

Presentation by H. van Eyk (Netherlands Ministry of Housing, Spatial Planning and the Environment) on “the role of homeowners’ associations in the Netherlands and in the European Union”, held at the international seminar “Sustainable Housing Management – the perspective of homeowners and homeowners’ associations “(November 17-18, 2005) in Sofia, Bulgaria.

Chairman, Minister, Excellency, ladies and gentlemen.

Thank you very much for giving me this opportunity to make some introductory statements outlining the central theme of this international seminar on homeowners’ associations (HOA’s) – a very well chosen, important subject indeed.

Allow me to –first - give you a sketch of the European setting of HOA’s – in which I hope to underline the scale and some specific aspects of the housing stock in which these HOA’s operate and the urgency of problems involved – and then – secondly – to give you an impression of the Dutch situation with respect to HOA’s.

HOA’s are a form of management mainly in a specific type of dwellings, namely multifamily – or high-rise – residential buildings occupied by owner-occupants. These associations exist in all European countries because such buildings occur everywhere.

High-rise buildings came into existence in Europe – on a remarkable scale – in more or less the same time period – the sixties, seventies and eighties mainly – in so many countries. It was – during a rather short period – a kind of European-wide “megatrend”, in East, West and Central Europe. But this did not fully coincide with the growth of numbers of HOA’s, because a large proportion of high-rise was in rental tenure - either private or state-run.

Comparing the “old” EU (EU 15) with the new EU member states (EU 10) and the present accession countries – especially Bulgaria and Romania - there are a number of differences concerning the share of high-rise housing, the proportion of home-ownership, the problematic nature of the high-rise stock, and its position in the housing market.

The advent of high-rise housing was rather short-lived in western Europe, and it never came to represent such a large part of the total housing stock as it did in Central and Eastern Europe.

In the new EU member states high-rise represents about 35% of the total stock, whereas in the “old” EU 15 this percentage is about 17: so - roughly speaking - the share is twice as much in the new member states. The high-rise percentage in the Netherlands is quite low – less than 7% - which is remarkable in view of its high population density.

There is another significant difference which came to the fore over the past 15 years, after the fall of communist regimes, and this is the development of home-ownership – or to use the somewhat ambiguous term - : “privatisation”. Formerly state - and later on municipal - owned housing was sold in many (but not all !) EU 10-countries on a massive scale to the sitting tenants, often at quite reduced (artificial) selling prices. This occurred especially in the high-rise stock. Nowadays home-ownership in the EU 10 is higher than in the EU 15: 70% (if not more) against 64% on average.

This surge of private home-ownership over the past decade or so in the EU 10 was in the short term politically understandable: the burden for upkeep and refurbishment for the municipalities was done away with, and, in times of economic decline and inflation, people were eager to have property of their own which gave them a sense of security and control over their lives - especially in view of the low selling (“give away”-) prices. But looking at it in the longer term one can say nowadays that it was shortsighted and a kind of closing one’s eyes

for a huge problem which cannot be solved automatically. What happened was that the new owner-occupants who at least partly lived “too cheap” at the time of buying their own flat, are gradually living “too expensive” in view of the large amounts of renovation- and refurbishment- investments which are needed and which they cannot completely cover by themselves. In terms of a “proper fit” (ratio) between housing costs on the one hand and income to cover such costs on the other a “mismatch” has come into existence in both ways, as I said, from living “too cheap” to living “too expensive”. It is difficult to find exact figures for this, but all experts I talked to agree with it. And making life even more complicated is the fact that there is often no effective housing management structure to cope with this discrepancy.

In a conversation I had about 5 years ago with a high-ranking, knowledgeable colleague in Slovakia this situation – the danger of deterioration of high-rise residential buildings - was dubbed as “a time-bomb”. The problematic nature of high-rise is a management problem, against the background of more or less similarity of construction techniques (panel elements) and – and this is not often stressed – large degree of congruency of building-periods (time-concentration of construction/age homogeneity of the buildings) of sometimes massive, concentrated high-rise housing estates the likes of which is unparalleled in other parts of Europe. This, in turn, means that construction flaws/deficiencies/defects occur at similar times. These all add up to a pressing need to act on a very, unprecedented broad scale more or less simultaneously. We have calculated that 60% of the multi-family dwellings in the new EU member states are in need of refurbishment; and 80% in the accession states of Bulgaria, Romania and Turkey. The consequence is also a strong – massive - demand for financial means and appropriate financial mechanisms if further decay/ deterioration is to be stopped. We have calculated that in the EU 10 and three accession states no less than the huge sum of €105 billion are needed for refurbishment of flats. This is more than 5 times the Gross National Income (GNI) of Bulgaria in 2004! (Source: World Development Report 2006). These are rough estimates – I have no better data - but they indicate the enormous scale of what needs to be done here.

It is my conviction that this issue – high-rise housing and the problems it poses – was and partly still is one of the most underestimated problem areas of the accession of new EU member states (incl. Bulgaria, of course), and of the transition process.

One other reason for this underestimation is that owner-occupant housing is generally not considered as “social housing”. Social housing is predominantly identified as rental housing (and, to an extent, co-operative housing as well). But what we now see is that owner-occupancy, especially in that important segment of high-rise housing, has and is in principle becoming part and parcel of social housing policy. In other words a rather new target group for such policy has arisen. This implies a change of mind amongst policy makers.

Another reason for underlining the importance of high-rise housing is the fact that high-rise housing is there to stay, so to speak. I am aware that most noticeable in Eastern Germany that high-rise buildings are to be or are being demolished because of regional economic labour disparities. And it strikes me that quite some demolition is taking place in restructuring zones in the Netherlands, which, I think, is mainly made possible due to the very strong financial position of housing associations and the availability of other means. I think France is taking a similar approach as the Netherlands. But demolition in most parts of Central and Eastern Europe is not such an option. High-rise housing is still a major and liked form of housing accommodation, and demolition there would mean a very expensive alternative and serious destruction of social capital. In other words high-rise housing deserves sustainable refurbishment there. And because of this, proper management structures are needed on a large scale, of course.

Concerning the middle and longer term demand for high-rise housing, I would like to add here that more precise forecasting methods than used so far would be welcome. The example for this I am thinking of are the national – and also related localized – Housing Quality and Housing Demand Surveys which we apply in the Netherlands. These Surveys are quite elaborate, refined and important policy tools for our housing; unfortunately they are also expensive and belong to the major recurrent research projects in my country. A time will come, I think, when they should preferably also be applied in the Central and Eastern European countries, also in relation to the future market demand for high-rise housing.

Refurbishment of high-rise housing has certainly also gained international attention because of its potential contribution to energy-saving and related investment and labour generation potential. As far as the EU is concerned a major instrument is the implementation of the Energy Performance for Buildings Directive (EPBD). This directive is of particular significance for multi-family buildings. It has been calculated that after factual implementation of this directive as planned will lead to an annual capital investment cost of €3.9 billion by 2010, but energy costs savings will then amount to €7.7 billion annually. So there is very much to gain from this perspective as well.

There is a danger that this sense of urgency for constructional – and institutional - improvements might contribute to overlooking the need for more encompassing urban renewal and regeneration of urban areas and to a tendency to postpone giving attention to this. The impression exists that the old EU member states pay more attention to such a wider-ranging, integrative urban approach than in the new EU member states and the accession countries. So comprehensive national level strategies for urban renewal and regeneration is also needed.

In any case the problem of high-rise housing in Central, Middle and Eastern Europe has meanwhile been tabled. A number of international conferences have been held and publications appeared recently. A notable step in this process has been the EU Housing Ministers meeting held in March this year in Prague. The overriding theme at that meeting was refurbishment of high-rise residential dwellings, a theme that had been prepared by my Ministry in close co-operation with colleagues in the other EU Member States, over the preceding 2 – 3 years. The significance of that meeting lies in the fact that the Member States all agreed that high-rise housing is a problem and that the most affected countries said that they could not finance high-rise refurbishment on their own in view of the magnitude of the problem.

Another important, earlier, step was the publication of “Guidelines on Condominium Ownership of Housing for Countries in Transition”, published in 2002 by the United Nations Economic Commission for Europe in Geneva. (Copies of it are, I believe, available at this seminar). These guidelines clearly aim at providing very practical, sometimes even quite detailed, guidance to the many homeowners and to professional administrators of housing condominiums (a synonym for homeowners’ associations here) in Central and Eastern Europe.

I am also particularly pleased to note that several European banks are getting involved in high-rise housing refurbishment. The European Investment Bank (EIB) – which was also involved in the EU Housing Ministers’ meeting in Prague, I just mentioned - is in the process of looking into ways and means it might get involved in social housing – explicitly including high-rise housing - more directly, such as the Council of Europe Development Bank (CEB) already is.

Any project these banks or others undertake and which deal with privatised high-rise housing stock will raise the issue of co-operating with HOA’s.

Effective HOA’s of flats are – or should be - private, non-profit, and democratic organisations if they are to be effective. They promote a democratic way of thinking and are therefore a way to promote transition. These are necessary but not sufficient conditions, of course, as the topics of this seminar show. Proper legislation and policy development is needed. Financing mechanisms come in. Management skills of the board and administrators of the associations must be developed.

After mass privatisation, after having achieved such a very high degree of home-ownership and in view of lacking effective HOA’s the question has risen if a social rental system should be re-established in the countries concerned. It was an option explicitly mentioned by the Bulgarian respondent to the questionnaire my ministry sent to all the EU-member states to prepare the EU Housing Ministers’ meeting on high-rise housing. Even the size of such a social rental system was proposed (I forgot how large it was supposed to be). It might be a good option in cases of mixed tenure - a mix of home-owners and tenants - in high-rise estates. Perhaps this option – which will involve other problems - could be discussed at this seminar, but for the time being there is no way to avoid the introduction of effective homeowners’ associations.

Mr. Chairman, allow me to make a few introductory remarks on the legal framework of homeowners' associations, again in a European context. I will limit my remarks to just a few ones, because the subject will be dealt with by several speakers later on during the seminar.

The legal framework cuts across the all the exigencies for proper functioning of homeowners' associations. I mean:

- national laws and regulations on the associations themselves stipulating rights and duties of owners and third parties, and ways to deal with decision-making and disputes;
- national laws on land registration and cadastre to have transparent ownership and other tenure structures, and
- national laws and regulations on taxation.

Creating the right legal framework is a political task at national and municipal levels. Experience of the past few years show that this was not an easy process in the new EU member states.

In the EU 15 most if not in all countries membership of home-owners in high-rise and multi-family housing is compulsory. All owner-occupants should therefore be a member. And if public bodies are part of the owners of housing units, these bodies have to be treated in the same way as individual home-owners. Municipal maintenance companies that exist in several countries and municipalities and which have a monopoly of administrative and management services in high-rise housing will have to rethink their exclusive position and look for ways to provide services on a tendering – and therefore market oriented - basis. Municipalities could act as stimulators to found homeowners' associations, and provide financial incentives for establishing and registering associations. Changing their role is a change in vested interests and powers, so political manoeuvring is needed.

The associations should, of course, be a legal entity, so that all the owners are responsible for financial and other contracts and are also protected individually from, for example, debts that an association might incur. So, in principle, it gives social protection and security of tenure to the individual owners.

A pivotal legal issue here is, of course, the way voting rights of all the members of an association are regulated. Decision making can differ according to the issues at hand, but the big question always is if a simple majority is needed – and one unit owner is one vote - or whether another weighted voting system, possibly involving minimum quorums, is preferable or even necessitated. After all, refurbishment is a costly matter involving expenditures that count among the most expensive ones people ever make in their life. The voting system for decision making on this is therefore very important.

Finally, ladies and gentlemen, let me make some few more words on the situation of HOA's in the Netherlands.

As I said before, high-rise housing represents only a small percentage of our total housing stock; 6.7% to be exact, but 29% van de total housing stock are multi-family dwellings. The owner-occupied part of this amounts to about 375.000 apartments/flats (in 2002) which are managed, or expected to be managed, by about 58,000 associations of home-owners, mainly in the 4 big cities, especially in The Hague where we find some 20,000 of such associations. Their numbers have increased significantly in recent years – by 45% between 1994 and 2002 - as a consequence of new construction and selling of rental multi-family dwellings.

You could say that this part of the housing market has two faces:

- on the one hand it accomodates substantial amounts of low-income groups and people of foreign origin;
- on the other – one finds elderly, well educated and higher income-people. This last category is located outside the heavily urbanized areas.

The HOA's in the Netherlands are mostly quite small with an average stock of 6 housing units; their size can vary between 2 to 3 flats and the largest one with about 500. A large part – about half - consists of relatively old dwellings, dating from before the Second World War.

The picture is not as rosy as you might think. This becomes clear if one takes the following overview of formal activities of HOA's into account:

- 64% have organized financing for maintenance;
- 74% demand periodical contributions from the owners;
- only 31% have maintenance funds;
- only 33% have multi-year maintenance plans.

But calculations have borne out that the average repair costs to achieve a technically good-quality apartment is 2.6% of the value if it was to be completely rebuilt (= new value/ value when new); this amounts to €1,600.- and is cheaper than for a single-family house where such costs would be 4.3% (or €3,100.-). It would be interesting to compare such relative costs with, for instance, Bulgaria or other countries. The worst quality stock are privately rented-out apartments where 4.8% (€2,600.-) of the rebuild-costs are needed to restore their technical quality to proper levels.

In all, 56% of the HOA's have undertaken major repairs over the past 2 years (2004). In 2002 €600 million were spent on repair costs in the home-owner apartment segment covering 409.000 units.

Finally a few words on so-called "dormant" homeowners' associations. The attention of city administrators in my country was recently called to these inactive associations. In some of the old city neighbourhoods in Rotterdam it is claimed that 90% of the HOA's are dormant; in Amsterdam some 40% of 550 HOA's are dormant in a well known innercity redevelopment district (De Baarsjes). These are often the small associations with low quality stock housing low-income groups, and for whom the costs of professional maintenance are practically prohibitive (unpayable). They pose a real problem in urban renewal and regeneration areas. It calls for upscaling such associations; the city of Rotterdam suggested to impose a minimum size of at least 23 owners for one association. City administrators and the national federation of home-owners' associations we have (VvE Belang) together with social rental housing associations are tackling the problems, for instance, setting up information courses and discussions for the homeowners (paid for by the municipality), setting minimum standards for the upkeep of their housing units, setting up a central information post for owners and administrators of the HOA's (perhaps to be paid for by real estate agents and notaries). A new law makes maintenance funds for HOA's compulsory. In other words a "support structure" is being formed.

The voting method we use is 4/5th majority of votes; it used to be unanimity.

Management is often contracted out to a professional company. Even rental housing associations are called in to perform management duties. This is due to the fact that in the Netherlands housing associations are the owners and managers of a major part of our housing stock, including multi-family buildings. They have vast experience in management of housing stocks.

It is my understanding that in many countries in Central and Eastern Europe large public management companies have been dissolved and transformed into new private companies. These new companies are also better accepted, and satisfaction is lower with the remaining larger public companies which persist in larger housing estates that include public rental units.

Mr. Chairman, I am approaching the end of my presentation.

My country is in a process of uplifting HOA's as a part of national housing policy. But we are also making an international contribution. This seminar is a good example being part of a MATRA-project financed by the Netherlands' Ministry of Foreign Affairs. But I would like to mention here a special, tailor-made course that has recently been set up in the Netherlands at the International Institute for Housing and Urban Development Studies (IHS) in Rotterdam. This course is aimed at management of high-rise housing in Europe. A first group from Lithuania has recently completed the course. All kinds of Dutch international experienced experts are involved as guest speakers. So it draws on information and experience from the Netherlands as well as from other countries. The course is fully funded by my Ministry.

Well, Mr chairman, ladies and gentlemen, I have come to the end of my presentation. I look forward to interesting discussions at this seminar. Thank you for your attention.