Also current legislative framework regulating rental relations is weakened by rather general character of legal provisions. For example, the Civil Code in some cases envisages landlord’s or tenants notification to terminate or negotiate a new contract. However, the form of such notification and the way of its delivery is

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6 134 rank out of 139 on the indicator of judicial independence (GCI 2010 – 2011, WEF); 134 rank out of 178 by perception of corruption (CPI 2010, TI), rank in between 110-147 countries by subcomponent “property rights index” (Index of economic freedom 2011, the Heritage Foundation).
not fixed. Thus, in some cases application of legal norms is rather uncertain and often depends on the court applying them. Furthermore, as the substantial part of the market is in the shadow sector, both landlords and tenants are ineligible for court protection.

**Rents vs housing prices**

In the years following the financial crisis the gross rental yields (GYR) gradually increased to more sustainable and competitive levels (see table 2.1).

<table>
<thead>
<tr>
<th>Table 2.1 Gross rental yields and price/rent ratio, Ukraine (2009 – 2011)</th>
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<tbody>
<tr>
<td>PRICE/RENT RATIO</td>
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<tr>
<td>City Center</td>
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<td>Q1 2009</td>
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<td>Q1 2010</td>
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<td>Q2 2011</td>
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</table>

Source: NUMBEO, 2011

According to NUMBEO, in 2Q 2011 GRY reached 6.5% at the city center and 5.2% - outside center. Derived indexes of price-to-rent ratio (P/R) declined to 15.4 and 19.4 respectively.

Current GRY and P/R levels suggest that Ukraine’s housing market after the crisis is more or less fairly valued (see box 2.3). Yields for biggest cities tend to be higher with GRY for Kyiv, Dnepropetrovsk and Odessa at center and outside center – 7.8% and 6.8%, 8.2% and 6%, 6.9% and 5.5% respectively.

**Box 2.3. Interpreting property market indexes**

A low rental yield (below 4%) means that the interest cost of buying the house is higher compared to the cost of rent. More people would prefer to rent rather than to buy, either because rents are low or the property is underpriced. At the end, low rental yields put downward pressure on house prices.

High rental yields indicate that interest costs of renting the house are higher compared to costs of buying one. Increasing yields either mean a strong rental market with rising rents; or falling property market with dropping valuations; or both. High GRY (>10%) would signal additional opportunity for investors. They would more likely buy the house to rent it out. More people also would switch from being renter to owner. At the end, high yields put upward pressure on prices, as demand for realty increases.

<table>
<thead>
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<th>Table 2.2 Valuation yardsticks for the housing market</th>
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<td>PRICE/RENT RATIO</td>
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Countries with higher nominal interest rates, and countries with weak mortgage markets, would tend to have higher GRY due to relatively lower housing prices.

Source: Global property guide, 2010

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8 GRY is the gross annual rental income, expressed as a percentage of property purchase price

9 Hereinafter, the data provided by NUMBEO is calculated based on observations available for sample of cities across the country. For example, Ukraine is assessed at the base of 16 cities, including all major oblast centers. Observations for Russia include 24 cities across the country, Poland – 22, USA – around 240. For more details see: [http://www.numbeo.com/property-investment/rankings_by_country.jsp](http://www.numbeo.com/property-investment/rankings_by_country.jsp)

10 P/R – ratio of the average cost of ownership divided by received or estimated rent that would be received if rented
Rising GRY indicate that interest costs of renting in relation to costs of buying the house have increased since the beginning of 2009. It is basically due to the fact that rents have increased gradually over this period in most of the cities, while house prices continued to decrease or stagnate. This trend testifies that the housing market continue to rebalance and adjust. In august 2011 yields for buying a premise, for example, outside Kyiv center were comparable with average interest rate on banking deposits in dollars (6.4%, NBU). If the yields continue to grow gradually (overreaching 9-10% next years), it may be the early sign of market recovery. Increased demand for real estate with some lag will push the housing prices upwards again.

Ukraine’s rental yields both at the city center and outside center are higher than in most EU-27 and CIS countries (except Kazakhstan and Armenia). The corresponding figures for France, Germany, Poland and Russia are 3.0% and 3.1%, 4.1% and 4.8%, 3.6% and 3.8%, 5% and 4.7% respectively (see figure 2.3).

However, the GRY (outside city center) is lower or similar to that in Bulgaria, Ireland, Latvia, Netherlands, Portugal, Slovakia, UK, Canada etc. It means interest costs of being tenant outside center in Ukraine versus costs of being homeowner are lower or comparable to these countries.

Corresponding yield for the US is 2.3 times higher than in Ukraine signaling that houses in the US are rather undervalued.

Cross-country indexes of price-to-rent ratio (P/R) are compared in figure 2.4.

Overall, increased rental yields may look more attractive to investors and housing developers contributing to increase of rental inventory. Current GRY and price-to-rent ratio indicate that housing property is relatively fairly priced in terms of rental income.
a. Size of the rental market vis-à-vis ownership

The data on actual share of rental market is limited. According to the State Statistics Service of Ukraine (2010), some 93% of housing stock was privately owned. Homeownership ratio naturally tends to be higher in rural areas: 98.3% vs. 90% in urban areas. Rental stock (7.0%) consists of public/social housing owned by municipalities (5.6%) and state (1.4%) which is provided mainly for free or at reduced rent.

An alternative way to estimate the size of rental housing stock is to look at reported household tenure status, rather than classification of physical dwellings. According to Household Survey (2011), 95.3% of respondents reported to own their homes (see table 2.3).

<table>
<thead>
<tr>
<th>Table 2.3 Distribution of households by tenure status, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>private (privatized, purchased) property</td>
</tr>
<tr>
<td>state owned</td>
</tr>
<tr>
<td>employee housing</td>
</tr>
<tr>
<td>rent from individuals</td>
</tr>
</tbody>
</table>

Source: Household Survey (2009-2011), the State Statistics Service of Ukraine

Out of the rest 4.7% households: 2.0% occupied state (municipal) - owned housing, 0.2% - employee housing, 2.5% - private rental housing. The share of tenants was significantly higher in urban areas (6.5%) and in particular in large cities (7.3%) compared to rural territories (0.8%). Every 24th inhabitant of large city rented dwelling out of private rental stock. Over the last three years the share of private tenancies hasn’t changed almost. Average tenant of private rental housing is described in Box 2.4.

Box 2.4 Portrait of an average household that rents housing at the private market

Analysis is based on the Household Survey 2010, which includes information on representative sampling of 17 050 347 households. Share of households that officially rent accommodation is small - 2.4%. However, such small number could be explained by fact that many renters avoid legal agreements and paying taxes, therefore actual number of tenants could be underestimated.

1. Rent costs and income of renters

Among those who rent housing, the dominant majority are the residents of large cities (77.1%), only 19.2% - live in small towns. Average price of rented housing in large cities in 2010 was 2842 UAH which is 358 USD at 2010 exchange rate. The average price of rented housing in small towns was much lower – 1372 UAH or 173 USD.

The average income of households that rent accommodation is 27.3% higher compared to the average income of the rest of the households. The average income of the household renting accommodation in 2010 was 9095.3 UAH per month (1146.9 USD).

2. Age of renters

Renting is more typical for the younger generation. The median age of a head of the family renting housing is 30 years.

Largest groups of renters are couples without children and couples with just one child – 25.1% each. Third largest group are singles – 24.1%. Overall, household-renters without children prevail - 52.8%.

3. Living conditions

Living conditions of people renting a home is not significantly different from the living conditions of the other households in the sample. The share of rental costs in total consumption expenditures of households in average amount to 29.1%.

4. Portrait of a typical renter

Based on the survey results, statistical portrait of the household that rented accommodation in Ukraine in 2010 would look like: young couples aged 28-32 years, without children or with just one child, residing in a large city, with average monthly income per household of 1100-1200 USD.

Source: Household Survey 2010, micro data

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11 Survey is conducted in November 2010; the data doesn’t include households living in dormitories, see: http://www.ukrstat.gov.ua/druk/katalog/domogosp/sdhd_%202011.zip
Distribution of tenants renting at the private market varies across Oblasts (see figure 2.5).

**Figure 2.5.** Tenants of private rental housing, distribution across Oblasts (% of households in an Oblast)

Source: Household Survey (2010-2011), the State Statistics Service of Ukraine

There are only 9 Oblasts with stable and relatively high share of private tenancy – above country average both in 2010-2011: the cities of Kyiv and Sevastopol; Oblasts - Odessa, Poltava, Luhansk, Chernivtsy, Kirovohrad, Dnipropetrovsk and Zaporizhzhya.

The City of Kyiv tends to have the largest share of 6.1%, followed by Odessa Oblast (3.8% in 2011 and 5.6% in 2010). Comparatively large rental sector in these regions is explained by several factors. Both jurisdictions are attractive destinations for residential and labor migrants. At the same time buying a house is much less affordable than in other parts of Ukraine. Price - to - income ratio is among the top-three across the country (see chapter 4). Both regions have been the leaders in terms new housing completions per 1 thousand residents which contributed to the growth of rental stock (see chapter 2 d). Kyiv and Odessa cities have the largest rental sectors in Ukraine amounting more than 130 thousand dwellings or 0.7% of all housing stock in Ukraine (see chapter 2 b). In addition, Kyiv also has the largest share of tenants renting public housing (6.1%).

Besides, some regions are economically attractive for migrants (with disposable income per household above country average), e.g. Kyiv, Odessa, Dnipropetrovsk and Zaporizhzhya, relatively large rental sector is observed in poorest Oblasts (e.g. Kirovohrad and Chernivtsy). Most likely high demand for rent in these region accounts for labor migrants from surrounding depressed towns. The same is likely to be the case for Luhansk region where 70 cities and towns are recognized as depressed.

Kharkiv and Ivano - Frankivsk regions are at the other side of the spectrum with the shares of private tenancy respectively 0.6% and 0.4%. On the one hand, small share of private tenancy in Kharkiv Oblast looks questionable, as it is less than 6.2 households for the whole Oblast. According to alternative estimates, the corresponding figure for the city of Kharkiv is around 18 thousands of tenants\(^\text{12}\). On the other hand, rental sector in Kharkiv looks really more inactive compared to other high-density urban areas. Rental vacancy rates for the city of Kharkiv (even taking alternative calculations) are much higher compared to Kyiv, Odessa, Lviv, Donetsk and Dnipropetrovsk (see chapter 2 b). At the same time, dwelling stock per 1 thousand residents (416) is the highest among mentioned metropolitan areas (Odessa – 330, Lviv – 343, Kyiv – 370 etc.). In other words more dwellings in stock per capita may ease the demand for rental housing from the side of housing starters which may rely on inheritance, occupying vacant dwellings of relatives etc. Relatively weak demand for rent also may indicate weaker inflow of labor migrants compared to other metropolitan areas.

The segment of overall rental market is likely to be higher in Ukraine. Study of WB on rental market in some CEE and CIS countries (Dubel, et al. 2006) points out the household survey data is likely to underestimate rental sector size due to sample errors and underreporting caused by frequent informality of rental arrangements (e.g. in order to evade tax or rent controls). According to various estimates from 30% to 50% of rental market is in shadow and is not documented. Some alternative data provided by real estate agencies estimate the size of rental market in big cities up to 10 % of total housing stock. This estimation correlates with our findings regarding the share of rental inventory across largest metropolises (see chapter 2 b).

Portrait of average Ukrainian tenant does not differ significantly from other countries: (a) tenants share is likely to be higher in large metropolitan areas; (b) demand for rental dwellings is driven by “housing starters” – these are young single households or couples and young families around the age of 30 with at least one child; (c) households with higher income are likely to be presented in the private rental market, while poorer household would likely opt for public housing.

b. Vacancy rates of rental housing (by region)

The rental vacancy rates (RVR) indicator measures the percent of all apartment units that are vacant and available for rent. Low vacancy rates typically mean that households will have greater difficulty finding a place to rent. They may also lead to increases in rents, as more households seek to occupy a smaller pool of rental units.

Ukrainian rental market is still underdeveloped and is mostly in a shadow; therefore, there is no reliable information on a number of rented apartments in various regions and big cities. Information provided by real estate agents varies greatly. There is no accounting of housing offered for rent in Oblast centers with population below 0.5 million. There is no reliable information on a number of households which rent housing in Ukraine’s metropolitan areas. The results of household survey do not allow identifying a share of lenders in Oblast centers (only by regions). The sampling of respondents is not representative in terms of households renting housing and does not take into account a share of shadow market, which may lead to a serious distortion of results. In the USA, Canada and Australia the data obtained through special questioning of landlords are used to calculate a share of vacant housing.

Number of dwellings vacant for rent
It is natural that the biggest rental housing supply is observed in big metropolitan areas (see figure 2.6).

Figure 2.6 Supply of vacant rental housing in largest cities (dwellings)

Source: Joint database of real estate Association of Realtors of Ukraine

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14 Rental vacancy rates, HRSDC - http://www4.hrsdc.gc.ca/3ndic.1t.4r@-eng.jsp?id=43
15 For example, according to AH SV Development, in Kyiv at the end of the first quarter 2011 rental housing supply amounted to 29.4 thousand apartments, while according to the Association of Real Estate Specialist of Ukraine there were 12.5 thousand.
16 In Canada, for example, such research is conducted by Canada Mortgage and Housing Corporation (CMHC), see: http://www.cmhc-schl.gc.ca/odpub/esub/64725/64725_2011_B01.pdf?fr=1315861512454

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**Vacancy rates**

In order to calculate RVR in Oblast centers (in % of total rental housing stock) we used the following data and assumptions:

- To assess the number of households which rent dwellings we used the data from household survey in a breakdown of large cities in Oblasts\(^ {17}\). The share of such tenants is taken as simple average for two years (2009-2010). For final calculations, it is counted not less than 30% of the rental housing market stays in shadow.

- In order to calculate RVR at the market data from special research by ARU was used.\(^ {18}\) The results of the evaluation may seem to be somehow lower as: (a) some rented apartments may stay in supply data bases of real estate agencies; (b) some dwellings may be offered for a short-term rent, which was not filtered out at a stage of data collection. No additional corrections were made to those parameters.

Data on RVR are presented in Table 2.4.

<table>
<thead>
<tr>
<th>Table 2.4 Rental vacancy rates (24 oblast centers, Kyiv and Sevastopol, end of 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dwelling stock (ths.)</td>
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<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>Kyiv</td>
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<tr>
<td>Vinnitsya</td>
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<tr>
<td>Zhytomyr</td>
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<tr>
<td>Cherkasy</td>
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<tr>
<td>Kirovohrad</td>
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<tr>
<td>Lviv</td>
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<tr>
<td>Khmelnitsky</td>
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<tr>
<td>Chernivtsi</td>
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<tr>
<td>Rivne</td>
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<tr>
<td>Ivano-Frankivsk</td>
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<tr>
<td>Ternopil</td>
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<td>Lutsk</td>
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<td>Uzhgorod</td>
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<td>Kharkiv</td>
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<td>Poltava</td>
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<td>Chernihiv</td>
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<td>Sumy</td>
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<tr>
<td>Dnepropetrovsk</td>
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<td>Donetsk</td>
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<tr>
<td>Zaporizhzhya</td>
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<tr>
<td>Luhansk</td>
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<tr>
<td>Odessa</td>
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<tr>
<td>Mykolayiv</td>
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<tr>
<td>Simferopol</td>
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<tr>
<td>Sevastopol</td>
</tr>
<tr>
<td>Kherson</td>
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<tr>
<td><strong>Average on regional centers</strong></td>
</tr>
</tbody>
</table>

*Source: the State Statistics Service of Ukraine, joint database of Association of Realtors of Ukraine, own calculations*

In average in 24 Oblast Centers, Kyiv and Sevastopol the rental apartment stock amounts to 7.4% of total apartment stock (every 14\(^ {th}\) apartment is rented). In big metropolitan areas with population above 700 thousand the biggest rental apartment stock is in Odessa (14.3%), Kyiv (8.3%) and Dnepropetrovsk (8.2%); the smallest one is in Kharkiv (3.4%) and Donetsk (3.9%). Among the other Oblast centers the biggest number of rental apartments is in Chernivtsi (14.4%), Sumy (13.7%) and Vinnitsya (12.3%).

\(^ {17}\) For majority of Oblasts (except Donetsk, Dnepropetrovsk, Zaporizhzhya, Luhansk and Poltava) sample of large cities includes only one metropolis – Oblast center.

\(^ {18}\) Association of Realtors (Real Estate Specialists) of Ukraine (ARU). The real estate market research was done in June-July 2011. It was commissioned by AC BEST.
The share of vacant and rented housing (of total rental apartments stock) varies greatly across regions. In average in 24 Oblast centers, Kyiv and Sevastopol by the end of 2010 almost every sixth rental apartment was vacant (15.9%). It is higher than in Canada and USA for which RVR figures are accessible at national level and across cities (see box 2.5).

### Box 2.5 Rental vacancy rates in Canada and US

In Canada RVR in average across the country amounts to 2.7% of all apartments offered for rent or rented (CMHC, April, 2011). In big metropolitan areas this figure is usually smaller. For example, in Toronto, which is comparable to Kyiv in terms of population and a number of apartments, 307 thousand apartments are rented out (about 30% of housing stock). But only 5050 of them were vacant, which is not more than 1.6% of a rental stock.

In the USA the RVR is much higher. At the end of 2010 it was 9.4% that is almost every tenth apartment offered for rent was vacant. In 2009 the city with the lowest proportion of vacant apartments was Honolulu (0.5%), the highest – Richmond 23.7% (Forbes, 2009).

Regional RVR analysis leads to the following conclusions:

- In the biggest metropolitan areas the highest share of vacant rental stock is observed in Kharkiv (30.7%), the lowest – in Kyiv (12.8%) and Odessa (13.3%) which reflects the demand for rental housing in these cities.
- The highest RVR are typical for Western Ukraine’s Oblast centers (except of Chernivtsi), lower ones – for South Ukrainian Oblast centers (except of Simferopol). The difference is caused by lower demand of a long-term rent and bigger amounts housing constructed in Western Ukrainian cities which leads to bigger supply of vacant apartments at the residential real estate rental market.
- The most difficult is to find a vacant apartment in Luhans, where RVR is 1.7%. It is explained by high demand of rented housing by labor migrants which arrive from depressed urban areas of the Oblast accompanied by extremely low supply of newly constructed housing to the rental apartments stock.

Relatively high RVRs in Ukrainian cities make possible impact on migration and restrain rent prices. At the same time, because of lack of reliable information on the market of residential real estate rental, real RVR most probably will be somehow lower. It is indirectly supported by international comparisons.

c. Number of houses/apartments for sale (by region)

Like for the rental market, there is no fully reliable information on a number of dwellings sold and offered for sale at the housing market. Information on regional markets is especially contradictory. The only available information source is the real estate agencies statistics which may vary to a large extend.

Recent times the key trend at the housing market is a relatively sustainable supply and a low purchasing power of people. The amount of housing offered for sale (number of offered dwellings) in Ukraine’s regions in average is 3 times bigger than amount of dwellings offered for rent.

Supply of dwellings for sale in different regions varies substantially (see figure 2.7)\(^{19}\).

**Figure 2.7 Number of dwellings for sale (oblast centers with population over 0.5 mln. inhabitants)**

\(^{19}\) Hereinafter the comparison is made between Oblast centers unless indicated another.
Kyiv is the leader having about 46 000 dwellings offered for sale (2.3 times up compared to 4Q 2008). In Odessa and Dnipropetrovsk supply of dwellings for sale increased by three times compared to 2008 (before the crisis) (21 000 and 17 000 dwellings respectively), but in Donetsk and Lviv, on the contrary, it remained at the minimum level of the second quarter of 2009.

Homeowner vacancy rate (HVR)\(^20\) differs significantly across the regions. In average in Oblast centers, Kyiv and Sevastopol the share of vacant dwellings for sale is 4.1%.

It is somehow higher than in the USA where at the end of 2010 HVR was 2.5% (Census Bureau, 2010). In the most “deserted” metropolitan areas such as Cincinnati HVR was 6.3%, Las Vegas – 5.5%.\(^21\)

High vacancy rates indicate that houses are not selling well either because there is no demand, or the property is regarded as overvalued and investors anticipate further price adjustment. High HVR put downward pressure on housing prices.

In Ukraine, in the most of Oblast centers, the highest HVR were observed in 2008 prior the financial crisis which indicated that the marked was overheated. At the times of the crisis the amount of dwellings offered for sale went down which lead to decreasing of HVR. In 2010 some sellers who postponed their sales came back to the market. Supply of apartments has grown which led to the growth of HVR because the demand of housing stayed at low level.

The analysis of supply of dwellings offered for sale in regions at the end of 2010 allows making the following conclusions:

1. The highest HVR levels are in oblast centers of Western (except for Lviv) and Central Ukraine and Odessa (see. table 2.5).

In particular, the biggest supply was observed in Vinnytsa where every tenth apartment out of homeowner inventory was offered for sale, then went Uzhhorod (9.0%), Cherkasy (7.5%) and Zhytomyr (7.2%). The key reason for high HVRs in these cities is a substantial growth in supply of apartments for sale (2 - 2.5 times bigger than in late 2008 - early 2009) and low level of activity of buyers at the market.

In some Oblast centers of the Western region such as Ivano-Frankivsk (5.7%) and Ternopil (5.5%), among factors which lead to the growth of the vacant dwellings share for sale one can indicate at high rates of new housing construction recent years (see chapter 2 d) accompanied by extremely low demand on rented housing (see chapter 2a, b). The same situation is observed in Khmelnytskyi where 7% of homeowner inventory apartments have been offered for sale.

High HVR in Odessa (7.1%) most probably reflects increase in supply of investment apartments for sale. Over the period of the 4Q, 2008 - 4Q 2010 the number of apartments offered for sale in the city increased by 2.8 times. New dwellings make up a substantial share of this amount. At the same time, among 5 cities with population of 1 million or more the average price in USD of one sq. m of real estate at the primary market in Odessa reduced the least (by 26%), which hampers demand for residential housing in the city.

2. The smallest share of vacant housing for sale is observed in Oblast centers in the South and South-East of Ukraine: in Luhansk - 0.4%; Zaporizhzhia – 1.5%; Mykolayiv – 1.7%; Kherson and – 1.8%; Kharkiv – 2.1%; Donetsk – 2.3%. The supply of dwellings for sale in Luhansk, Donetsk and Zaporizhzhia has not restored after the crisis plummeting. In other cities supply tends to grow but the amount of transactions in housing procurement is growing at a slower path. Besides, the supply of dwellings in these cities is limited by low level of housing construction\(^22\) and quite high demand on rented dwellings (except Kharkiv).

3. In Kyiv HVR was 5.1% - a higher than average in oblast centers. The share of vacant housing for sale in Kyiv is comparable with Chicago (4.3%) by is two times bigger than in New York. One can suppose that in 2011 HVR for Kyiv will somehow condense which has been supported by the data on reduction of housing offered for sale (-3.5% over the H1 2011) and by an increase in sale-purchase transactions over the same period of time (+32%, SV Development).\(^23\)

Table 2.5 The share of dwellings for sale (24 oblast centers, Kyiv and Sevastopol, end of 2010)

\(^20\) HVR - the proportion of the homeowner inventory which is vacant for sale
\(^21\) http://www.census.gov/hhes/www/housing/hvs/historic/index.html
\(^22\) Number of apartments put into operation per 1 thousand residents is 2-4 times lower than Ukraine’s average.
\(^23\) http://www.vd.net.ua/rubrics-6/14421/
<table>
<thead>
<tr>
<th></th>
<th>Total housing (mln. sq.m)</th>
<th>Population (ths.)</th>
<th>Average useful floor space per capita (sq.m)</th>
<th>Dwelling stock (ths.)</th>
<th>Homeowner inventory (ths.)</th>
<th>Vacant dwelling for sale (ths.)</th>
<th>Homeowner vacancy rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyiv</td>
<td>58,03</td>
<td>2 799,2</td>
<td>20,7</td>
<td>1 037,0</td>
<td>897,4</td>
<td>45,7</td>
<td>5,1</td>
</tr>
<tr>
<td>Vinnitsya</td>
<td>5,67</td>
<td>369,5</td>
<td>15,4</td>
<td>112,4</td>
<td>100,3</td>
<td>10</td>
<td>10,0</td>
</tr>
<tr>
<td>Zhytomyr</td>
<td>5,21</td>
<td>271,8</td>
<td>19,2</td>
<td>113,3</td>
<td>102,7</td>
<td>7,4</td>
<td>7,2</td>
</tr>
<tr>
<td>Cherkasy</td>
<td>5,67</td>
<td>287,7</td>
<td>19,7</td>
<td>112,2</td>
<td>108,3</td>
<td>8,2</td>
<td>7,5</td>
</tr>
<tr>
<td>Kirovohrad</td>
<td>5,03</td>
<td>244,1</td>
<td>20,6</td>
<td>113,2</td>
<td>104,2</td>
<td>5,2</td>
<td>5,0</td>
</tr>
<tr>
<td>Lviv</td>
<td>13,87</td>
<td>760,0</td>
<td>18,3</td>
<td>261,1</td>
<td>248,3</td>
<td>7,8</td>
<td>3,1</td>
</tr>
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<td>Khmelinitsky</td>
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<td>89,8</td>
<td>85,3</td>
<td>6,0</td>
<td>7,0</td>
</tr>
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<td>Chernivtsi</td>
<td>4,82</td>
<td>253,8</td>
<td>19,0</td>
<td>83,0</td>
<td>72,6</td>
<td>3,4</td>
<td>4,7</td>
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<td>Rivne</td>
<td>4,32</td>
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<td>81,5</td>
<td>76,0</td>
<td>5,0</td>
<td>6,6</td>
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<td>84,1</td>
<td>79,9</td>
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<td>5,7</td>
</tr>
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<td>74,8</td>
<td>67,0</td>
<td>3,7</td>
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</tr>
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<td>Lutsk</td>
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<td>211,8</td>
<td>17,9</td>
<td>71,2</td>
<td>66,4</td>
<td>3,6</td>
<td>5,4</td>
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<td>Uzhgorod</td>
<td>2,28</td>
<td>116,4</td>
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<td>39,2</td>
<td>36,1</td>
<td>3,3</td>
<td>9,0</td>
</tr>
<tr>
<td>Kharkiv</td>
<td>30,18</td>
<td>1 446,6</td>
<td>20,9</td>
<td>602,1</td>
<td>580,6</td>
<td>12,0</td>
<td>2,1</td>
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<tr>
<td>Poltava</td>
<td>6,00</td>
<td>298,9</td>
<td>20,1</td>
<td>126,6</td>
<td>116,9</td>
<td>5,6</td>
<td>4,8</td>
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<td>Chernihiv</td>
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<td>296,9</td>
<td>19,9</td>
<td>113,0</td>
<td>105,3</td>
<td>5,2</td>
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<tr>
<td>Sumy</td>
<td>5,72</td>
<td>273,9</td>
<td>20,9</td>
<td>109,5</td>
<td>96,4</td>
<td>5,0</td>
<td>5,2</td>
</tr>
<tr>
<td>Dnepropetrovsk</td>
<td>20,48</td>
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<td>20,3</td>
<td>403,0</td>
<td>365,2</td>
<td>16,4</td>
<td>4,5</td>
</tr>
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<td>Donetsk</td>
<td>20,19</td>
<td>978,1</td>
<td>20,6</td>
<td>388,8</td>
<td>357,2</td>
<td>8,3</td>
<td>2,3</td>
</tr>
<tr>
<td>Zaporizhzhya</td>
<td>15,82</td>
<td>776,5</td>
<td>20,4</td>
<td>304,4</td>
<td>282,2</td>
<td>4,4</td>
<td>1,5</td>
</tr>
<tr>
<td>Luhansk</td>
<td>9,32</td>
<td>470,7</td>
<td>19,8</td>
<td>175,8</td>
<td>156,7</td>
<td>0,7</td>
<td>0,4</td>
</tr>
<tr>
<td>Odessa</td>
<td>17,71</td>
<td>1 009,1</td>
<td>17,5</td>
<td>333,3</td>
<td>289,1</td>
<td>20,5</td>
<td>7,1</td>
</tr>
<tr>
<td>Mykolaiv</td>
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<td>498,7</td>
<td>20,6</td>
<td>197,1</td>
<td>185,0</td>
<td>3,2</td>
<td>1,7</td>
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<tr>
<td>Simferopol</td>
<td>7,39</td>
<td>360,6</td>
<td>20,5</td>
<td>138,7</td>
<td>129,8</td>
<td>4,8</td>
<td>3,7</td>
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<td>Sevastopol</td>
<td>8,25</td>
<td>380,6</td>
<td>21,7</td>
<td>181,4</td>
<td>164,3</td>
<td>1,4</td>
<td>0,9</td>
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<td>Kherson</td>
<td>8,92</td>
<td>340,6</td>
<td>26,2</td>
<td>170,4</td>
<td>160,0</td>
<td>2,9</td>
<td>1,8</td>
</tr>
<tr>
<td><strong>Average on regional centers</strong></td>
<td><strong>5 033,1</strong></td>
<td><strong>204,2</strong></td>
<td><strong>4,1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: the State Statistics Service of Ukraine, joint database of Association of Realtors of Ukraine, own calculations

In general a big share of vacant housing offered for sale does not guarantee higher level of affordability of real estate and vice-versa (see chapter 4 on housing price affordability). But high HVR indicates a bigger gap between supply and demand at the housing sales market. It can press down on the sales prices and make purchasing of dwellings in the cities with high HVR more affordable.

d. Real estate investments/number of new units by region

Residential construction has crunched after the break-down of former Soviet Union both due to significant reduction of state - built housing and severe economic crisis. In 1990 completion of new housing reached 17.5 million of sq. m. equal to average 5.6 dwellings per 1 thousand of inhabitants. In ten years the number of newly built dwellings fell down by more than two - thirds: to 5.6 million of sq. m. and 1.3 dwellings per 1 thousand of inhabitants respectively (see figures 2.8 – 2.9).

Investment in real estate has restored gradually following the years of economic growth and reached its peak in 2007-2008 with more than 10 million of sq. m. of housing put into operation (2 dwellings per 1 thousand of inhabitants).

The economic crisis complemented by decreased demand for real estate and frozen credit activity made a negative impact on housing construction. Real investment in residential construction collapsed by 54.4% in 2009, while the number of new completed housing dropped down to 6.4 million of sq. m. (1.4 dwellings per 1 thousand inhabitants).

The improvement of 2010 figures is largely due to the Temporary procedure of admission into operation of private houses, cottages and farm houses built without a permit for the construction works\(^\text{24}\).

\(^\text{24}\) Approved by the Decree of Cabinet of Ministers, № 1035 of 09.09.2009
About one half of newly constructed housing (46.7%) was put into operation in accordance with the Procedure. Completed new dwellings, excluding the previously constructed legalized housing, in 2010 amounted to only 4.96 million square meters, which is 22.5% less than in 2009.

**Figure 2.8. Investment in housing construction**

![Graph showing investment in housing construction](image)

*Source: the State Statistics Service of Ukraine*

The current level of investments in residential construction cannot help to solve the problem of availability and poor quality of housing stock, in view of lack of modern dwellings built after 1990. In 2010 investments in housing construction in Ukraine amounted to 2.8% GDP compared to average 4.7% in the EU - 27 (in 2009 the relative figure for Ukraine was 2%, Slovak Rep. - 2.3%, Poland - 2.9%, Latvia - 3.7%, Hungary - 4%, Spain - 5.9%, France - 6.4%).

The supply of new housing is insufficient to meet massive housing demand in metropolitan areas. Low level of completion of new dwellings reflects a number of problems:

- regulatory barriers in the process of construction and land plot allocation increase construction costs,  
- insufficient supply of affordable housing,  
- low availability of market instruments to finance construction and purchase of realty.

**Figure 2.9 Completion of housing thousand, sq. m. of total area and dwellings per 1.000 inhabitants**

![Graph showing completion of housing](image)

*Source: the State Statistics Service of Ukraine*

Given the inertia of the investment activity and little number of new constructions, one can expect the recovery of housing construction to start not earlier than in 2012. Investments into construction industry might be stimulated by the Law "On regulation of urban development." On the one hand, it eliminates a number of unjustified restrictions and prohibitions and this way encourages investments into construction industry. On the other hand, a lot of important issues, which are still hindering the development of real estate business, are not covered by the law (see Chapter 11).

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25 According to the 2010 Ease of Doing Business report by the World Bank, Ukraine was ranked 181st out of 183 countries for the ease of obtaining construction permits.
Residential construction activities in regions vary greatly. Kyiv being Ukraine’s administrative and business capital with highest average income per capita has been leading in terms of commissioned housing over the last two decades. In 2010, 675 residential buildings (9.85 thousand apartments) were put into operation in Kyiv, which is 12.5% of all housing built in Ukraine (see figure 2.10). Before crisis this share was 15-16%. The number of new apartments per 1000 residents (3.57) is more than two times higher than average for the country (see table 2.6.). During the years of the construction boom in 2006-2008 this figure for Kyiv was 5.5 - 5.6 which is comparable with the EU-27 average (5.7, 2007).

The second place in terms of housing construction belongs to Kyiv Oblast (7.6 thousand apartments). The high figures in the region (4.4 apartments per 1000 residents), especially over the last 5 years, can be explained by the growing appeal of mass and individual cottage development in the suburbs of Kyiv as well as growing supply and demand on housing in economy-class high-rise apartment buildings in Kyiv suburbs. For labor migrants working in Kyiv new and less expensive dwellings in satellite towns (Brovary, Vyshhorod, Vyshneve etc) recent years have become a real alternative to residing in the capital city (both in terms of purchasing and renting an apartment).

In total 22.7% of all new housing is built in Kyiv and Kyiv Oblast (that is almost every fourth apartment in Ukraine). But Kyiv and Kyiv Oblast take opposite positions in terms of housing space per capita. With the average 23.3 sq. m per capita in Ukraine Kyiv oblast is leading with its 31.6 sq. m. per capita and Kyiv is the last but one (after Crimea) with its 21 sq. m. per capita. It shows that despite being a well-established leader in the number of apartments built Kyiv still cannot offer new and relatively inexpensive dwellings in order to mitigate the housing problem in the capital city.

The third and the last leader is Odessa Oblast with 6.69 thousand apartments built in 2010, which is equivalent to 2.8 apartments per 1000 residents. Almost half of that housing was built in the city of Odessa. The high level of housing construction first of all reflects attractiveness of the city of Odessa and its agglomeration (including town-ports Pivdennyi and Illychivsk) as developed economic center, transport hub and resort and tourism region. It worthwhile noting that investing into real estate in Odessa, Odessa Oblast, Crimea and Sevastopol is popular among Russians.

With regards other regions of Ukraine one should note the following:
1. Relatively high level of new housing construction in Western Ukraine. In 2010 the regional leader in terms of commissioned apartments was Ivano-Frankivsk Oblast (5.54 thousand apartments). Over the last 5 years this Oblast belongs to top-5 Oblasts in terms of the number of apartments put into operation per 1000 residents (in 2010 – 4.2). In 2010 other Oblasts of Western Ukraine with the exception of Zakarpattia had showed higher than average levels of housing construction per 1000 residents: Lviv – 1.77; Chernivtsi – 2.27; Ternopil – 2.23. The same goes for neighboring Khmelnitskyi Oblast – 2.47. The reasons for construction activities in the region recent years are tourism development and investments made by Ukrainian working abroad. According to different sources, up to 15% of Western Ukrainian adult population works in the EU. For them procurement of real estate is often the only reliable instrument of investing and preserving their capital. Besides, according to various polls Oblast centers in this region are the most attractive for living Ukrainian metropolitan areas.

| Table 2.6 Completion of new housing by region (per 1 thousand of inhabitants) |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                 | 2003            | 2004            | 2005            | 2006            | 2007            | 2008            | 2009            | 2010            |
| Ukraine         | 1,31            | 1,50            | 1,62            | 1,77            | 2,05            | 2,04            | 1,43            | 1,68            |
| AR Crimea       | 0,94            | 1,21            | 1,35            | 1,67            | 2,06            | 1,73            | 1,61            | 1,87            |
| Vinnytsya       | 1,79            | 1,93            | 2,09            | 2,22            | 2,20            | 1,93            | 1,10            | 1,34            |
| Volyn           | 0,92            | 1,22            | 1,51            | 1,62            | 1,69            | 1,73            | 1,42            | 1,30            |
| Dnipropetrovsk  | 0,97            | 0,89            | 0,98            | 0,98            | 0,98            | 1,15            | 0,53            | 0,63            |
| Donetsk         | 0,75            | 0,72            | 0,68            | 0,78            | 0,72            | 0,87            | 0,36            | 0,48            |
| Zhytomyr        | 0,92            | 1,15            | 1,37            | 1,50            | 1,61            | 1,73            | 0,57            | 1,24            |
| Zakarpattya     | 0,83            | 0,94            | 1,11            | 1,48            | 1,55            | 1,92            | 0,90            | 1,39            |
| Zaporizhzhya    | 0,75            | 1,21            | 0,88            | 0,83            | 1,28            | 1,25            | 0,68            | 0,53            |
| Ivano-Frankivsk | 1,44            | 1,90            | 2,01            | 2,53            | 3,00            | 3,40            | 3,03            | 4,02            |
| Kyiv obl.       | 2,12            | 2,61            | 3,42            | 3,40            | 3,85            | 4,58            | 3,66            | 4,44            |
| Kirovohrad      | 0,99            | 1,03            | 1,19            | 1,09            | 1,12            | 1,18            | 0,54            | 0,83            |
| Luhansk         | 0,74            | 0,98            | 0,98            | 0,76            | 0,85            | 0,79            | 0,15            | 0,39            |
| Lviv            | 1,26            | 1,45            | 1,46            | 1,49            | 2,09            | 2,60            | 1,41            | 1,77            |
| Mikolaiv        | 1,09            | 1,31            | 1,09            | 1,25            | 1,46            | 1,21            | 0,83            | 0,86            |
| Odesa            | 1,61            | 2,08            | 1,94            | 2,75            | 3,35            | 3,67            | 2,45            | 2,81            |
| Poltava         | 1,19            | 1,47            | 1,46            | 1,67            | 2,11            | 1,90            | 1,26            | 1,64            |
| Rivne             | 1,14            | 1,26            | 1,01            | 1,99            | 1,90            | 1,20            | 0,92            | 1,41            |
| Sumy            | 1,24            | 1,22            | 1,33            | 1,22            | 1,67            | 1,70            | 1,34            | 1,55            |
| Ternopil        | 1,29            | 1,62            | 2,17            | 1,66            | 2,57            | 2,45            | 1,61            | 2,23            |
| Kharkiv         | 1,29            | 1,49            | 1,34            | 1,57            | 2,11            | 0,72            | 1,84            | 1,42            |
| Kherson         | 0,88            | 1,12            | 1,31            | 1,19            | 1,33            | 1,62            | 0,65            | 1,23            |
| Khmelnytskyi    | 1,70            | 1,56            | 2,12            | 1,87            | 2,37            | 2,30            | 2,09            | 2,47            |
| Cherkasy        | 1,12            | 1,02            | 1,37            | 1,48            | 1,68            | 1,40            | 1,23            | 1,56            |
| Chernivtsi      | 0,95            | 1,60            | 1,55            | 1,72            | 2,27            | 2,83            | 1,63            | 2,27            |
| Chernihiv       | 0,94            | 1,20            | 1,61            | 1,26            | 2,05            | 2,13            | 1,11            | 1,42            |
| city of         |                |                |                |                |                |                |                |                |
| Kyiv            | 4,13            | 4,41            | 5,01            | 5,48            | 5,52            | 5,60            | 3,82            | 3,57            |
| Sevastopol       | 2,66            | 1,67            | 1,67            | 2,57            | 2,48            | 1,86            | 3,62            | 4,80            |

Source: the State Statistics Service of Ukraine

2. Extremely low level of housing construction is observed in oblasts of Eastern Ukraine. In 2010 the number of new apartments put into operation per 1000 residents was: in Luhansk Oblast – 0.39; in Donetsk Oblast – 0.48; in Zaporizhzhia Oblast – 0.53, in Dnipropetrovsk Oblast – 0.63. Even at the times of

26 In the rating “Top-100: Best Cities an Regions of Ukraine” compiled by “Investytsiina Gazeta” and rating agency “Credit-Rating” the cities of Khmelnytskyi, Chernivtsi and Ternopil take the first three places in terms of social and economic development of cities with population between 100 and 500 thousand (2010). In the Focus magazine rating “Best cities to live in” Ivano-Frankivsk takes the third place after Odessa and Kyiv.
the construction boom (2006-2008) the number of newly built apartments in these Oblasts rarely was bigger than 1 apartment per 1000 residents. Only in Kharkiv Oblast the situation with the new housing construction seems relatively positive (1.42 in 2010). The reasons for low level of housing construction in East Ukrainian Oblasts are as follows:

- Presence in these Oblasts of depressed towns and whole Rayons (districts). Because of an outflow of population to other towns or regions after closing down the local economic mainstays (mainly coal mines) the demand for housing in such agglomerations dropped down substantially. In some cities the whole neighborhoods of housing inventory stay without owners. According to Donetsk Oblast Administration in 2007 in the town of Hirnyk Donetsk Oblast 50% of apartments stayed abandoned. Similar situation was observed in some other towns (Seleidove, Biloozersk).

- Lack of land plots for housing construction in big cities. More than 80% of population of the mentioned Oblasts lives in cities and towns (in Donetsk Oblast – about 90%). Land deficit is especially visible in Donetsk which accounts for 605 of all housing construction in the Oblast (2010). The most difficult is the issue of the city’s boundaries. The Donetsk enlargement at the expense of acquisition of new territories was not accompanied by legislative change of its boundaries which potentially may lead to conflicts with town councils of adjacent towns. As a result of that the housing construction mainly takes place in the downtown (more than 50% of the primary market supply comes from Voroshylovskiy District of Donetsk) and an amount of housing constructed in 2010 is almost 6 times less than in Kyiv.

- Large number of unfinished constructions. Unfinished constructions are mainly concentrated in Donetsk Oblast (8.7% of total for the country). By January 1, 2011 in Donetsk Oblast it was suspended or frozen construction of 403 residential houses with total living space of 700 thousand sq. m.; in Kharkiv Oblast – 338 houses (almost 200 thousand sq. m.); in Dnipropetrovsk Oblast – 189 houses (172 thousand sq. m.) Slow path of completion of unfinished constructions (in 2011 in Donetsk Oblast it is planned to complete construction of only 15 houses) delays launching construction of new houses.

Small amount of new dwellings built in Oblasts and Oblasts centers of Eastern Ukraine is one of the factors which may limit migration flows into that region.
3. How developed is the real estate sector in Ukraine using comparable international statistics? How competitive is it?

Ukraine is visibly lagging behind EU in terms of the residential real estate market development. In spite of the big share of private property the unsatisfied demand for housing in the country is still high. It is caused by to small living space, low quality of housing and low affordability of investments into real estate. Availability and affordability of housing stock - the problems which are especially serious for new families and households with low incomes.

1. **Low availability of housing.** Average useful floor area per capita (23 m²/person) is substantially lower than EU - 27 level (36 m²/person). Among the CEE countries the lower figure was only in Romania (15 m²/person), comparable in Poland (24.6 m²/person) and Bulgaria (25.2 m²/person). In the Western European countries availability of floor area per capita is almost 2 times higher than in Ukraine (see. table 3.1).

<table>
<thead>
<tr>
<th>Housing sector indicators in Ukraine and EU (different years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing stock in million dwellings</td>
</tr>
<tr>
<td>-----------------------------------</td>
</tr>
<tr>
<td>Ukraine (2008)</td>
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<tr>
<td>Ukraine (2009)</td>
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<tr>
<td>Ukraine (2010)</td>
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</tbody>
</table>

*Source: Eurostat, Housing Statistics in the EU (2010), the State Statistics Service of Ukraine, own calculations*

According to household survey -2010, 41.8% of households resided in apartments with useful living floor area per person of less than 13.65 sq. m. which is below legally required useful floor area standard (Art. 47, Housing Code).

2. **Small-size dwellings.** The average useful floor area of dwelling is about 55 m² which is 1.5 times smaller than in EU -27 (81.4 m²). Among CEE countries the smaller floor area of apartments is only in Romania (38.7 m²), in other countries it is bigger by average 10-15 m².

Only newly built dwellings have floor area comparable with European standards: 118.9 m² in Ukraine (2010) against 89 m² in Hungary, 104 m² in Poland, 107 m² in Czech Republic, 113.6 m² in Germany, 116.2 m² in Slovakia, 131.5 m² in Denmark, 142.7 m² in Latvia (2008).

3. **Lack of rooms and housing density.** In Ukraine in average there is one room per one resident. It is comparable with CEE countries but 2 times lower than in Western European countries. One EU resident occupies in average 1.6 rooms. An average Ukrainian dwelling consists of 2.35 rooms – against 3.6 in the EU.
35% of Ukrainian households lived in apartments with a number of rooms below needed (NISS, 2011). In the EU 17.8% of all population lived in overcrowded apartments (SILC, 2009).

4. Obsolete, worn out and uncomfortable housing stock. The housing stock consists of 19.3 million apartments, which is equivalent to 422 apartments per 1 000 residents. Here Ukraine only a little legs behind average EU-27 (446 apartments) and is ahead of such countries as Poland (349), Slovakia (370), Rumania (391) and Slovenia (410). As a result of depopulation, the housing stock per 1 000 residents is likely to raise above EU average.

However the quality of housing stock is much lower than European level. 3/4 of all houses were built between 1945 and 1990 (see table 3.2). Despite relatively short period of use the big share of the housing stock has become obsolete and worn out. 30% of stock consists of houses built in the mass scale in the Soviet style: the so called “khrushchevik” and precast panel construction buildings. Their lifecycle is 40-50 years and has already reached or reaching the end. Significant share of such buildings is in poor condition because of insufficient investment in their maintenance. Every third residential house in Ukraine requires major overhaul, 3.3% of residential houses are in a ramshackle or dangerous state.

Table 3.2 Age distribution of housing stock

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>2010</td>
<td>4.7</td>
<td>11.8</td>
<td>49.2</td>
<td>16.2</td>
<td>10.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Estonia</td>
<td>2009</td>
<td>9.4</td>
<td>14.2</td>
<td>30</td>
<td>21.5</td>
<td>19.6</td>
<td>2</td>
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<tr>
<td>Latvia</td>
<td>2008</td>
<td>13.8</td>
<td>13.1</td>
<td>22.1</td>
<td>19.4</td>
<td>20.2</td>
<td>7</td>
</tr>
<tr>
<td>Austria</td>
<td>2009</td>
<td>15.2</td>
<td>8.2</td>
<td>28</td>
<td>15.2</td>
<td>11.5</td>
<td>13.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2009</td>
<td>6.9</td>
<td>13.9</td>
<td>27</td>
<td>17</td>
<td>15.4</td>
<td>12</td>
</tr>
<tr>
<td>Sweden</td>
<td>2008</td>
<td>12.1</td>
<td>14.7</td>
<td>37</td>
<td>16.8</td>
<td>9.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Portugal</td>
<td>2008</td>
<td>7.4</td>
<td>10</td>
<td>21.9</td>
<td>16.1</td>
<td>18.8</td>
<td>17.7</td>
</tr>
</tbody>
</table>

Source: Housing Statistics in the EU (2010,) the State Statistics Service of Ukraine, own calculations

In terms of apartments equipped with shower/bathroom, hot water and heating Ukraine legs behind the majority of the EU member-states. For instance, hot water is supplied to less than 50% of residents of Ukraine’s apartments while in Western Europe practically 100% of residents enjoy it (see table 3.3)27.

Table 3.3 Bath/shower, hot running and heating in total dwelling stock (% of dwelling stock)

<table>
<thead>
<tr>
<th>Bath/shower</th>
<th>Hot running</th>
<th>Heating (central and individual heating systems)</th>
</tr>
</thead>
</table>

Source: Housing Statistics in the EU (2010,) the State Statistics Service of Ukraine, own calculations

5. The new housing supply is too low. New housing supply significantly lags behind European levels (only 35% of EU average). Even with pre - crisis rate of 2 dwellings completed per 1 thousand of residents

27 The share of dwellings connected to the hot water in Ukraine might be higher taking into account the usage of individual systems for water heating. However, it should also be noted that in many cities centralized hot water delivery is provided only within special hours or during the heating season.
Ukraine is below all EU countries (Germany with the lowest score -2.1, Hungary - 3.2, Slovak Rep - 3.5, Poland - 4.2, France - 7.4, Spain - 15.9) and some CIS countries (Russia - 5.4, Kazakhstan - 3.7, Belarus - 6.2).

6. **Affordability of housing is low.** The purchase of housing is hardly affordable to the most of the population. For instance, the house price to income ratio\(^{28}\) is equal to 16.8 in Ukraine. It means that individual with average annual income has to work almost 17 years to purchase a dwelling (provided that all his income is saved for that purpose). It is more than three and six times higher than in Germany and the United States respectively. The affordability of housing is a common problem of almost all Former Socialist Countries. As Figure 3.1 shows, Poland, Slovenia, Armenia, Russia, Moldova, Romania, Kazakhstan have house to income ratio between 12 and 16. While the indicators for Lithuania and Belarus are 19.5 and 21.5 respectively (NUMBEO, 2011).

![Figure 3.1. HOUSE PRICE TO INCOME RATIO](image)

*Source: NUMBEO, 2011*

7. **Half of the population are not satisfied with their housing conditions.** Because of low availability of housing, its poor quality and financial unaffordability 51.1% of Ukraine’s households are not satisfied with their housing conditions. The biggest share of “unhappy” ones resides in Kirovohrad Oblast (70.7%), and of “happy” - in Kyiv Oblast (59.6%).

There are much more households, which are not happy with their housing conditions in Ukraine than in the EU (13.7%). The biggest number of “unhappy” ones is in Baltic States and Hungary (around 30 - 37%), Slovakia and Poland (20-22%). In 7 countries the share of “unhappy” population is extremely small (less than 10%): Austria, Denmark, Finland, Luxembourg, the Netherlands, Sweden and the UK (SILC, 2007).

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\(^{28}\) House price to income ratio is the ratio of median house prices to median annual disposable salary (after tax), expressed as years of income. Median house price and median salary are taken as average for the set of cities inside the country. For example, Ukraine is assessed on the basis of 16 cities, including all major Oblast centers. Observations for Russia include 24 cities across the country, Poland – 22, USA – around 240.
4. Housing price/cost differentials across rayons/oblasts in Ukraine – and evolution over time

4.1. Housing price


After the financial crisis real estate prices fixed in USD were subjected to an avalanche correction which reflected both fall of speculative housing demand and UAH 40% devaluation towards USD.

As the graph 4.1. shows, in all big Oblast centers attractive for labor migrants reduction of housing prices at the secondary market by the end of 2010 (compared to peak figures in 2008) was 40%-55%: Kyiv – 49% (-$1731 in average per 1 sq m of the area), Dnipropetrovsk – 55% (-$1008), Kharkiv – 47% (-$694), Donetsk – 40% (-$684), Odessa – 43% (-$878).

In the rest Oblast centers real estate devalued within the similar range. Only some cities in the south of Ukraine were exceptions – Kherson (-30%), Simferopol (-29%), Sevastopol (-26%), as well as Luhansk (-25%), Zaporizhzhia (-29%) and Kirovohrad (-31%).

Real estate prices at the primary market also fell but slower because of lower price of such housing in the first place. As of the end of 2010 in most of Oblast centers the gap between primary and secondary market prices notably reduced. In Kyiv and Kharkiv the average price of 1 sq m of a new housing after crisis raised over the cost of 1 sq m at the secondary market.

Because an overheated market and lack of conditions for restoration of mortgage loans the trend of real estate price increase will hardly restore in the nearest years. Because of the situation at the real estate market at the end of the second half of 2011 housing prices at the secondary market at some Oblast centers (including such big cities as Kyiv, Dnipropetrovsk and Odessa) continued to fall and reached new minimums after the crises. While in the majority of regions (including Donetsk and Kharkiv) real estate prices stabilized and did not go down below minimum reached in 2009. But it is still premature to say that in those regions the real estate market has reached its bottom.

Figure 4.1 Housing price in cities above 750 thousand inhabitants, secondary market, USD per 1 sq.m.

Source: joint database of Association of Realtors of Ukraine

Affordability of housing across regions

In general form the housing affordability index reflects comparison of median cost of real estate with annual household income. Median house price exceeding 4 -5 gross annual median household income is typically considered as unaffordable (Demographia, 2011).

The correct calculation of housing affordability index at Ukraine’s metropolitan areas is complicated by a number of factors:
- No information on median housing prices in regions.

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29 Much of the property speculation involved a ‘carry trade’, i.e. a bet that the hryvnia peg would continue, and that buyers would be able to arbitrage relatively low US$ interest rates, against out-of-control Ukrainian property price inflation - Global Property Guide, [http://www.globalpropertyguide.com/Europe/Ukraine/Price-History](http://www.globalpropertyguide.com/Europe/Ukraine/Price-History)
- No reliable information on average aggregate income of households in cities – Oblast centers.
To this end we took as a basis of our calculations:
- An apartment of 54.8 sq m, which is an average apartment in Ukraine (see table 3.1.)
- Affordability of housing is compared based on two available income indicators: (a) average annual salary in Oblast centers (b) disposable income per one household in Oblasts.

The results show that (see table 4.1) procurement of housing is very unaffordable for households all over Ukraine. In terms of Oblast centers the most unaffordable housing both in terms of an average annual income per household and annual average salary of an employee is in Odessa, Lviv and Kyiv (11.1 and 19.7; 11 and 22.5; 8.8 and 21.2 respectively), the most affordable – in Sumy and Luhansk (5.5. and 9.3; 5.9 and 10.4).

Table 4.1 Affordability of housing across regions, end of 2010

<table>
<thead>
<tr>
<th>Region</th>
<th>Average annual disposable income per household, ths. UAH</th>
<th>Average annual salary, ths. UAH</th>
<th>Housing price per 1 m², ths. UAH*</th>
<th>Price of house (54.8 m²), ths. UAH</th>
<th>Price to household income</th>
<th>Price to income (salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>49,4</td>
<td>26,9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Simferopol</td>
<td>40,7</td>
<td>25,8</td>
<td>5,861</td>
<td>321,2</td>
<td>7,9</td>
<td>12,4</td>
</tr>
<tr>
<td>Vinnytsya</td>
<td>40,4</td>
<td>24,1</td>
<td>5,336</td>
<td>292,4</td>
<td>7,2</td>
<td>12,1</td>
</tr>
<tr>
<td>Lutsk</td>
<td>42,9</td>
<td>22,2</td>
<td>4,8</td>
<td>263</td>
<td>6,1</td>
<td>11,8</td>
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<tr>
<td>Dnepropetrovsk</td>
<td>52,6</td>
<td>27,1</td>
<td>7,2</td>
<td>394,6</td>
<td>7,5</td>
<td>14,6</td>
</tr>
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<td>5,8</td>
<td>317,8</td>
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<td>15,942</td>
<td>873,6</td>
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<td>21,2</td>
</tr>
<tr>
<td>Sevastopol</td>
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<td>7,217</td>
<td>395,5</td>
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<td>15,2</td>
</tr>
</tbody>
</table>

* - 1 USD = 8 UAH

Source: the State Statistics Service of Ukraine, joint database of Association of Realtors of Ukraine, own calculations

Even if we take as a basis for our calculations an economy class housing with average area of 40 sq m procurement of housing in oblast centers still remains difficult or unaffordable for households with average income all over Ukraine (from 4 years in Sumy to 8.1 in Odessa). But we also should bear in mind that cost
of a real estate expressed in annual incomes of a household can be quite lower in view of popular practice of paying “grey” unofficial salaries (the so-called “enveloped salaries”) and unaccounted incomes.

### 4.2 Housing costs

Housing costs reviewed in this chapter consist of rent payments (in case a household rents accommodation in the private market), maintenance fee and costs of utilities.

#### a. Rental price

During the years real estate boom rates of rental price in Ukraine was consistently growing and in 2008 reached their peak. Financial crisis provoked reduction of rent rates in all Oblast centers of Ukraine. By the end of 2010 compared to 3Q-2008 rent rates in USD reduced in average by 30% - 40%, which is comparable to nominal devaluation of UAH. Diminishing of demand for rented housing by professionals who were laid off during crisis was also put downward pressure on the rental prices. The sectors of economy which suffered most because of the crisis were financial operations, construction and retail trade.

The biggest fall of the rental prices was observed in big cities attractive for potential migrants (Kyiv - 50%, Odessa - 43%, Lviv - 41%, Dnipropetrovsk - 33%, Donetsk - 31%). But in these cities (as well as in Sevastopol and Simferopol) rental prices remain the highest compared to other Oblast centers. According to the Association of Realtors of Ukraine, the average rental price of a one-room apartment at the end of 2010 was in Kyiv $440, in Donetsk – $250, Odessa – $240, Simferopol – $184, Kharkiv – $170 (see graph 4.2). Such price is supported by higher living standards and wages in big cities.

#### Figure 4.2 Rent price in cities above 750 thousand inhabitants, USD per one bedroom apartment

Source: joint database of Association of Realtors of Ukraine

**Affordability of rent across regions**

The affordability of rent in Ukraine’s regions was calculated on the basis of the data by the end 2010: one-room apartment rent prices in Oblast centers, disposable monthly income per household in an Oblast.

Based on the definition of rent affordability, rent payments should not exceed 25 - 30% of net (after taxation) income of working households (Tang, 2009; Belsky et al, 2005).

As Table 4.2 demonstrates, despite reduction of rent rates (from $20 in Cherkasy to more than $400 in Kyiv for one-room apartment), apartment rent in most Oblast centers remains hardly affordable for households with median level of income. The most expensive rent in relation to an average income of a household is in Odessa (50.2%), Sevastopol (44.1%), Simferopol (43.4%), Donetsk (42.9%) and Dnipropetrovsk (37.4%), the most affordable – in Zaporizhzhia (20.1%), Uzhhorod (22.5%) and Luhansk (22.8%). In general, rent in big and developed cities is less affordable for households with median incomes.

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30 According to the Institute of Demography of Ukrainian Academy of Sciences, about 145 billion UAH of the labor payment money stays in a shadow. 2.5 million persons officially live on minimum salary which is less than 1000 UAH (every sixths officially employed) and 120 thousand top managers officially receive salaries at the level of a minimum one.
Table 4.2 Affordability of rent across regions, end of 2010

<table>
<thead>
<tr>
<th>Region</th>
<th>Monthly disposable income per 1 household, UAH</th>
<th>Rent price, one bedroom, UAH*</th>
<th>Rent affordability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>4 119,9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Simferopol</td>
<td>3 388,8</td>
<td>1 472</td>
<td>43,4</td>
</tr>
<tr>
<td>Vinnytsya</td>
<td>3 367,8</td>
<td>791</td>
<td>23,5</td>
</tr>
<tr>
<td>Lutsk</td>
<td>3 578,1</td>
<td>912</td>
<td>25,5</td>
</tr>
<tr>
<td>Dnepropetrovsk</td>
<td>4 380,6</td>
<td>1 640</td>
<td>37,4</td>
</tr>
<tr>
<td>Donetsk</td>
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<td>2 002</td>
<td>42,9</td>
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<tr>
<td>Zhytomyr</td>
<td>3 361,1</td>
<td>1 032</td>
<td>30,7</td>
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<td>Uzhgorod</td>
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<td>800</td>
<td>22,5</td>
</tr>
<tr>
<td>Zaporizhzhya</td>
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<td>870</td>
<td>20,1</td>
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<tr>
<td>Ivano-Frankivsk</td>
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<td>1 120</td>
<td>29,9</td>
</tr>
<tr>
<td>Kirovohrad</td>
<td>3 002,8</td>
<td>760</td>
<td>25,3</td>
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<td>Luhanski</td>
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<td>848</td>
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</tr>
<tr>
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<td>1 904</td>
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<tr>
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<td>968</td>
<td>26,4</td>
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<td>Rivne</td>
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<td>1 096</td>
<td>30,0</td>
</tr>
<tr>
<td>Sumy</td>
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<td>920</td>
<td>25,6</td>
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<td>Ternopil</td>
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<td>1 040</td>
<td>30,5</td>
</tr>
<tr>
<td>Kharkiv</td>
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<td>Kherson</td>
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<td>Chernivtsi</td>
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<td>944</td>
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<td>Chernihiv</td>
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<td>872</td>
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<tr>
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<td>3 520</td>
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</tr>
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<td>Sevastopol</td>
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<td>1 752</td>
<td>44,1</td>
</tr>
</tbody>
</table>

Source: the State Statistics Service of Ukraine, joint database of Association of Realtors of Ukraine, own calculations

At the same time one should remember that:

- Comparison to median income of households not fully reflects a level of housing affordability for tenants with different incomes. As the households poll demonstrated in 2010 average income of a household which rents a dwelling is 27.4% higher than average in Ukraine (see box 2.4). Rental payments take in average 27% of disposable income of such households.

- As with housing prices, rent affordability seems to be higher because some salaries are paid under the counter and some incomes of households are not accounted for.

b. Maintenance and utility costs

In 2010 housing expenditures excluding rent (water supply, sewage, central heating, maintenance and repair of the dwelling, electricity, gas and other fuels etc.) averaged 9.3% of total consumption expenditures of households. Net housing expenditures excluding housing allowances amounted to 8.7%. The housing and utilities expenditures of households in general are comparable to those in the EU, where in 2007 a share of such expenditures was: 5.5% in Estonia, 6.3% - in France, 7.3% - in Germany, 8.2% - in Hungary, 8.9% - in Romania, 9.3% - in Czech Republic, 10.1% - in Latvia, 15.1% - in Poland, 16.6% - in Slovakia (Housing Statistics in the EU, 2010).

In 2010 an average monthly bill for communal utilities in Ukraine (including electricity) was 300.3 UAH. (+9.2% per year). Over the first half of 2011 average payment for housing and utilities raised by 27% (up to
First of all because of 50% increase of gas prices for residents and residential heating and energy companies in compliance with the IMF August 2010 Memorandum. In the nearest years one can expect speedy growth of communal tariffs which are going to be raised to economically viable level in the framework of housing and communal reform (see box 4.1).

**Box 4.1. Reform of housing and utilities sector**

The system of services in housing and utilities sector (including setting up tariffs) is extremely inefficient and obsolete. Besides low tariffs, the problem is caused by the absence of a transparent mechanism of their setting as well as by high level of market monopolization which in the end of the day leads to underinvestment into the sector development and low quality of services:

- **Unjustified tariffs.** The tariffs of natural monopolies for households (electricity, gas) and tariffs for housing and communal utilities are still heavily subsidised. For example, households’ tariffs on electricity cover only about 25% of the long-run marginal costs. Communal utilities tariffs for households cover about 60% of their cost. Lower tariffs are subsidized at the expense of industrial consumers and state Budget which covers JSC NAFTOGAZ losses.

- **Lack of uniform and transparent methodology of tariff setting.** Tariffs of the natural monopolies are set by NCRE while housing and communal utilities tariffs – by local councils. Because of absence of a uniform approach to tariff setting, tariffs often cover losses and inefficient operations of communal heating and energy companies and municipal housing management offices (ZHEKs). The difference between some tariffs in different regions reaches 5.5 times. For example, as of 1.05.2011 sewage services tariff in Kherson was 4.2 times higher than in Simferopol.

- **Maintenance and repair of residential buildings is highly monopolized.** The services are typically provided by ZHEKs. For example, in one of Kyiv’s districts the maintenance of housing is carried by ZHYTLOREMBUDSERVIS company. It is split into 19 maintenance boards. The company employs 1770 workers and serves 5.4 million square meters of territory. Such monopolistic structure discourages efficient services provision.

The Government, though being late, initiates some steps towards reforming housing and utilities sector. They are aimed at making tariffs justified and transparent, motivating to energy, raising competition in the sector and improving quality of services:

- **The Law has been adopted on setting a National regulator of housing and communal utilities which will pursue a uniform state policy in the area of tariffs.** This will allow standardizing the process of tariff calculation and streamlining of payment supervision.

- **The single procedure of tariff setting has been adopted.**

- **The procedure of application for housing subsidies and their disbursement to low income population has been simplified.**

- **The Law was adopted on obligatory use of gas meters.** It is also planned to install heat meters. Use of meters will allow reducing losses in networks and total consumption of energy in housing and utilities sector.

- **The Government intends to regulate a number of important issues related to operations of Condominium Owner Associations (COAs).** For example an issue of tariffs in contracts signed by OSBB should be equal to the tariffs for population (not legal entities) as well as an issue of guarantees to common property of COA members (Draft Law №8474 of 11.05.2011). According to the Presidential reform program, after 2014 COA must be set up in a compulsory manner.

Because of tariff differences in regions (see annexes 1-4), average bills for housing and communal utilities in Oblasts differ almost by two times (see table 4.3). In 2010 the most expensive package of services was provided to residents of Ivano-Frankivsk Oblast (404.7 UAH per month) and Kyiv Oblast (372.4 UAH). These Oblasts also were leaders in terms of communal services in 2009 and the first half of 2011. Residents of Sumy Oblast (221.5 UAH per month) and Khmelnytskyi Oblast (246.2 UAH) as well as Crimea (247.8 UAH) paid less all the others.

In 2010 a burden of housing and utilities bills (as % of household’s average monthly disposable income) was the biggest in Western Ukraine – Ivano-Frankivsk (10.8%), Chernivtsi (10.1%) and Ternopil (9.5%) Oblasts; the smallest – in Donetsk (6%) and Sumy (6.2%) Oblasts and in Sevastopol (6.6%).
Table 4.3. Housing cost burden across regions

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>H1 2011</th>
<th>household’s average monthly income in 2010, UAH</th>
<th>utility bill, % of income in 2010</th>
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</thead>
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<td>6.6</td>
</tr>
</tbody>
</table>

Source: the State Statistics Service of Ukraine

With regards Oblasts with big metropolitan areas (more than 700 thousand population) which can be more attractive for labor migrants, the following conclusions can be made:
- The average utilities bill in 2009-2010 was bigger than average in Ukraine with the exception of Donetsk Oblast (see figure 4.3). But as a share of households income the housing and utility expenditures burden was below average in Ukraine.

Figure 4.3 Average utility bill across selected regions, UAH/month (2009 - H1 2011)
- There is no data available on average payments in Kyiv. Based on the fact that in 2010 a monthly payment for an average sized apartment in Kyiv (57.5 sq m) was 424.7 UAH, it is safe to assume that the capital residents’ housing and utilities expenditures are among the highest in the country in absolute figures and at the same time among the lowest in relation to household incomes.

Taking this into account, cost burden associated with expenditures on public utility services might even become lower for potential labor migrant in case of changing a place of residence.
5. **What are the different ways in which Ukrainians get a house? From government, from their enterprises, inheritance, from the market (how prevalent are each of these?)**

Taking into account low affordability of housing, inheritance remains the most prevalent way for Ukrainians to obtain residential real estate: around 80% of all transactions related to transfer of housing property rights fall on inheritance, 19% - buying at the market, 1% - getting house from the state authorities.

Households may rely on the following sources to get a house:

1. **Government**
   Many people are eligible for free housing from the state. But in practice the number of people who actually get a house or an apartment is very small. For example, only about 11 thousand families received a house or an apartment from the government in 2010, which is only 0.9% of those who are eligible and registered for government housing.

2. **Enterprises**
   Some employers offer temporary or permanent housing for their employees. According to the official statistics in 2010 about 160 families registered in waiting lists have improved their living conditions at the expense of their enterprises. The number of those who received temporary housing from their enterprises is likely to be much higher, especially in industries with seasonal activity such as construction.

3. **From the market**
   The number of people who get a house or an apartment from the market can be approximated by the number of deals concluded on the real estate market. Deals with residential real estate must be certified by notaries. In their turn, notaries report to the Ministry of Justice the statistics on the transactions they certify. Market transactions may fall into two categories – a) purchase/sale and b) exchange. According to the Ministry of Justice, the number of purchases and sales of houses and apartments certified by notaries in 2010 was about 225 thousand. Also, about 4.3 thousand contracts for exchange of residential real estate were certified the same year. This statistics is roughly similar to that of 2009.

4. **Inheritance**
   Inheritance remains the most prevalent way for Ukrainians to get a dwelling. The number of transactions related to inheritance of real estate is much higher than other ways and can be approximated by the number of inheritance certificates and number of gifts and donations. An inheritance certificate is mandatory for inheriting real estate and can be issued by a notary. The number of inheritance certificates issued by notaries per year is around 0.8 mln. As reported by the Ministry of Justice, the number of inheritance certificates issued by notaries in 2010 amounted to 802 732 (843 349 in 2009). The number of certified contracts of gifts, donations of housing, termination of right for allowance and alimony in exchange for acquisition of rights for immovable property in 2010 was about 110 thousand (145 thousand in 2009).

   The number of inheritance certificates issued includes not only inheritance of residential property but also land and other non-residential real estate. To exclude the land from this number one can look at the urban regions where presumably not many land plots are inherited. The data on Kyiv demonstrates it is about two times more likely that a Ukrainian gets a house or an apartment by inheritance than buy it at the market. During 2010, notaries in Kyiv certified 18 867 purchases and sales of apartments and houses, while the number of issued inheritance certificates was 41 412, and the number of certified contracts for gifts/donations was 9204.

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31 Registration in the waiting list in principle may not be required by an enterprise; however it usually serves as a proof that a given person is eligible for improvement of living conditions.
How do households finance their real estate (housing and land) purchases?

Options for funding housing underwent notable changes after the crisis. The main trend shifts from mortgage financing provided by commercial banks to owner self-finance. In 2010 the structure of residential real estate sales in Kyiv roughly looked like this: 80% of housing was funded with household’s own funds, up to 10% were exchange transactions, 5% - mortgage loans, the rest – other instruments, e.g. state financing, installment payment schemes, “lease-purchase” housing loans. 34

Household’s real estate purchases are funded through the following major sources:

1. **Self-finance (savings)**
   Owner self-finance is generated through personal savings, selling of previously owned real estate or funds provided by family members. According to various estimates confirmed by AUB and the NBU, household savings outside the banking system amount to $40-60 billion. Additional $37.5 billion are kept as individual deposits in banking system.

2. **Mortgage financing**
   The number of real estate transactions involving mortgage loans in Q1 2011 was about 7% of the total number. This is about 3% more than in 2010, but over 10 times less than that of the "pre-crisis" year of 2007 35 (for more details see Chapter 9).

   The main factors behind low mortgage activity are uncertainty of borrowers in their financial stance, high interest rates (including hidden payments), and restricted mortgage requirements (increased loan-to-value and debt servicing payment-to-income ratio).

   Mortgage financing is provided mainly by universal banks. A tiny share comes from credit unions and leasing companies. There are no specialized mortgage banks in Ukraine.

3. **Financing provided by the state**
   The state provides funds through secondary mortgage market (via the State Mortgage Institution) and the State Fund for Promotion of Housing Construction for Youth (see Chapters 9 and 8 respectively).

4. **Financing provided by building companies/developers**
   a. **Leasing** 36 It means long-term dwelling rent (up to 30 years) with its further buying out under the following conditions:
      - A tenant makes an advance payment;
      - The rest of the sum is paid in a form of rental payments (payment needed to buy out the dwelling plus leaser remuneration) over some years;
      - Unlike banking loan this scheme does not include any interest accrual.
      - Payment is made in UAH; annual installments increase in line with inflation.
      - The property right transition takes place after the dwelling’s full value has been paid.

   This scheme was approved by the Government but has not become popular because of potential risks for tenants:
   - In the event of default the dwelling owner does not extend the rental agreement, and the tenant is evicted with little chance of retrieving the loan paid as rent payments (although such possibility may be indicated in the rental agreement).
   - Owner has a right to sell the apartment without consent of the tenant. Leasing companies in order to buy new facilities can take banking loans under collateral of previously procured facilities which have not yet been fully repaid by tenants. Dishonest lessor may alienate leased property without any reason if the contract stipulates such a right to act unilaterally under certain conditions.

   b. **Deferred payment purchase of housing**

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36 Resolution of the CMU # 274 of 25.03.2009
At the moment, deferred payment is the most widely used way of funding new housing purchase under limited personal funds and unavailable mortgage. The seller (developer) accepts payment for the sold dwelling in a stretched-out schedule, thereby extending an implicit loan to the buyer.

Deferred payment is applicable both to dwellings under construction and commissioned ones and it supposes an advance payment made by a buyer. The remaining sum is usually paid within one or two years. The price of unpaid dwelling may be fixed or changed by a seller. Until the last payment has been made, the property subject to purchase belongs to the seller as collateral.

This scheme is affordable to a limited number of households. The short-term deferred payment scheme means big monthly installments. It may be of interest for small and medium income households only if they have enough savings to make a big advance payment.

c. Developer’s loan

The loans are given by the bank affiliated with a developer. Usually a loan is given under better conditions than bank’s mortgage: longer term of credit and lower interest rate.

5. Other options of financing

a. Residential Construction Cooperatives (RCC)

RCC operations are regulated by the Housing Code dated back to 1983, which allows Cooperative members to build their dwellings at the expense of membership fees. Some companies use RCC as a mechanism to attract funds into construction with the aim to optimize tax payments.

In the scheme with RCC investor is badly protected from abuse and misuse of funds. Issues of membership and management in RCC made Cooperatives very inconvenient in practice. The main problem is with formalization of relations. Nevertheless, before the crisis RCC operated in such cities as Zhytomyr, Uzhhorod, Korosten. In regions RCC may expect free allocation of land parcels. RCC are the most efficient if membership is smaller, like in the case of cottage townships development.

RCC may get a new impetus from the draft Law On Peculiarities of State Support to Youth in Procurement Housing. It promotes Youth Housing Compounds (YHC) and Youth residential Construction Cooperatives (YRCC) as mechanisms of state support to young people in obtaining dwellings.

b. Contractual saving schemes (CSS)

Housing contractual saving schemes – analogues to German “Bausparkassen” and previously popular in some CEE countries– have not become popular in Ukraine. Before launching of a full-scale mortgage market in 2003 the scheme of attracting funds of population into trust management with the aim of housing construction was implemented by Arkada bank through pension and child insurance funds in the framework of pilot project on the basis of Kyivmiskbud company (see box 6.1).

In 2010 the government approved the concept of housing construction savings funds. Such funds are set as financial institutions that attract deposits from individual investors, accumulate funds and then provide housing loans to initial investors. The loans are to be complemented by state support in the form of bonuses to deposits. The initiative hasn’t got any further development.

System of housing financing does not promote internal labor migration. Only a small fraction of migrants are able to fund housing when moving from one place to another. Such migrants should rely on personal savings, and must have official income above average in order to qualify for mortgage loan.

37 The scheme does not contradict the law On Financial and Credit Mechanisms and Property Management in Housing Construction and Transactions with Real Estate and Art. 4 of the Law On Investment Activities.

38 Resolution of the Cabinet of Ministers #243-p of February 17, 2010
7. Public free housing

a. How does the system work? How big is it compared to the overall real estate market?
b. Waiting times in the queue? Differences in regions?
c. How is the system different across regions?
d. What happens when one moves? Does one lose the place in the queue?
e. Can one sell or rent the public housing?

According to the Constitution of Ukraine the right for housing is guaranteed to every citizen of Ukraine. Article 47 stipulates that state is to create conditions ensuring that every citizen is able to construct, purchase, or rent housing. Besides, state and local self-government bodies provide housing for free or at an affordable price to socially vulnerable categories of citizens.

The main piece of housing legislation in Ukraine (Housing Code) is rather outdated and contains provisions that have been inherited from the Soviet times. Nowadays the state can no longer fulfill its legal obligation to provide all citizens who need to improve their housing conditions with free public housing. Mechanisms of public housing allocation have proven to be inefficient, discriminative and corrupt.

Public housing sector is playing a less and less important role in the housing market of Ukraine. As of 01.01.2011, public stock makes 7% of the total housing stock in Ukraine including municipal stock – 5.6%, state stock - 1.4%. To compare, in the EU social housing as a percentage of the housing stock ranges from as high as 35% in the Netherlands to as low as 4% in Hungary (Whitehead and Scanlon, 2007). The share of public stock has fallen significantly over the last decade (see figure 2.1). The main reason for rapidly decreasing public stock is housing privatization. At the same time, provision of new public housing has not kept pace with overall building.

Construction of new public housing has been constantly declining. In 2010 the living area of housing put into operation at the expense of state budget constituted 32 thousand square meters or 0.3% of the total housing built (in 2009 – 1.7%). The share of housing constructed at the expense of budget funds in different regions does not exceed 4%. In 2010 the highest share of housing completed at the expense of budget funds was in Mykolaiv, Donetsk, Rivne Oblasts, and the city of Sevastopol. The state prefers to construct housing in the cities: the share of housing put into operation at the expense of state budget funds in rural areas amounts only for 3.4% of the total area of housing constructed at the expense of state budget.

The public housing sector currently can be divided into three major segments:
- Public housing provided for free for permanent use (with the right of further privatization).
- Social housing provided to socially vulnerable citizens via rental agreement for a limited period of time.
- Employee housing and hostels provided for temporary use on rental conditions.

a. Public housing provided for free for permanent use (with the right of further privatization)

According to The Housing Code all citizens in need of upgrading of their housing conditions have the right to obtain free public housing for perpetual use (with the right of further privatization). The eligibility criteria for receiving free public housing are very broad, poorly targeted and are not pegged to income. Citizens may claim upgrading of their housing conditions if the amount of living area per one person is below the established minimal level (set by local self-governments)\(^{39}\); if they live in hostels or premises which don’t satisfy sanitary norms; if they have been renting the premises in the private market for at least 5 years; suffer from severe forms of chronic diseases, etc.

The system of housing allocation is based on waiting lists of citizens in need of upgrading of their housing conditions. Three groups of families and single people may be registered in waiting lists:
- Top-priority list - people with privileges who have the right for top-priority supply dwellings (disabled workers, State Heroes, persons suffering from severe forms of some chronic diseases, large families, single mothers, war veterans, etc.)

\(^{39}\)Varies across regions: in Kiev – 7.5 sq.m per person, Ternopoli - 6 sq.m, Kharkiv – 5.5 sq.m.
- Priority lists - citizens who have the right for priority supply of dwelling (persons officially sent to work in another locality; families with five or more children, disabled orphans, disabled war veterans, etc.).
- General waiting lists - the rest of people in need of housing.

Citizens can be registered in waiting lists: a) on the permanent residence basis by local self-government authorities; b) at the workplace basis at state institutions and enterprises that have their own housing stock or participate in housing construction (registration is based on a joint decision by company’s administration and trade union committee). It is possible to be registered simultaneously in two waiting lists. It is usually required to have 5 years of local registration to be included into the list (except applicants who are eligible for top-priority allocation).

Departure for permanent residence to another locality and termination of employment with an enterprise, institution, organization of a person who has been registered at the workplace lead to the removal of the applicant from the housing waiting list. Still, there are a few exceptions: this provision is not applicable to MPs and their families; in case of retirement; education, etc.

According to the Housing Code, public housing tenants have the right to exchange occupied dwellings, even for another locality. Besides, tenants have the right to provide their premises for sublease.

Tenants of state and municipal housing can privatize their premises⁴⁰. However, if the applicant already used his right for privatization in another town he does not have a right to privatize the dwelling he got from the state for the second time.

The level of housing provided for free for permanent use is negligible. Currently 1.1 million of families are registered in the housing waiting lists. In 2010 only 11 thousand families were provided with public housing (0.9% of the total waiting list).

Free public housing provision has been constantly declining over the last 20 years and the period of waiting has been expanding (see table 7.1). As of 2010, 780 thousand families (68.5% of the total waiting lists) have been waiting for upgrading of their housing conditions for more than 10 years, while only 18.2% of applicants have waited for less than 5 years. Under current conditions (total number of applicants and the rate of public housing provision per year) the state would get rid of the housing waiting lists in more than 100 years.

Top-priority waiting lists comprise 294 thousand citizens as of 01.01.2011 (or 25.8% of total lists). 97 thousand citizens are included in priority lists (8.5% of all applicants). The rest 748 thousand families (65.7%) from the general queue have the lowest chances to obtain free public housing. In 2010 the highest rate of housing provision was observed in the priority group (2.4% of all group applicants), followed by 1.5% of top-priority group and only 0.8% of the general queue.

In 2010, there were registered 28 thousands new applicants, from which 35.4% in the top-priority list, 17.4% in the priority list, and 47.2% in the general queue.

Social portrait of public housing applicants is rather constant. Majority is represented by families with 2-3 members (46.6%) or 4-5 members (31.5%). 9.8% are young families, and 15% live in hostels. 98.8% of all applicants who want to obtain public housing reside in cities. 2% of all applicants are simultaneously registered on the permanent residence basis and on the workplace basis.

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<th>Table 7.1 Public housing provision (thousands families)</th>
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<td><strong>1990</strong></td>
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<td>Total housing waiting lists</td>
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<td>Households provided with public housing</td>
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<td>In % of the total waiting list</td>
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*Source: the State Statistics Service of Ukraine*

⁴⁰ Privatization of public housing is exempt from VAT. Besides, the value of state or municipal housing which is granted to taxpayer for free or sold with discount is not included into taxable personal income.
In practice, the allocation of public housing is eroded by corruption and widespread abuses to bypass legal criteria (e.g. registering relatives to meet the requirement of having less than minimal living space per dweller, informal selling of the place in waiting list, etc.).

**Regional differences**

Most applicants in the waiting lists are registered in Kyiv city (166 thnd. citizens, 14.6% of total waiting list), Donetsk (81 thnd, 7.1%), AR Crimea (76 thnd., 6.7%), and Lviv (73 thnd, 6.4%) Oblasts, and the lowest – in Zakarpattya Oblast (9.6 thnd., 0.8%). Lviv, Sumy, Ternopil, Kirovohrad and Zaporizhzhya Oblasts have the longest waiting time – more than 75% of all registered applicants have been waiting for housing for more than 10 years. The most favorable situation in this respect is in Vinnitsya (56.2% of regional applicants), Chernihiv (57.3%) and Kyiv Oblasts (59.1%).

During 2010 the most active registration of new entries took place in Luhansk (4.8% of the Oblast waiting list), Chernihiv (3.9%), Donetsk (3.9%), and Kyiv (3.8%) Oblasts. On the opposite side of regional comparison were Ternopil (0.9%), Sumy (1.3%), and Lviv (1.4%) Oblasts.

In 2010, the highest rates of public housing provision were in Luhansk (2.6% of all applicants in the Oblast obtained public housing), Donetsk (2%), Mykolaiv (2%) and Odessa (1.4%) Oblasts. The lowest rates were in Ternopil (only 0.2% of Oblast waiting list), Chernivtsi (0.3%), Lviv (0.3%) and Zaporizhzhya (0.4%) regions.

**b. Social Housing**

Social housing has been introduced by the Law on Housing Stock for Social Purposes (effective from 2007). According to the Law, Ukrainian citizens in need of social protection are provided with social housing free of charge. Social housing is allocated and provided by local self-governments based on the renting contract for a certain period of time.

Housing Stock for social purposes comprises dwellings of all types of ownership (except for social hostels). It includes:
- Apartments and farmstead (one-apartment) residential houses that provided to citizens registered in the social housing waiting lists.
- Premises in social hostels provided to citizens for the time of their stay in a social housing list under the condition that these dwellings are their only place of residence.

The housing stock for social purposes is formed by local self-governments by means of building new dwellings; reconstruction of existing residential houses; transferring some apartments in newly-built houses to local municipalities by builders and developers; transferring dwellings that were built at the expense of the state budget from state ownership into municipal ownership; using private housing stock on a contractual basis (i.e. rental contract); etc.

Some Oblasts adopted special programs to motivate development of Social Housing Stock (see box 7.1. on Kyiv).

**Box 7.1 Social housing development program in Kyiv in 2010-2015**

According to the City Hall, Social housing stock development requires 366 million UAH. It is planned to provide social housing to 1459 families over that period of time.

The key instruments of the program are:
- New dwellings construction
- Utilization of vacant dwellings granted to local self-governments and dwellings confiscated by court decisions.

In the course of the program implementation the mechanism will be developed to co-find construction of social housing by local and state budgets and from other sources.

**Transfer of dwellings from social housing stock to other housing stocks is prohibited.**

Social housing is provided under the rental contract. Local authorities establish the amount of payment for social dwellings for each tenant individually. Payment for dwellings should not exceed 20% of total income of the tenant and his/her family members living with him/her; the rest is subsidized by the state. Payment for social dwellings covers:
- rental fee;
- maintenance of dwellings and territories;
- communal services.

Allocation of housing is based on social housing waiting lists (including priority and top-priority lists). The lists are maintained by local authorities at the place of citizens’ residence. Homeless citizens can apply to a local government executive body at the place of their stay. Citizens eligible for registration in the social housing lists are those:
- For whom such housing is the only place of residence.
- Whose average monthly income in the previous year was less than the size of indirect cost of tenancy in this settlement and of minimum subsistence level\(^{41}\).

Citizens are removed from the social housing list in case of a move to another settlement for permanent residence; obtaining a loan to build or purchase dwellings or provision with a land plot for building a private residential house.

Currently about 272 thousand families meet legal criteria for social housing (NISS, 2011). To provide them with dwellings the state should maintain the social housing stock of 15.5 mln. sq. m. Current size of social housing stock is negligible. The most popular mechanism of its formation means that builders and developers transfer some dwellings in newly-built houses (about 15-20%) to local municipalities. As of 1.01.2011, 615 families and individuals are registered in social housing waiting lists. Over the last three years only 96 families have received social housing in Ukraine.

**c. Employee housing**

Employee dwellings (usually separate apartments) can be provided only to certain categories of citizens. They are assigned to employees who due to the nature of their employment must live close to their place of work. The status of employee housing is granted to public dwellings by local self-governments.

Employee dwellings are allocated by the administrations of institutions, organizations and enterprises that possess or operate those premises with further approval by local self-governments. The allocation and the use of employee housing by parliamentarians are regulated by a special procedure.

Workers and employees who have terminated employment with the enterprise, institution, and organization are obliged to leave the employee housing without supplying them with other dwellings.

**Employee dwellings cannot be privatized, sold, or exchanged.**

However, there is a wide group of people who cannot be removed without providing them with another dwelling even after they have stopped all relations with the enterprise. These are disabled persons, employees who have 10 years of working experience at the same enterprise or organization that provided them with that housing, employees who lost their jobs as a consequence of enterprise reorganization, single parents with minor children, etc. In such cases citizens have the right to demand a provision of another public dwelling for permanent residence or lifting of the status of employee housing from their premises with the right of their privatization.

In practice, there are a lot of abuses of “no privatization” provision via illegal lifting of the employee housing status in order to make further privatization of the occupied dwellings possible. The most notorious example is the situation with employee housing for MPs (see box 7.2).

**Box 7.2. Privatization of employee housing by MPs**

According to the Law on the Status of MP, Members of Parliament who do not have permanent residence in Kyiv have the right for employee housing, paid rooms in the Hotel Kyiv and Hotel Ukraine, other premises for permanent living or monetary compensation. By adopting a Resolution, the parliamentarians often change the status of employee housing and then change its property status for privatized one. Although the head of the Parliamentary Committee on the Regulations promised to tighten the rules and abolish the norm on obligatory granting employee housing to parliamentarians, no steps in this direction have been made so far.

\(^{41}\) Other eligible categories: residents of temporary shelters, citizens in a state of complete, partial or temporary disability, those who lost the bread-winner, elderly persons, etc.
Provision of employee housing is also practiced by some large Ukrainian private companies. Usually companies pay rental fees for top management staff. But there are cases of constructions and provision of employee housing by some large companies.42

International experience shows that supplying with employee housing is rather a matter of private companies, than a state and local authorities (see box 7.3).

**Box 7.3. Employee housing: US and Canada experience**

The practice of provisioning employee housing is well established in the USA and Canada and not popular in the EU. In the USA, for example, companies may offer a variety of housing options to their employees, both seasonal and all-year-round. Housing options range from hotel-type rooms to apartments and condominiums, with rent lower than average in the market. In order to get housing the worker must work fixed hours per week. For Yuma, Arizona it is 30 hours per week or full time employment in Colorado.

The case of Canada shows that the problem of employee housing can be solved not only by private companies, but also in cooperation with the central government. The Seasonal Agriculture Worker Program (SAWP) was introduced by the Canadian government in 1966 in response to severe labor shortages. According to the program, an employer must provide seasonal housing to the workers and the housing must be inspected by a licensed housing inspector. The employer may recover the cost of housing by a deduction of up to 7% of workers’ pay to a maximum of $550 per year (HRSDC, 2007).

d. **Hostels**

According to the Housing Code, hostels are provided to workers, employees, students and other citizens for temporary residence for the period of their work or study.

Premises in hostels are allocated jointly by administrations of enterprises, institutions, organizations and relevant trade union committees. Residents pay a rent for accommodation in a hostel. In case of joint use of dwellings in hostels by several unmarried persons they pay an established fee which covers expenses on communal utilities. Whereas families occupying separate premises pay maintenance fee and for communal utilities at rates which are applicable for public housing. The average monthly payment for the room in the hostel is 200 UAH. Yet in some cases the price can reach 500 UAH for one bed in the room.

People who terminated their relations with the enterprise or organization are obliged to leave the hostel without provision with other dwelling. The hostels’ residents do not have the right to make changes in the layout of their premises, reorganize them, to settle other people or temporary residents in the room.

As of 01.01.2010, there were 9975 hostels in Ukraine, including 4022 hostels belonging to the state (40.3%), 3439 communal hostels (34.5%) and 2514 private hostels (25.2%). 7564 hostels (76%) are situated in cities, and 2411 hostels sit in rural areas.

Hostels occupy 20.5 million sq. m. and make up 1.9% of the total housing stock in Ukraine. Regional distribution of hostels: the city of Kyiv (2.77%), Zaporizhzhya (2.74%), the city of Sevastopol (2.42%) and Kharkiv (2.33%) Oblasts have the biggest share of hostels in total Oblast housing stock. While Zakarpattya (0.8%) and Kyiv (1.3%) Oblasts – the smallest share.

In the process of privatization of some state enterprises hostels have been included in the statutory funds of privatized enterprises (which is illegal since the privatization of hostels is prohibited). There have been cases when companies illegally decide to rent hostels out or sell them, or residents have been offered to buy housing at market value, which is not feasible for most of them.

A significant number of hostels are in poor condition, their state does not meet sanitary and technical standards, but their maintenance falls on the shoulders of residents of hostels, rather than enterprises. There is a general rule that housing of bankrupt or insolvent enterprises have to be transferred to communal property. In practice, the transfer of hostels to the communal property is very limited since municipalities are not much interested in increasing their expenditures for hostels’ repair and maintenance.

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42 ArcelorMittal company provides free apartments to leading specialists or distinguished workers.
Many hostels have already lost their status of housing for temporary residence. According to the Law “On Ensuring the Realization of Residential and Housing Rights of Hostels Residents” (effective since 2009), individuals who over a long period of time have been registered and actually resided in hostels possess the right to privatize their premises or to receive social dwellings instead. This refers only to hostels intended for residence of unmarried persons or for residence of families. The eligibility criteria for the privatization of rooms in hostels are:

- To reside in the hostel during at least 5 years;
- To be registered in the hostel;
- Not to have any other dwellings in possession.

Privatization of hostels implies free transfer of premises (based on the established norm of 21 sq. m/person and additional 10 m$^2$ for family).

The right to privatize the occupied hostel premises belongs to citizens residing in hostels owned by the state or municipality. Before the privatization all state-owned hostels should be transferred to territorial communities. Residents who live in hostels included into authorized capital of enterprises also can acquire the right to privatize their occupied premises after the transfer of such hostels to territorial communities (on a contractual basis). In case when such hotels are not transferred to municipalities, occupants have the right for further reside in such hostels until the solution of their housing problem is found.

The eviction, resettlement and movement of hostel residents is prohibited without prior supplying them with other housing suitable for permanent living (except buildings in dangerous state). In addition, to secure housing rights of hostel residents there is a 3 year moratorium on alienation of hostels owned or operated by any enterprises or organizations for the benefit of individuals or legal entities.

In practice, the enforcement of the law is rather weak. To strengthen it the government drafted a program on the transfer of hostels to territorial communities during 2010-2014. According to it, 1082 state-owned hostels are to be transferred to territorial communities by 2015.

Examination of existing system of free public housing allows making the following conclusions:

- The system of public housing allocation contradicts principles of social equity, is low targeted and inefficient. The changes should be introduced into allocation policy in favor of low income households.
- The local registration requirement for the allocation of public housing is a barrier to geographical labor mobility as applicants do not want to lose their place in the waiting lists when they move to other location.
- Very low mobility rate also caused by high levels of tenant protection (leaving public housing dwelling means agreeing to substantial losses, both financial and legal).
- Mass privatization of public housing stock reduced the amount of housing available for rent, as tenants became owners. At the same time slow new housing construction (at the expense or support of state and local budgets) leads to housing shortages, especially in inexpensive social and affordable housing.
- Widespread misuse of allocation and use of employee housing for temporary stay (lifting of its status with the aim of further privatization) have diminished the role of this instrument in stimulating labor mobility.
- A considerable amount of existing hostels lost its function of temporary and cheap housing for new labor force. The available stock of hostels for temporary residence is estimated to be negligible.
8. Housing subsidies and allowances (for construction; for mortgages; for rent/heating; regional differences)

A. Subsidies for mortgages and construction

Currently legislation envisages three major state programs of housing provision support. Two of these programs are targeted to specific groups – youth and rural residents, while the third program (entitled “Affordable Housing”) has a broader coverage. In addition, there have been several targeted state/regional initiatives to provide subsidies on professional basis (for example, teachers, public servants, etc.) or to promote construction of affordable housing in metropolitan areas.

1. The state support to youth. The state program of housing provision to young people during 2002-2012 has implemented by the State Fund for Promotion of Youth Housing Construction (the Fund) and envisages two instruments of housing support:

- A privileged mortgage loan (up to 30 years at 3% or 0% per annum) provided directly by the Fund to the borrower. Additional privileges are granted to families with children. Those having one child are exempt from interest payments, two children – get reimbursed of 25% of the amount of loan obligations, three children – get reimbursed of 50%. Borrowers in rural areas have the right for additional compensation (25% of the loan in addition to other benefits). Households that were registered in the waiting lists for a longer period of time have better chances to get privileged loan. The amount of loan for construction (reconstruction) of housing is determined by the regional office of the Fund based on the norm of 21 sq. m. of total area per person plus additionally 20 sq. m. per family. The calculated cost of 1 sq. m. of the housing should not exceed average cost of its construction.

From 1998 to 2010 the Fund granted 9966 long-term privileged loans for construction and procurement of housing from the state and various local budgets in the amount of some 1.1 billion UAH. Still, over the last decade the share of housing constructed through provision of privileged loans remained insignificant – less than 1% of new housing completions (see Table 1).

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</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>31569</td>
<td>7816</td>
<td>8628</td>
<td>10244</td>
<td>10496</td>
<td>6400</td>
<td>9339</td>
<td>84492</td>
</tr>
<tr>
<td>Floor area completed under the program</td>
<td>411</td>
<td>80</td>
<td>46</td>
<td>45</td>
<td>35</td>
<td>9</td>
<td>-</td>
<td>626</td>
</tr>
<tr>
<td>Share in total housing construction</td>
<td>1.3%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.4%</td>
<td>0.1%</td>
<td>0%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: the State Statistics Service of Ukraine, the State Fund for Promotion of Youth Housing Construction

Besides state Budget funds the Fund lends privileged loans from its own funds (at the expense of paid back loans disbursed earlier). Since November 2010 the Fund has been running a new program of mortgage loans to youth. Young people below the age of 35 and registered in the waiting list for upgrading of their living conditions are eligible for the program. The loan will be disbursed in UAH at 10.75% interest rate for the term up to 30 years but will stop upon reaching by the borrower the retirement age. The purchased dwelling will serve as collateral. The loan is disbursed only if after all obligatory monthly deductions from the family’s official income there remain not less than subsistence minimum level per each family member. The advance payment may reach 10%, the loan is disbursed to cover 90% of the dwelling’s cost.

- Partial compensation of interest payments for commercial bank loans. A borrower (young family) gets reimbursement in the amount of the NBU interest rate. This way, in 2004-2010, the Fund provided housing to 17823 young families and attracted about 2 billion UAH of over-the-budget funds, or 2.5% of total housing loan portfolio (see table 8.2). But this program is regarded to least successful. Because of unstable funding from the Budget, arrears in terms of partial reimbursement of interest paid by young people at the beginning of 2010 constituted 62 million UAH. Currently, the Fund does not take any obligations over until those arrears have been eliminated.

Resolution of the CMU #853 as of 4 June 2003.
Table 8.2 Partial compensation of interest payments for commercial bank lending

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of agreements signed</th>
<th>Bank resources (UAH mln.)</th>
<th>Financed by the Fund (UAH mln.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1143</td>
<td>95,6</td>
<td>1,5</td>
</tr>
<tr>
<td>2005</td>
<td>15800</td>
<td>1738</td>
<td>25</td>
</tr>
<tr>
<td>2006</td>
<td>0</td>
<td>0</td>
<td>99,3</td>
</tr>
<tr>
<td>2007</td>
<td>205</td>
<td>40,4</td>
<td>114,2</td>
</tr>
<tr>
<td>2008</td>
<td>675</td>
<td>159</td>
<td>104</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>0</td>
<td>70</td>
</tr>
<tr>
<td>2010</td>
<td>0</td>
<td>0</td>
<td>117,8</td>
</tr>
<tr>
<td>2004-2010</td>
<td>17 823</td>
<td>2033</td>
<td>530,3</td>
</tr>
</tbody>
</table>

Source: the State Statistics Service of Ukraine, the State Fund for Promotion of Youth Housing Construction

The audit performed by Accounting Chamber revealed low efficiency of the state program for provision of housing to young people. In 2002 - 2010 it was underfinanced by UAH 790 mln. As a result, the amount of housing put into operation constituted only 12% of the plan for the period (ACU, 2011).

2. The state support of rural residents under the “Own House” program. The program has been implemented since 1997 by the Interagency Coordinating Commission for Individual Housing Construction in Rural Areas Support and by Regional Funds for Individual Rural Developers Support. According to the program individual rural developers can obtain 30-year privileged loan (under interest rate of 3%) for construction (purchase) of a house and its connection to a gas supply system. The loan is given under condition of the individual developer’s permanent residence or resettlement for permanent residence in rural community and proof of his solvency. Over 1998-2010 in the framework of regional programs more than 76 thousand rural developers received loans in total amount of 775.5 million UAH which allowed to put into use more than 1.2 million sq. m. of housing (1.4% of total housing completed) and to connect to a gas supply mains 59.5 thousand households.

3. The state program “Affordable housing”

In September 2010, the government has introduced a new large scale state program “Affordable Housing 2010-2017.” The aim of the program is to provide housing to citizens, who are not able to get it due to: high interest rates on mortgage loans and high prices of housing. Another aim of the program is to finish construction of buildings at high level of readiness. In 2010, about 40 developing companies which have in their inventories buildings at a level of readiness of 70% and higher took part in the program in various regions.

The program is financed from state and local budgets, and with own funds of citizens. The program operator is the State Fund of Youth Housing Construction Support and its regional offices.

The program to some extent duplicates other state housing programs and is supposed to be an alternative for those citizens who have a right for free public housing. Its implementation should help to obtain dwellings to 265.8 thousand families and to construct 16.6 million sq. m. of floor space in 2010-2017. For comparison, at the beginning of 2011 the number of persons registered in waiting lists for free public housing was 1 million 139 thousands persons.

The program consists of two major components:

- State assistance provided in the form of privileged 20-year mortgage loan and/or subsidy in the amount of 30% of house price. Loans are disbursed by «Oschadnyi Bank of Ukraine” up to 20 years and

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44 Regional Funds are established under the state oblast administrations according to the Decree of the President of Ukraine #222 as of 27.03.1998
45 The mechanism of affordable housing construction was identified in the Law On Prevention of Impact by the World Financial Crisis on the Development of Construction Sector and Housing Construction of 25.12.2008, #800-VI. According to the Law, affordable housing means residential houses and apartments, which are constructed or are under construction with the support from the state. There is also a list of conditions which must be fulfilled in the process of affordable housing construction and requirements which that housing should meet.
46 Resolution of the CMU #1249 as of 11 November 2009
47 Resolution of the CMU “On approval of the concept of state targeted social and economic program for construction (purchase) of affordable housing during the years 2009-2016” #1406-p as of 5.11.2008
under 16% interest rate; subsidies – directly by the Fund. The state assistance for housing procurement is limited by useful area norms and cost of real estate. The subsidy could be provided to all categories of citizens irrespectively of their social or professional status in case they are registered in the housing waiting list and income per family member does not exceed 5 average wages in the respective region. Time spent in the waiting list does not matter. Additional privileges are provided to families with two or more children.

- In order to reduce the price of construction, local governments provide developers of affordable housing with land plots connected free of charge to engineering infrastructure, exempt builders from local obligatory payments if favor of development of social and engineering infrastructure, contributions in the form of allocation of apartments in favor of local executive bodies. The land plots for construction are provided under privileged conditions – without land auctions (article 134, Land Code).

The first results of the “Affordable Housing” program are quite modest so far. Over 2010 590 families purchased apartments. 180.1 million UAH of private money and 71.379 million UAH of state support were used. According to the program, in 2011 the state should spend more than UAH 1 billion for affordable housing. Though, currently central budget envisages only UAH 100 million for these purposes. In addition in 2010 the program was implemented disproportionally - only in 10 out of 19 planned oblasts (ACU, 2011).

Also design of the program has a number of deficiencies that may hamper its effectiveness and affordability of housing:

- **Collateral.** Privileged mortgage loan is disbursed only under the collateral of real estate which the participant or his guarantor owns. The purchased apartment may not serve as collateral for the privileged mortgage loan.

- **Registration.** Citizens may claim state assistance only in regions where they are registered in the housing waiting list. One of the main conditions of getting registration in housing waiting line is permanent local residence (usually up to 5 years).

4. **Other spotted national and regional initiatives**

- **State servants.** The legislation sets the right of state servants to apply for zero-rated privileged mortgage loan. Though respective order was defined in 2004, the program is not financed. Since 2007 the Foundation of Youth Housing Construction Promotion has started realization of the preferential crediting of teachers and university instructors program for housing procurement. But the effectiveness of this program is very low. In 2007-2008 only 126 families of teachers were provided with housing in the framework of this program.

- **6-year national project “Affordable housing” (2010 - 2015) –** run under the patronage of the President of Ukraine by the State agency for investment and management of national projects. The aim of the project is to provide affordable housing to some groups of population (young specialists that work in the priority spheres defined by the state, personnel reserve of the President, military servicemen, participants of the program of social adaptation of Crimean population, disabled persons).

According to the project the neighborhood development means construction of standard houses connected to all necessary utilities. The first wave of the project is planned to be implemented in Kyiv, Odessa, Donetsk, Lviv, Kharkiv; then – in Dnipropetrovsk, Ivani-Frankivsk, Zaporizhzhia, Poltava, other Oblasts and Crimea. It is planned to build total 2.8 million sq. m of affordable housing for 40 thousand families. The housing stock will be offered both to rent without fixed time limit and to buy in the framework of the “Affordable Housing” program. The budget of the project is UAH 12 bn.

The project is at the beginning stage; therefore it is still difficult to judge its efficiency and what mechanisms of state support will be utilized.

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48 http://www.oschadnybank.com/ua/kyiv/services/physical.html.php?_m=publications&_t=rec&id=1518
49 Concerns the area of only 21 sq m of useful area per person plus 10.5 sq m per family and only within limit of construction cost per 1 sq m (In Kyiv – 7990 UAH, in Kyiv Oblast – 6435 UAH).
50 The Law of Ukraine “On Public service” #3723 as of 16.12.1993, the resolution of the CMU “On approval of the procedure for provision of public servants with interest-free mortgage loans” #182 as of 12.02.2004
51 Such programs were approved in Zakarpattya, Vinnytsya, Volyn, Sumy, Zhytomyr, Luhans oblasts.
52 http://www.molod-kredit.gov.ua/history.php
53 Decree of the President of Ukraine #895 as of 08. 09. 2010
Regional initiatives
Since 1998, local authorities in Kyiv run municipal program for provision of affordable housing. For 12 years the government spent UAH 474.9 million and provided 5018 apartments (3.4% of all dwellings constructed in Kyiv over this period) to citizens that are entitled to privileges and were registered in the housing waiting list. The government subsidizes 50, 40 or 30% of housing price.

The Cabinet instructed Oblast administrations to develop and approve regional programs for construction (procurement) of affordable housing for 2010-2017. In 2010, the Kyiv city council approved local program for construction (purchase) of affordable housing in the city Kyiv for the years 2010-2017. According to the resolution, the local budget participates in compensation of housing price. The local government also should provide builders of affordable housing with land plots connected free of charge to engineering infrastructure, exempt builders from local obligatory payments in favor of the development of social and engineering infrastructure, contributions in the form of housing to local executive bodies. Though, according to the plan, 2/3 of dwellings constructed according to the program will be provided to privileged categories of population (teachers, judges, invalids, state servicemen, scientists, etc.).

Similar programs of affordable housing were approved in other regions of Ukraine. In Donetsk Oblast they developed a mechanism, which allows besides state support in a form of the 30% advance payment to pay 3% interest on preferential loan instead of 20%.

B. Tax allowances for mortgages and construction
The newly approved Tax Code envisages a number of tax allowances for housing aimed to reduce the cost of housing construction and ease purchase and alienation of dwelling:

- **Construction.** The government intends to stimulate the construction of affordable housing. According to the Tax Code, starting from the year 2011, construction works of affordable and public housing construction are exempt from VAT (Art 197.15). According to the Ministry of Regional Development, Construction and Utilities, this tax privilege would help to construct additional 50 thousands sq. m. of housing, cut the construction costs by 5% and attract additional investments in the amount of UAH 500 million. The Tax code also envisages preferential tax regime for engineering services. The preferential regime is aimed at reducing engineering costs and will reduce the cost of building at the first stages.

   However, in practice enforcement of VAT exemption for construction works is complicated and limited due to the low quality of tax legislation. The State Tax Service of Ukraine limits the use of this privilege only to those construction companies, which are defined as executive agents of the targeted program of affordable housing construction and are directly involved into construction and assembly works. STA indicates that if a company procures (produces) goods/services intended for use in operations exempted from taxation the taxes paid in relation to those purchases cannot belong to tax credit. It means that having lost a right for a tax credit on procured construction and assembly works a developer must pay from his own pocket a VAT on full selling price of affordable housing.

   In addition, the definition of the term “engineering” in the Tax Code is not clear and differs from definitions in current sector legislation, which allows tax officials under various pretexts to deprive a developer the right for VAT exemption.

   Therefore, new approach to affordable housing construction taxation does not help to bring down construction cost as it was supposed to be. The Ministry of regional development and construction is drafting amendments to the Tax Code in order to improve the situation.

- **Purchase of housing.** Transactions of the first supply of housing (including affordable and public housing) are subject to VAT at 20% (17% from 1 January 2014). All other transactions of housing supply are exempt from VAT (Art 197.1.14.). This provision complies with the 6th EU VAT Directive.

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54 Resolution of the CMU # 1249 as of 11.11.2009
55 Resolution of Kyiv city Council #30/4842 as of 16.09. 2010
56 http://kmr.ligazakon.ua/SITE2/l_docki2.nsf/alldocWWW/1955A4E1B635E77AC22577C9006868FB
For personal income tax (PIT) purposes, the total taxable income does not include the value of state or municipal housing that is granted to the taxpayer for free or sold with discount according to the law. (Art 165.1.) The total taxable income does not include the state assistance for construction or purchase of affordable housing provided according to the law.

- **Tax allowances for mortgages.** The Tax Code envisages a tax relief for mortgage loan servicing (Art 166.3.1) for employed persons. The amount of the relief is equal to the sum of expenses incurred in relation to the mortgage loan servicing. In addition to this earlier existing privilege, tax relief is also envisaged for expenses related to purchase/construction of affordable housing including privileged mortgage loan servicing and redemption (Art 166.3.8).

The tax relief also covers hard currency mortgage loans. The amount of relief percentagewise depends on total area of purchased housing: 100% for housing with total area not more than 100 sq. m and smaller percentage (using step-down ratio) for housing with area bigger than 100 sq m.

There is a number of legal restrictions which substantially limit application of this benefit. The privilege could be provided after the taxpayer gets a title and starts using the object of mortgage as the major place of residence (gets a registration stamp in the passport). Thus the allowance is not applied to mortgage loan for housing at the stage of construction. Only employed persons have a right for income tax relief for mortgage loan servicing. Therefore private entrepreneurs do not have a right for tax relief. The amount of a tax credit should not exceed a total annual salary. It is allowed to use tax credit only on one mortgage agreement within 10 years.

- **Taxation of sale/exchange of real estate.** Individuals engaged in sales transactions are obliged to make the following types of payments:
  - tax on income received from the sale of real estate
  - state duty or notarial fee
  - deduction to mandatory state pension insurance.

**Tax on the sale of real estate:** The procedure of taxation of sales/exchange of real estate is regulated by Articles 172 and 167.2 of the Tax Code of Ukraine. Income received by residents from the sale of real estate (including incomplete constructions) is subject to tax at a rate of 0%-5%. Tax rate depends on the nature of real estate, the number of real estate sales performed by the same taxpayer during a year and the number of years of possession of the real estate (see table 8.3).

<table>
<thead>
<tr>
<th>Tax rate</th>
<th>Application of tax on the sale/exchange of real estate</th>
</tr>
</thead>
</table>
| 0%       | Sale of real estate in the possession of more than 3 years, which is performed no more than once during the reporting fiscal year:  
- apartment building (including land plots that hosts such object)  
- apartment  
- room  
- garden house  
- land area that does not exceed the rate of free transfer (according to Land Code) |
| 5%       | - Sale of real estate which is possessed less than three years  
- Sale of more than one real estate object during the reporting fiscal period  
- Sale or exchange of incomplete constructions |

*Source: the Tax Code*

The tax is based on the price indicated in sales contract, but cannot be lower than the real estate value calculated by authorized institution (BTI). Income of non-residents is subject to tax at 15%-17% (according to the same rules).

**State duty or notarial fee:** the state duty for notarization of sales contract by state notary amounts to 1% of the value of real estate specified in the contract. If the transaction of sale is notarized by private notary parties pay the fee for notarial services, which cannot be less than the amount of state duty (1% of
the value of property). State duty is usually paid by a seller. Certain categories of citizens may be granted preferential state duty.

**Deductions to mandatory state pension insurance:** individuals who purchase real estate have to make a contribution to mandatory state pension insurance of 1% of the value of property specified in the sales contract. It should be paid by a buyer.

**Real estate tax** is levied on immovable property other than land parcels (except realty in the property of state, municipalities, families with 3 and more children’s, garden and holiday houses etc). The tax is imposed only for apartments in multi – family (M-F) buildings with useful space of 120 m$^2$ and more and single family (S-F) houses – with useful square 250 m$^2$ and more. The tax rate is set at max 1% of minimal wage for apartments in M-F buildings with useful space 120 – 240 m$^2$ and S-F houses of 250-500 m$^2$ square. For dwellings with useful area exceeding these caps tax rate amounts 2.7% of minimal wage. The tax is levied by local authorities.

Payment of real estate tax is heavily subsidized, as its scope doesn’t cover the majority of house owners in Ukraine.

**C. Subsidies for rent**

The government does not provide any subsidies or allowances for private renters. However, lease of public housing is heavily subsidized by the state. Tenants occupying public free housing, hostels and employee housing are not supposed to pay any kind of rent. Besides payments for utilities, they are only charged with a fee for the use of dwelling – to cover maintenance costs of running the house.$^{59}$

The rent is applied to social housing. According to the Law on housing fund for social purposes$^{60}$, the state should provide assistance for social housing payment that comprises rent, utility payment, and maintenance of social housing. The assistance should be provided in case the share of respective expenditures exceeds 20% of total household income (see chapter 7.b). The rent is set by local government according the order defined by the Cabinet of Ministers$^{61}$ and take into account household income level, total housing area, number of household members, utility services provided, location of housing.

**D. Subsidies for communal services**

The state centrally funds and administers subsidies to cover payments for electricity, telephone, water supply and sewage, heating, gas supply, other utility services. To that end central government utilizes two major instruments:

- **Benefits.** Income is not applied as eligibility criteria. Benefits are provided to some categories of population based on professional (judges, military personnel), or social basis (disabled), special awards (war veterans). Depending on the status of individual, the amount of a benefit may reach 20-100% of utility bill. If an individual receives benefits, he can also get utility subsidies.

- **Subsidies.** Utility subsidies are provided to low-income households (on the basis of income as eligibility criterion). Subsidy compensates utility bill if it’s exceeding 15% of household aggregate income. By the end of the first six months of 2011 the share of families enjoying subsidies was 2.5% of total number of families in Ukraine. It was two times bigger than at the same period of the last year because of 50% increase of gas prices and housing management offices’ services.

Provision of housing allowances is poorly targeted. As could be seen from the table 8.4, utility subsidies and privilege are more important for households in 5th and 6th decile by income distribution. At the same time, the share of housing allowances in the expenditures of households with highest level of income is larger compared to household in the lowest income decile.

Eligibility for housing benefits and subsidies for communal utilities is linked to the place of residence and this right usually is lost if a household moves to rented apartment. Otherwise, to keep the right for subsidy the tenant should register rental contract at the executive committee of the local council which is quite rare (see chapter 2).

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$^{59}$ Payment for use of a dwelling (housing payment) is calculated on the basis of a total area of an apartment in view of 21 sq m per person.

$^{60}$ The law of Ukraine on social housing #3334 as of 12.01.2006

$^{61}$ Resolution of the CMU #155 as of 07.02. 2007
Table 8.4 Weight of utility expenditures and utility subsidies and privileges in total expenditures of households by income deciles

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 utility expenditures</td>
<td>8.1</td>
<td>8.0</td>
<td>8.6</td>
<td>8.1</td>
<td>8.4</td>
<td>8.6</td>
<td>7.5</td>
<td>7.3</td>
<td>7.4</td>
<td>6.5</td>
</tr>
<tr>
<td>2009 utility subsidies and privileges</td>
<td>0.4</td>
<td>0.6</td>
<td>0.8</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.8</td>
<td>0.7</td>
<td>0.6</td>
<td>0.4</td>
</tr>
<tr>
<td>2010 utility expenditures</td>
<td>7.7</td>
<td>7.8</td>
<td>8.3</td>
<td>8.1</td>
<td>8.0</td>
<td>7.7</td>
<td>7.8</td>
<td>8.0</td>
<td>7.3</td>
<td>6.2</td>
</tr>
<tr>
<td>2010 utility subsidies and privileges</td>
<td>0.3</td>
<td>0.4</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
<td>0.6</td>
<td>0.7</td>
<td>0.5</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: the State Statistics Service of Ukraine, Household survey 2009 - 2010

The government sets different utility tariffs for apartments and dormitories. Though utility tariffs are lower for dormitories, lack of measuring equipment increases expenditures of their tenants on housing.

In addition, lack of enforcement mechanism leads to provision of implicit subsidy in the form of utility payment arrears. As of 1 July 2011, people’s debt for communal utilities was 10.7 billion UAH. In order to raise payment discipline the Government cancelled on 1 January 2011 moratorium on penalty for new utilities payment arrears. But the penalty has not been enforced yet because there is no mechanism of its imposition and execution. Kyiv city administration has introduced measures to motivate timely payments for communal utilities and services. Since March in Kyiv they have introduced a discount of 10% on housing payment and 6% on heating and hot water supply for good payers who make all payments before the 20th every month.

In general, the existing system of housing subsidies and allowances imposes restrictions on labor mobility:
- The government housing support is aimed at house owners (not renters).
- The government is not able to provide large-scale support to affordable housing. Significant share of all state housing programs is targeted to specific professional groups mainly public / military servicemen, and employees of state enterprises
  - State support for communal utilities is poorly targeted.
  - State and local programs for provision of affordable housing are poorly designed and in fact additionally limit labor mobility.
9. Mortgage system: how developed is it?

Ukraine’s mortgage system remains relatively underdeveloped in terms of market size:
- Basic legislation (the laws on mortgage and mortgage lending) was passed only in 2003. Mortgage lending gained momentum in 2005 while most CEE countries experienced start of mortgage boom in early 2000’s.
- Residential mortgage debt - to - GDP has increased sharply during pre - crisis years and reached its peak of 11% in 2009 following hryvnya depreciation. It is comparable to some countries in CEE region (Slovenia, Bulgaria), but still is well below EU average (51.8%).
- Ukraine’s residential mortgage debt per capita (in EUR thousands) is notably smaller than CEE levels (except Romania) and lags far behind EU -27: 0.2 vs. 12.4, or 62 times less.

![Residential Mortgage Debt to GDP Ratio, % (2009) and Residential Mortgage Debt per Capita, EUR thousand](image_url)

Source: Hypostat, 2010

Development of mortgage lending is suppressed by poorly functioning financial market:
- There is lack of long term funding due to shallow domestic capital market and absence of institutional investors (e.g. pension funds). The share of covered bonds is less than 0.1% of mortgage portfolio, securitization schemes are not applied. Before global financial crisis main sources of mortgage funding were short - term deposits and external borrowing (either in the form of Eurobonds, or credit lines provided by parent structures). Reliance on such sources made banking system heavily exposed to interest and FX risks.
- Supply of FX mortgage loans was also driven by the demand from households. The exchange rate of Ukrainian hryvnya was pegged to the U.S. dollar and was relatively stable for a substantial period of time. Most households preferred dollar denominated loans due to much lower interest rates even though they obtained their income in hryvnya. As a result, they faced serious problems with loan payments after almost 40% devaluation of the hryvnya in 2008.
- In 2010 FX - denominated housing loans\(^{62}\) amounted 88% of total housing loans (NBU). After the financial crises the NBU prohibited household loans denominated in foreign currency. Although the ban was lifted in 2011 FX mortgage lending remains heavily restricted with reserve requirements.
- Quality of mortgage portfolio deteriorated respectively. In the mid of 2010 Moody's Investors Service estimated that NPLs made up 22% of total mortgage lending. According to UNMA, in Q1 2010 banks reported 19.1% of mortgage loans were restructured\(^{63}\). Nevertheless, eviction of mortgagees unable to serve their loans didn’t become widespread due to moratorium on forced eviction until the end of

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\(^{62}\) Loans for the purchase, building and renovation of realty
2010\textsuperscript{64} and legal difficulties in expropriation of dwellings with kids or other social vulnerable groups of people registered there\textsuperscript{65}.

In 2010- early 2011 the volume of mortgage market continued to downsize:
- Housing loans stock decreased by 17\% in 2010 and by 9.5\% in the first 4 month of 2011 (NBU). In 2010 vs. 2007 the number of registered mortgage agreements fell down by 10 times. The number of housing purchases financed with mortgage account for 7\% compared to 70\% in 2007.
- 62\% of mortgage portfolio is concentrated in 5 regions: with almost 30\% share of Kyiv city and region, 14\% of Odessa region and then followed by Dnipropetrovsk, Donetsk and Kharkov regions.
- Despite some revival of the market observed in Q4 2010 - Q1 2011, most of the banks are still reluctant to provide mortgage loans in national currency due to high risks involved (including weak legislation protecting creditors’ rights). Demand for mortgage lending is suppressed by restricted conditions for borrowers and high interest rates reflecting substantial political, economic and inflationary risks. Median interest rates on UAH- mortgages stayed around 20\% in 2010 and dropped slightly to 18\% in Q1 2011.

Refinancing generated by State Mortgage Institution (SMI) is rather low and doesn’t significantly affect the mortgage market. Key activities of SMI include:
- Refinancing of household’s mortgage loans. Mortgage portfolio refinanced amounted 813 million UAH in early 2011 (5 thousand loans) making only about 1\% of total loans amount disbursed for procurement, construction and reconstruction of real estate (81 373 million, NBU).
- Refinancing of primary creditors (banks) targeted at completion of housing construction (under the program “Affordable Housing”). Since the start of the program, the SMI has provided 1.5 billion UAH of credit to banks to refinance construction of 5.3 thousand apartments. Under the influence of the financial crisis refinancing of banks which credit completion of unfinished construction of residential housing has become the major operation of the SMI.

Underdeveloped financial market and high interest rates make mortgages unaffordable for most of the households:
- The mortgage to income ratio skyrocketed to 322\% in 2010 (NUMBEQ)\textsuperscript{66}. For comparison, the corresponding figures are 23\% and 37\% for the U.S. and Germany respectively. The mortgages are more expensive relatively to income only in Belarus, Lithuania, Moldova and Russia.

- Another comparable mortgage affordability index puts Ukraine on 57\textsuperscript{th} place out of 60 countries – in between Armenia and Azerbaijan (Penny Lane Realty, 2011). Monthly interest rate payments on typical mortgage loan constitute 2.4 times higher than in Denmark (1\textsuperscript{st} place), 1.9 - Germany (8\textsuperscript{th}), 1.8 - Hungary (14\textsuperscript{th}).

\textsuperscript{64} In case housing used as collateral is the only place for living of mortgagee – The Law 1533- VI (23.06.2009)
\textsuperscript{65} Accordingly in mid of 2010 OTP bank which has 4\textsuperscript{th} largest mortgage portfolio with 11.4\% market share reported only 10 cases of forced eviction in case mortgagee or their relatives were registered in dwelling
\textsuperscript{66} Mortgage as Percentage of Income is a ratio of the actual monthly cost of the mortgage to take-home family income. Average monthly salary is used to estimate family income.
Labor migrant looking currently to purchase the cheapest flat in Kyiv (worth of UAH 400 thousands) using 30% of self-financing and 70% of mortgage loan provided for 20 years at 17% interest rate, will have to pay around UAH 4.1 thousands of principal and debt service per month (in case of annuity form of payment). Taking into account standard 40-50% debt services - to - income ratio, the applicant should have official income of no less than UAH 8-10 thousand. As average monthly salary in Kyiv slightly overreached UAH 3.6 thousand in Q1 2011, it means that mortgage provided – assuming most loyal terms and purchasing the cheapest apartment in Kyiv – is not affordable to average city dweller.

Single households and youngsters are more likely not to be eligible for obtaining mortgage lending. Family comprising of 2 working adults of 30-40 years with average income per household (8.3 thousand uah in Kyiv) have some chances to qualify. But banks and households are hardly motivated to enter mortgage agreement due to high degree of economic uncertainty (including stagnating realty market and high inflationary risks) transformed into double-digit interest rates. In this case mentioned above overall payment for mortgage use would exceed UAH 1 million, rising the initial purchasing price of apartment by 2.5 times in 20 years.

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67 Banks indirectly confirm that lowest benchmark for reviewing credit applications starts with UAH 7-8 thousands of official income per month.
10. What is the role of land issues in functioning (or not) of the housing market in Ukraine? Differences across regions?

Land cost represents a substantial part of overall construction cost and thus affects affordability of housing. By some estimates, the land cost defined as a percentage of the total house price (including land parcel price) for typical newly constructed buildings in Ukraine can be as high as 25%. This figure is roughly comparable with similar statistics for other transition economies (Tsenkova 2009).

In this section we identify the key land issues that have substantial bearing on housing market and labor mobility.

Security of land titles

(a) **State land cadaster is not fully functional**

Out of all 25 million land plots in the country, only about 12 million plots are in the cadaster. The cadaster does not contain information about plots that were registered before the Land Code came into effect in Jan 2002. The state land cadaster is not a unified all-state system. It is maintained on regional level by local departments of the State committee for land resources. The cadaster also lacks transparency as it cannot be accessed by the general public. Finally, the cadaster is not fully computerized. The information on land plots has been transferred from paper to electronic form since 2008 but this task is not completed yet. The authorities have recently announced a launch of the pilot electronic cadaster system that includes information on land parcels in selected regions, with the support from the World Bank.

(b) **Land and property registers are kept by different agencies**

Registration of titles for land parcels and buildings is done by two separate agencies:

- Registration of property rights for apartments, houses and other buildings is done by Bureau of Technical Inventory offices, which are attached to local administrations. The register is kept by the Ministry of Justice.
- Registration of land parcels titles is done by local offices of the Centre for State Land Cadastre (CSLC) which is subordinated to the State committee for Land Resources.

As a result, it may happen that a land plot is registered to one person, while the building sitting on this plot is registered to another person. It may lead to legal disputes, i.e. regarding access to the building.

In addition, since 2002 the Ministry of Justice and the State Committee for Land Resources have had a long dispute over the right to keep the land register. At the moment the dispute seems to be resolved as the register of land property rights will move under the auspices of the Ministry of Justice.

(c) **Register of land property rights is not centralized and computerized**

The right to a land parcel is certified by the state act issued to the owner. Local offices of the CSLC keep duplicate copies of acts as well as books containing information on issued acts. The information is closed for the general public. Local offices of the Centre for State Land Cadastre are vulnerable to theft of key documents, as evidenced by the incidence in Obukhiv (see the box 10.1).

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**Box 10.1 Land scandal in Obukhiv**

Theft of documents in Obukhiv office of the Center for State Land Cadastre temporarily stopped sale and lease of land parcels in the elite suburb of Kyiv. In 2007 the office was attacked 3 times:
- In early 2007 the computer with the database on land ownership acts was stolen.
- In July about 8 thousand duplicate copies of land ownership acts were stolen.
- In September the books of registration of land acts were stolen.


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68 [http://biz.liga.net/articles/EA110065.html](http://biz.liga.net/articles/EA110065.html)


In parallel, the government is developing a centralized and computerized register of land titles as a part of the State Land Cadastre. The current regulation (adopted in 2009 and effective since Jan 2011) requires registers to be kept both in paper and electronic form\textsuperscript{71}. However, since the cadastre is not fully functional, there is also no complete centralized and computerized register of land titles. Also, the electronic register is closed for the general public. Transactions with parcels outside of the cadaster cannot be notarized.\textsuperscript{72} Owners of such plots should undergo a lengthy process of acquiring a cadaster number before they can sell them.

(d) The government is not obligated to make the registers public

Information from the land register on ownership of a particular land parcel is provided only to the owner as well as state agencies upon request. When it comes to transactions with land parcels, a prospective buyer has no access to the register. Without cooperation from the seller, the buyers can not verify the ownership rights of the seller.

Access to municipal (state-owned) land

(a) Investors complain about difficult or unequal access to public land for construction purposes.

Access to municipal land for construction purposes is possible in two ways – land auctions and non-competitive allocation. However, both ways are difficult.

Land auctions are conducted in many cities and towns of Ukraine. The auctions bring additional resources into local budgets – about UAH 1.4 bn per year (0.9% of the total local revenues in 2010).\textsuperscript{73} Local authorities must use land auctions for allocating certain types of land. For example, sale of or lease of vacant plots in state or municipal property should be conducted via auctions. At the same time, the law provides for numerous exceptions when land auctions may not be used:
- Granting land for construction at the expense of state and local budgets;
- Granting land to state and municipal enterprises, to entities funded from the state budget;
- Granting land to enterprises, agencies and organizations operating in the sphere of culture and arts for construction of artists’ workshops;
- Leasing land plots out for reconstruction of blocks of old buildings, for construction of social and affordable housing if there was a tender organized for such works;

The long list of exceptions and especially the last point (construction of social and affordable housing) significantly reduce likelihood that plots suitable for residential construction would actually be offered through land auctions.

The procedure of non-competitive allocation of land parcels to developers is rather time consuming, costly and non-transparent. By some estimates, the procedure of allocation of land plot for construction takes 275 days.\textsuperscript{74} Results may be unpredictable, as they heavily depend upon discretion of authorities.

The procedure is also costly for a development company that has to pay for:
- Allotment of land (4% of construction cost)
- Current resettlement (about 15% of construction costs)
- Other costs imposed by local administrations (about 6% of construction cost).\textsuperscript{75}

(b) Access to municipal land for individual construction may be restricted for not locals

The law grants every citizen a right to obtain a plot of land for individual construction. However, some municipalities open access to their land only for local residents who live and are registered in a given town.

The restrictions are usually embedded into procedures established by local councils for granting land plots for individual construction.\textsuperscript{76}

\textsuperscript{71} http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=1021-2009-%EF&p=1310539216409259
\textsuperscript{72} http://odessa-life.od.ua/article/1749-kak-podarit-zemelnyi-uchastok-oformlyaem-kadastrovyi-nomer
\textsuperscript{73} The Report of the State Treasury on execution of the budget for 2010
\textsuperscript{74} http://press.unian.net/rus/pressnews-109510.html
\textsuperscript{75} The other costs may include fees imposed by local administrations to compensate the cost of resettlement undertaken some time ago. http://biz.liga.net/articles/EA110065.html
\textsuperscript{76}
(c) **Access to municipal land for individual construction is often denied**

The situation with access to municipal land varies across regions. The access is relatively easy in remote areas characterized by low demand for land. However, the metropolitan areas, which are the targets for labor migration, usually offer slim chances for people who would like to obtain a plot of land for individual construction. One of the most likely reasons for denial is absence of vacant plots. In practice it is not possible for a person to verify if there are indeed no vacant plots because the information on plots is not public. Urban development documentation such as master plans of cities and towns is not disclosed to general public because it is classified “for official use” or “secret”.  

**Land use planning**

(a) **General plans are often missing**

Key urban development documentation in most Ukrainian cities is incomplete. As a result, cities lack foundation for establishing goals, purposes, zoning and activities allowed on each land parcel. Only 196 cities and towns out of 454 have general plans adopted, although the law requires general plans to be developed and adopted in each city and town.

The absence of general plans can be explained by lack of incentives for the local authorities to ensure clear and transparent urban development regime.  

(b) **Zoning plans are missing**

Zoning plan as a device of land use planning is not used by local governments in Ukraine. The only city that managed in 1995 to develop detailed rules for use and development of urban land was Chernihiv, with the technical assistance provided by the USAID.  

As a consequence, urban development tends to become more chaotic, creating the risk of congestion, especially in case of acceleration of labor migration. New construction often takes place at the expense of open spaces and parks within cities. New development is often interfering with existing residents or businesses.

The authorities have recently passed the urban development reform (see below), that requires cities to have zoning. However, preparing zoning plans may require significant time, resource and efforts on the part of local authorities.  

(c) **Urban development cadastre is missing**

Urban development cadastre as an information system has not been developed. The authorities, since 1992, have passed a number of resolutions and laws aimed at creation of urban development cadastre. However, several issues remain unresolved, for example the issue of how the cadastre should be formed and function, and the distribution of functions between the land and the urban development cadastre.  

The implication is that an assessment of risks and profitability of investment is complicated. Investors are uncertain about various characteristics of a land parcel such as transport access, engineering services and infrastructure, environmental conditions and restrictions on land use.

**Policies of land development**

Utility connections provided in a costly fashion

The rules on utility connections shift the costs away from utility companies towards developers and persons who carry out individual construction. Utility companies issue a permission and technical specifications, according to which a utility connection can be provided. However, the infrastructure facilities necessary for utility connection should be paid for by customers. Also, a developer should pay a fee to a utility company for utility connection. Overall, utility connection adds about 14% to the total house price. The developer’s

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76 See, for example, Kharkiv city council decision № 364/08 of 24.12.2008,  
77 http://kolo.poltava.ua/2011/06/15/poltavcyam-ne-dayut-podivitisya-generalnij-plan-mista/  
78 http://www.vd.net.ua/rubrics-3/16038/  
79 The Ukrainian Weekly, September 10, 1995. Also see  
http://www.vd.net.ua/rubrics-3/16038/  
80 http://www.vd.net.ua/rubrics-3/16035/  
investment into infrastructure facilities must be compensated by a utility company. However, such compensation is rarely adequate.\textsuperscript{82}

**Land tax and rent payment**

The mechanism which should ensure that prime land is used by the most productive users is the collection of payment for land. The payment for land can be applied in two forms:

- Owners and users (except leasers) are obliged to pay the land tax. The land tax in most cases is based on the market value, and the rate is set nationally at 1\% of market value. In case the market value of land has not been appraised, the rate is set in nominal terms and the effective rate is close to 1\%.
- Leasers are obliged to pay rent payment. The rate is set by local administrations in the range from 3\% (1\% for agricultural land) to 12\% of market value.\textsuperscript{83} The revenues from rent payments are relatively more important for local budgets than those from the land tax. The ratio of rent payments to land tax revenues in local budgets is about 2 to 1 (about UAH 6.5 bn and 3.1 bn respectively in 2010).\textsuperscript{84}

Implications:

- Local administrations thus have an incentive to lease parcels instead of privatizing them.
- Investors who lease land face the risk that lease agreements may be cancelled and rent payments revised upwards.\textsuperscript{85}

**Land issues create additional barriers for new construction. The main issues are the following:**

- Absence of some key elements of the infrastructure necessary to ensure security of property rights, e.g. fully functional and transparent land cadastre, centralized computerized and transparent register of land property rights.
- Limited access to municipal land
- Absence of key urban development documentation necessary to ensure transparent and well-ordered land use planning
- Provision of utility connection in a costly fashion which acts as an impediments to land development
- Uncertainty about future land rent payments on the part of investors.

\textsuperscript{82} http://www.buddom.com.ua/?m=12&o=1901
\textsuperscript{83} The range is set in the Tax Code of Ukraine. The maximum rate may exceed 12\% in case the leaser is selected through a competitive process.
\textsuperscript{84} The Report of the State Treasury on execution of the budget for 2010
\textsuperscript{85} http://izmail.es/article/7344/
11. Any relevant reforms in recent years? Planned?

a) Urban development reform

The authorities have recently passed a major reform to soften regulatory requirements for the construction of new facilities, and reduce the number of permits and time for obtaining them.

Adoption of the law “On the regulation of urban development” in January 2011 brings about substantial changes (Amann, 2011):

- The required steps to get a building permit have been reduced from 93 to 23 (of which the investor needs only nine), administrative procedures will be reduced from 14 months to 2 months
- One-stop-shop for technical requirements
- Deregulation in construction through transfer of some functions from the state to self-regulatory organizations;
- Simplification of required planning documentation, new incentives for local authorities to develop and update the existing urban planning documentation.
- Give the right to grant, sell, and confiscate land to local executive authorities instead of local councils
- Levels of urban planning were reduced from 5 to 3 (general plan, detailed plan, zoning plan)
- Zoning plan becomes a mandatory document. Local authorities will not have a right to allocate land parcels without zoning plan developed and adopted starting from Jan 2012.
- Strengthening of legal foundations for urban development cadastre
- Responsibility for implementation of urban planning norms has been moved from the controller to the executor
- Simplified permits for single family houses

It is expected that the reform will reduce the cost of construction of new housing by reducing corruption component, time costs and direct legal costs of projects.

However, in order to implement the changes provided by the law, the authorities should pass about 25 by-laws. Some experts expect that the transition to new rules may actually cause temporary complications for investors until all the necessary bylaws have been adopted.86

b) Cadastre law passed

In July 2011 the parliament passed the draft law on land cadastre (#8077 of 04.02.2011). The draft is expected to be signed into law by the President by early August 2011.

Major changes:

- The filling and use of the state land cadastre will be based on the legislative basis, meaning greater stability and predictability of rules. Currently it is regulated by by-laws such as resolutions of KMU, decrees by President and departmental instructions.
- Information about parcels will be public and accessible via Internet
- Cadastre number of a parcel will be available before parcel is provided by local administration
- Time needed for registration of a new parcel and transactions with parcels will be substantially reduced
- Synchronization of the cadastre and the land titles register will be automatic.

c) Changes in the banking and housing legislation

The draft law #7351 of 10.11.2010 on strengthening the creditor rights was passed in early July 2011 (but has been vetoed by the President). Changes related to mortgage lending:

- Banks are able to charge variable interest rates
- Possibility for debt repayment evasion will be reduced. For example, mortgage loans are not included into the bankruptcy of individual entrepreneurs.
- The procedure of foreclosure is simplified, i.e. eviction and foreclosure sale is possible via notary’s order, and courts will have clearer guidelines when considering cases for compulsory eviction.

86 http://www.investgazeta.net/kompanii-i-rynki/uslovija-vedenija-biznesa-v-ukraine-na-stroitelstvo-161024/
d) **Housing Code is to be revised**

The draft Housing Code (№ 2307-d) was passed in the first reading in Nov 2009 and is currently under revision in the parliament. Key points of the current draft:
- State and municipal housing will be rented to tenants only for a fixed period of time
- The right for privatization of housing belongs only to those citizens who live in houses constructed before the new Housing Code comes into effect
- Housing constructed after the adoption of the new Housing Code which belongs to the state and municipal housing stock will not be subject to privatization
- The legal framework for management of condominiums is supplemented by decision-making rules that are applicable when no organization was created by the co-owners to represent their collective interest, and subsidiary rules for general co-owners assemblies.
- In case of a new building the developer must initiate the creation of the co-owners association, by proposing its statute and by calling the general assembly.
- The penalties for utility payment arrears will be reinforced
- Forced eviction for reasons of reconstruction of outdated blocks of buildings will be simplified
- Rights and responsibilities of servicing companies will be clarified

The expected impact:
- The pool of public housing for rent will be gradually growing
- Barriers for reconstruction of outdated housing will be removed, opening ways for new construction
- The legal framework for management of condominiums and housing management services will be improved
- Competition between servicing companies will bring the costs of servicing to economically justified level

**e) Registration of property rights reform**

In 2010 the parliament passed the law amendment on the registration of property rights. The key changes are coming into effect in 2012:
- The responsibility for registration of land titles will be transferred from the State Committee for Land Resources to the Ministry of Justice.
- The land titles register and the real estate titles register will be kept by the same agency – the Ministry of Justice
- This will enable the Ministry of Justice to create a single state register of property rights for all immovable property, including land. The single register is expected to be operational starting from 2012. It will consist of the five real estate registers, which are kept today by the Ministry of Justice: 1) the register of property rights, 2) register of restrictions on alienation of rights, 3) the register of transactions, 4) mortgage register and 5) register of inheritance, plus 6) the Land Register which is now administered by the State Committee for Land Resources.
- The united state register of property rights will be closed to outsiders, only property owners, their heirs and authorized representatives, as well as some state agencies will be allowed to retrieve information from it.
- Contracts for renting real estate are subject to state registration with the register of transactions.

The implication:
- The process of creation of centralized and computerized register of land titles will be reinforced
- The system of registration is expected to become more time efficient and to provide greater security of property rights
- Rights of tenants who conclude rent contracts and register them in the state register of transactions will be better protected.

**f) New draft law on affordable housing for young people**

According to the draft law “On state support to providing young people with housing”, which was drafted by the State Fund of Youth Housing Construction Promotion there must be:
- Already existing state support mechanisms: preferential mortgage for up to 30 years at 3% interest rate; mortgage at the expense of the Fund under the NBU interest rate plus 2%, granting from the Budget of loan interest reimbursement for the period of 10 years in the amount of the NBU interest rate; advance payment of 30% under the “Affordable Housing” program.

- Setting up before 2013 a special reserve housing stock in order to rent it out to young families on a temporary basis without any buy-out right.

- Setting up of Youth Housing Construction Co-operatives. They will be granted preferential long-term loans or state subsidies to pay entry or membership fees. Local authorities will be obliged to reserve land plots for development and to rent them to the State Fund at a price of 1 UAH per hectare per year.

g) Development of rental housing market.

The efforts of the government in the area of rental housing market development have been limited at best. The only significant move was the adoption in 2009 of the regulation for the rent with buy-out mechanism (Resolution of the CMU #274). The current program for development of housing construction approved by the Ministry of Regional Development and Construction (the order # 365 of 24.09.2010) does not include any measures on development of the market for rental housing.
12. Overall, what are the key issues in the housing and rental markets and what can be done to address the issues identified?

**As the research has demonstrated it is hardly possible to speak about effective housing policy:**
- Purchase of a dwelling (as well as necessary funding) remains unaffordable for residents of most regions and Oblast centers of Ukraine. The demand for housing in the country to a large extent remains unsatisfied. Amount of housing, its quality and rates of new construction seriously lag behind the EU level.
- If the current tempo of new construction is preserved it will take more than 100 years to provide free of charge dwellings and resolve housing problems of all registered in housing waiting list (if the number of registered doesn’t expand further). The whole system of granting and distribution of free public housing remains a rudimentary heritage of the Soviet Housing Code and is extremely inefficient even from the social equality point of view (the most obvious example is privatization of “employer’s housing” by the Members of Parliament).
- State support to housing purchase is fragmented between various programs which suffer from unstable funding. Amount of those who made use of subsidies and benefits for purchase of housing can be neglected. The communal utilities bill benefits are not targeted at low income people.
- There is no class of housing owners and professional investors in the country, who would be able to manage a housing stock and maintain it. Subsidized utilities tariffs caused investment famine in Housing and utilities sector, their deterioration and low quality of services.
- The rental market of social housing is hardly breathing. The private rental market is represented mainly by small individual investors and a large part of it is in a shadow. Lack of supply of rental dwellings from institutional investors, including those who work in the framework of a public-private partnership, leads to a deficit of a quality and inexpensive rental dwellings. Rates of rent are not affordable to average urban residents of big Oblast centers.

**These barriers also hamper labor migration between regions.**

**Key recommendations for housing and rental markets development are as follows:**
Ukrainian state must stop giving out housing property free of charge and must focus resources at construction of affordable housing and formation of a social and affordable rent segment, which requires partial revision of housing support programs. It is necessary to reform housing and utilities sector and develop a sustainable mortgage market. It is also essential to continue reforms aimed at deregulation of construction works, which reduce costs of building, land allocation and connection to utilities networks and strengthen protection of immovable property rights.

In this context the following issues are to be addressed:

(a) **Abandon the policy of free housing provision by the state.** New Housing Code must be adopted in which provision of free housing from public and municipal stock with a right of further privatization must be prohibited for all categories of residents irrespective of their social status and income (after the new Housing Code has been adopted and got into force). This will stimulate formation of the public and municipal housing stock which will be rented out to residents unable to purchase a dwelling.

(b) **Development of rental market**
Based on the recommendations of UNHABITAT (2011), the first steps in the development of rental sector in developing countries should include the reorientation of housing policy goals: the state should stop promising homeownership to everyone, but instead – provide household’s with effective tenure choice and ensure its neutrality.

The rental housing stock subsidized by the state may be formed along the following two lines:
- **Social housing**, rented out by local authorities to low income households, disabled people, homeless people and other socially vulnerable citizens (as it is stipulated in the current legislation). Rates are set up by local authorities and are largely subsidized (to get entitled for a subsidy all housing payments including utilities bills shouldn’t be higher than 0-20% of aggregate income of a claimant).
- **Affordable rent** – housing offered for rent to households with average or below average incomes, that is, those who are not poor enough to claim for social housing or not reach enough (have no savings) to buy affordable dwelling or get a mortgage loan. Rental payments for such dwellings cover investment costs,
maintenance and repair costs but are below market ones and should be not higher than 25% of an average income per household in a given region (for an average size apartment). Utility bills are paid by a tenant separately. **Dwellings for affordable rent can also be provided from a municipal stock but mainly at the expense of private resources mobilized in the framework of a public-private partnership (PPP), funds provided by non-profit organizations and private investors.**

The state can also stimulate development of a market-based segment of rental housing by adoption of more loyal tax regime favorable not only to investment into real estate for residence but also for renting it out.

**Necessary measures:**

b1. Consolidation of remaining public/municipal housing and its conversion into a social housing and affordable rental stock:

- It is necessary to revise all housing stock belonging to the state and municipalities and identify dwellings, which (a) are not allowed to be privatized; (b) allowed for privatization but can be returned to municipalities by a court verdict (for example, in case of non-payment utility bills, or lack of owner); (c) can be transferred from state to municipal ownership; (d) dilapidated housing stock or the one from which dwellers were resettled but which can be restored; (e) non-residential premises which can be transformed into a residential housing stock under the condition of compliance with sanitary and construction standards.

- To audit the inventory of public employee housing stock. To exclude a possibility of its privatizing by some categories of residents by means of lifting off it a public employee housing status.

- To speed up transfer of hostels into municipal ownership and to ban privatization of rooms in hostels (after the expiration of a term allocated for this purpose).

b2. Expansion of social housing and affordable rental housing at the expense of new construction/full overhaul of housing stock. The main source of funding should be private investment attracted under the framework of PPP schemes. In the EU usual suppliers of such housing are housing associations/co-operatives (with a status of a limited profit or non-profit organization) or private companies (social housing organizations) which meet a public mandate.

Applicable for Ukraine might be Austrian experience, where limited profit housing associations (LPHA) dominate at the affordable housing construction market (both for sale and rent). They constructed about 20% of all housing stock and commission 60% of all new dwellings in apartment blocks (Amann, 2005, 2009):

- LPHA are private companies whose shareholders could be local authorities and government bodies, charity organizations, trade-unions, businesses and private investors.

- LPHA function as developer and bear responsibility both for organizing and execution of construction works as well as for their funding and housing stock management, maintenance and repair.

- A typical affordable housing construction project is funded the following way: 20-40% by grants and subsidized loans; 5-20% by own LPHA capital, which is usually used for land parcel purchase, 0 - 15% – own funds belonging to future tenants (if it is more than 50 EUR per sq m a tenant may have a right of further...

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87 For example, in Kyiv the maximum rent at the end of 2010 for an apartment of 57 sq m would have been 2075 UAH (260$) with an average household income of 8300 UAH per month, while real market rates were almost two times higher. Amann (2006) offers to use as a benchmark of affordable rent 30% of average monthly income of two employees at public sector. In Kyiv the highest salaries are in public administration – 5090 UAH in average per month, in education and health care – 1.8 - 2.2 times lower. Based on the average salary in these three sectors of 3309 UAH the rent cap would be 1985 UAH.

88 The term for transfer of hostels belonging to the state and private owners to municipal property, except for hostels indicated in the law, like hostels belonging to educational institutions, military units etc., expires in 2012. The Parliament has not managed to approve the program of hostels transfer to municipalities, therefore 55% of all hostels still belong to enterprises or state authorities. Draft law 3601- VI of 05.07.2011, adopted in the first hearing, proposes to prolong for three more years term of transfer of such hostels to municipalities and impose a moratorium on forced resettlement of tenants. The progress in hostel transfer will directly depend on budgetary funding of the program, according to which enterprises in which the share of public property is less than 50% should receive compensation.
buy-out usually after 10 years of tenancy); 50-70% by commercial bank loans offered under preferential terms (tax-privileged housing construction convertible loans).

- State subsidies are usually granted in a form of preferential loans for 25 years at 1% interest rate. The state can also provide additional mortgage bonds and commercial bank loans guarantees. Subsidizing is pegged to marginal cost of construction, quality of housing stock and auditing and supervision at various stages of the project implementation. This helps to reduce construction expenditures.

- Additional factor to help reduce construction cost is participation of municipalities, which provide land parcels free of charge or at low price and connect them to the utilities infrastructure. In exchange for that municipal authorities should play a key role in housing distribution according to preliminarily set transparent rules (a key criterion – level of income of claimants).

- State/municipalities may provide direct additional subsidies to tenants to cover rent payments and other costs of housing, but this practice is not very popular.

- The housing constructed by LPHA cannot be sub-rented. Sell of housing in such condominiums is allowed after not less than 10 years at established prices.

Besides, rental housing stock can be formed from other sources: dwellings allocated for municipal housing stock by developers of apartment blocks; dwellings granted by international, donor and charity organizations, as well as businesses; construction at the expense of the state budget.

b3. The current housing waiting lists can be transformed into the list of claimants for affordable rental housing or purchase of affordable dwelling (depending on income level and social status of the applicant). In addition, some claimants may be transferred into social housing waiting list. It requires:

- Revision of the waiting lists with the aim of their optimization and exclusion persons who do not meet official criteria of those who need upgrading their living conditions.
- Criteria of adding new persons to the waiting list should be restricted (by way of taking into account of all incomes of a claimant and total living area at the disposal of a household).
- On the other hand it is necessary to cancel registration at a place of residence as a precondition for inclusion into a social housing, affordable rental housing, affordable housing purchase waiting lists and getting other housing subsidies.

b4. **Legislative framework** of rental relations in Civil Code in general seems to be reasonably balanced with regards protection of rights of tenants and landlords and does not need any substantial amendments. The key task is an effective legal enforcement of rental contracts by the judiciary system.

Construction and distribution of affordable housing under the PPP schemes (both for rent and purchasing) should be resolved in special law, in particular the following issues:

- regulation on the legal form of PPP (including format of managing company, the order of its accreditation, peculiarities of taxation etc.);
- regulation of upper and lower ceilings for rents and housing prices;
- funding schemes and participation of state and local authorities in them, defining auditing and supervision procedures;
- procedures and criteria of housing provision; rights and obligations of tenants and landlords, eviction procedures, possibility to buy housing out by tenants; procedure of reselling of affordable housing etc.

b5. **Fiscal incentives** – to increase attractiveness of investment into rental housing – may include:

- Tax benefits for individual landlords renting housing out (not at simplified taxation system), in particular, a possibility to deduct from taxable rental income a share of depreciation, general overhaul costs as well as a possibility to transfer losses from rent in time or to an income from other sources. Such deductions may be linked to certain rental price floor, quality of rental premises etc.

- Resolving conflicts between book-keeping practices and tax accounting regarding depreciation of investment real estate of legal entities.

b6. It is also necessary to question households and landlords regularly with the aim of getting more reliable information on a number of families which rent housing and vacant rental housing stock. Such information is needed, among other purposes, for more precise identification of needs in affordable rental housing in regions.
(d) Development of affordable housing construction market.
Increase in supply of affordable housing and reduction of construction costs mean:
- Increased inflow of private investments in that sector under PPP conditions. In order to stimulate
the market the schemes similar to construction of affordable rental housing under participation of LPHA
and housing co-operatives may be applied.
- Completion of deregulation reforms launched in construction sector – adoption of necessary
secondary legislation acts with regards streamlining issuance of permits for design and construction as well
as land titles.
- Streamlining of allocation land parcels for housing construction:
  o Reduce the number of exemptions for the land auctions mechanism with the aim to expand
    the use of competitive auctions for allocation of parcels suitable for housing construction
  o Ensure openness and transparency of information on vacant land parcels.
- To resolve in the Tax Code the issue of VAT exemptions for affordable housing construction
  activities if such construction or part of it is done by a subcontractor contracted by the developer or a
  construction company – participant of affordable housing construction program. To clarify the definition of
  “engineering works” in the Tax Code to bring it in line with other laws which regulate construction works.

(e) Housing subsidies and benefits:
- To audit all housing subsidies and benefits in order to cut off inefficient instruments of government
  support.
- To adopt a new comprehensive strategy of housing promotion combining state initiatives on
development of an affordable rental sector and purchase of affordable housing. The strategy must envisage
sufficient funds for state support mechanisms to subsidized rental housing (at comparable level with the
programs for support of purchasing affordable housing).
- All housing subsidies and benefits for construction and purchase of housing, rent, utility bills etc.
must be systematized in a single framework legislative act.
- Benefits for utility bills should be granted exclusively in a targeted manner depending on a
household income.

(f) System of housing finance
Development of a sustainable mortgage market directly depends on both long-term factors (reduction
of macroeconomic risks and inflation, progress of reforms promoting large internal institutional investors in
the framework of pension and stock market reforms (for example, pension funds, insuring companies, asset
management companies which supply long-term resources); as well as improving of legislation regarding
the problem of toxic assets in the balances of banks, adoption of a law on strengthening protection of
creditors’ rights, mortgage bonds issuance. The state could give new impetus to market development
through restoration of mortgage bonds issuing for refinancing of commercial banks through the SMI and/or
launching mortgage broker/ company on the base of state/ commercial banks and with NBU presence in
supervisory board which would issue first class mortgage bonds (the bonds may be allowed to be
accounted in obligatory reserves of the banks).

(g) Housing and utilities sector reform
HUS reform presupposes raised investment attractiveness of the sector, its technical modernization and
raising competition for service provision:
- Setting up clear and transparent communal tariffs which would cover justified costs (including
  investment component) and be set up/corrected by an independent regulator
- Development of services quality standards
- Motivation to energy efficiency (including by means of compulsory installation of water, electricity
  and gas meters)
- Charging penalty for utility bills arrears
- Development of market mechanisms for housing stock management (promotion of COAs,
  introduction of a compulsory setting up of COAs in new buildings after 2014)
- Putting into order access of producers and suppliers of heating to heating networks
- Attracting investments under PPP, privatization and concession conditions.
## Annexes

### Annex 1

#### Completion of new housing, by region (dwellings)

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*Source: Ministry of Regional Development, Construction and Utilities of Ukraine*
## Tariffs of basic companies for savage, by oblast centers (UAH)

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Source: Ministry of Regional Development, Construction and Utilities of Ukraine
### Tariffs of basic companies for heating, by oblast centers (UAH)

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<th>Oblast</th>
<th>01.01.2009</th>
<th>01.01.2010</th>
<th>01.01.2011</th>
<th>01.06.2011</th>
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<tr>
<td>Simferopol</td>
<td>209.74</td>
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<tr>
<td>Vinnytsya</td>
<td>250.45</td>
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<tr>
<td>Lutsk</td>
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<td>Zaporizhzhya</td>
<td>165.02</td>
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<td>Kirovohrad</td>
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<td>Mykolayiv</td>
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<td>177.23</td>
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<td>298.32</td>
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* - rate without heat delivery

*Source: Ministry of Regional Development, Construction and Utilities of Ukraine*
# Tariffs of basic companies for maintenance of buildings and surrounding areas, by oblast centers (UAH)

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<th>Oblast Center</th>
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<td>Source: Ministry of Regional Development, Construction and Utilities of Ukraine</td>
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</tbody>
</table>

### Simferopol
- UAH/1 sq. m (incl. VAT): 0.60 (34%)
- Cost coverage ratio: 1.55 (77%)
- UAH/1 sq. m (incl. VAT): 1.58 (64%)
- Cost coverage ratio: 1.58 (64%)

### Vinnytsya
- UAH/1 sq. m (incl. VAT): 1.31-0.77 (84%)
- Cost coverage ratio: 1.48 (100%)
- UAH/1 sq. m (incl. VAT): 1.48 (100%)
- Cost coverage ratio: 1.48 (100%)

### Lutsk
- UAH/1 sq. m (incl. VAT): 0.84-0.91 (86%)
- Cost coverage ratio: 1.47 (98%)
- UAH/1 sq. m (incl. VAT): 1.25-1.90 (100%)
- Cost coverage ratio: 1.25-1.90 (100%)

### Dnipropetrovsk
- UAH/1 sq. m (incl. VAT): 1.17 (116%)
- Cost coverage ratio: 1.48 (100%)
- UAH/1 sq. m (incl. VAT): 1.48 (100%)
- Cost coverage ratio: 1.48 (100%)

### Donetsk
- UAH/1 sq. m (incl. VAT): 1.38 (80%)
- Cost coverage ratio: 1.38 (68%)
- UAH/1 sq. m (incl. VAT): 1.38 (68%)
- Cost coverage ratio: 1.38 (68%)

### Zhytomyr
- UAH/1 sq. m (incl. VAT): 1.4-2.4 (84%)
- Cost coverage ratio: 1.26 (92%)
- UAH/1 sq. m (incl. VAT): 1.26 (92%)
- Cost coverage ratio: 1.26 (92%)

### Uzhgorod
- UAH/1 sq. m (incl. VAT): 0.66 (97%)
- Cost coverage ratio: 1.25 (100%)
- UAH/1 sq. m (incl. VAT): 1.25 (100%)
- Cost coverage ratio: 1.25 (100%)

### Zaporizhzhya
- UAH/1 sq. m (incl. VAT): 1.61 (129%)
- Cost coverage ratio: 1.47 (98%)
- UAH/1 sq. m (incl. VAT): 1.47 (98%)
- Cost coverage ratio: 1.47 (98%)

### Ivano-Frankivsk
- UAH/1 sq. m (incl. VAT): 0.83 (77%)
- Cost coverage ratio: 0.97 (74%)
- UAH/1 sq. m (incl. VAT): 0.97 (74%)
- Cost coverage ratio: 0.97 (74%)

### Kirovohrad
- UAH/1 sq. m (incl. VAT): 0.86 (86%)
- Cost coverage ratio: 1.07 (100%)
- UAH/1 sq. m (incl. VAT): 1.07 (100%)
- Cost coverage ratio: 1.07 (100%)

### Luhansk
- UAH/1 sq. m (incl. VAT): 1.55 (35%)
- Cost coverage ratio: 1.55 (76%)
- UAH/1 sq. m (incl. VAT): 1.55 (76%)
- Cost coverage ratio: 1.55 (76%)

### Lviv
- UAH/1 sq. m (incl. VAT): 0.95 (96%)
- Cost coverage ratio: 0.95-1.38 (87%)
- UAH/1 sq. m (incl. VAT): 0.95-1.38 (87%)
- Cost coverage ratio: 0.95-1.38 (87%)

### Mykolayiv
- UAH/1 sq. m (incl. VAT): 1.35-1.63 (104%)
- Cost coverage ratio: 1.81 (100%)
- UAH/1 sq. m (incl. VAT): 1.81 (100%)
- Cost coverage ratio: 1.81 (100%)

### Odessa
- UAH/1 sq. m (incl. VAT): 1.14-1.46 (76%)
- Cost coverage ratio: 2.09 (92%)
- UAH/1 sq. m (incl. VAT): 2.09 (92%)
- Cost coverage ratio: 2.09 (92%)

### Poltava
- UAH/1 sq. m (incl. VAT): 0.02-1.9 (84%)
- Cost coverage ratio: 0.02-1.9 (83%)
- UAH/1 sq. m (incl. VAT): 0.02-1.9 (83%)
- Cost coverage ratio: 0.02-1.9 (83%)

### Rivne
- UAH/1 sq. m (incl. VAT): 0.94 (92%)
- Cost coverage ratio: 1.58 (92%)
- UAH/1 sq. m (incl. VAT): 1.58 (92%)
- Cost coverage ratio: 1.58 (92%)

### Sumy
- UAH/1 sq. m (incl. VAT): 0.99 (88%)
- Cost coverage ratio: 1.23 (90%)
- UAH/1 sq. m (incl. VAT): 1.23 (90%)
- Cost coverage ratio: 1.23 (90%)

### Ternopil
- UAH/1 sq. m (incl. VAT): 1.5 (110%)
- Cost coverage ratio: 1.5 (99%)
- UAH/1 sq. m (incl. VAT): 1.5 (99%)
- Cost coverage ratio: 1.5 (99%)

### Kharkiv
- UAH/1 sq. m (incl. VAT): 0.98-0.76 (77%)
- Cost coverage ratio: 0.8-1.99 (100%)
- UAH/1 sq. m (incl. VAT): 0.8-1.99 (100%)
- Cost coverage ratio: 0.8-1.99 (100%)

### Kherson
- UAH/1 sq. m (incl. VAT): 1.7 (146%)
- Cost coverage ratio: 1.7 (100%)
- UAH/1 sq. m (incl. VAT): 1.7 (100%)
- Cost coverage ratio: 1.7 (100%)

### Khmelnytskyi
- UAH/1 sq. m (incl. VAT): 0.75 (90%)
- Cost coverage ratio: 0.73-1.16 (100%)
- UAH/1 sq. m (incl. VAT): 0.73-1.16 (100%)
- Cost coverage ratio: 0.73-1.16 (100%)

### Cherkasy
- UAH/1 sq. m (incl. VAT): 1.55 (99%)
- Cost coverage ratio: 1.58-3.25 (100%)
- UAH/1 sq. m (incl. VAT): 1.58-3.25 (100%)
- Cost coverage ratio: 1.58-3.25 (100%)

### Chernivtsi
- UAH/1 sq. m (incl. VAT): 1.09 (110%)
- Cost coverage ratio: 1.09 (85%)
- UAH/1 sq. m (incl. VAT): 1.09 (85%)
- Cost coverage ratio: 1.09 (85%)

### Chernihiv
- UAH/1 sq. m (incl. VAT): 1.206 (113%)
- Cost coverage ratio: 1.465 (100%)
- UAH/1 sq. m (incl. VAT): 1.465 (100%)
- Cost coverage ratio: 1.465 (100%)

### Kyiv
- UAH/1 sq. m (incl. VAT): 1.10-1.05 (42%)
- Cost coverage ratio: 2.16 (93%)
- UAH/1 sq. m (incl. VAT): 2.16 (93%)
- Cost coverage ratio: 2.16 (93%)

### Sevastopol
- UAH/1 sq. m (incl. VAT): 0.74-0.76 (62%)
- Cost coverage ratio: 2.382-2.395 (100%)
- UAH/1 sq. m (incl. VAT): 2.382-2.395 (100%)
- Cost coverage ratio: 2.382-2.395 (100%)

---

**Source:** Ministry of Regional Development, Construction and Utilities of Ukraine
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