

# HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance



- ➔ **The Icelandic housing market: on the road to stability**
- ➔ **Japan: promotion of energy efficiency measures in the residential sector**
- ➔ **Innovation in housing decarbonisation: France**
- ➔ **How to make housing in developing countries affordable and sustainable**
- ➔ **Can we reduce emissions and energy poverty at once?**

# International Union for Housing Finance

# Housing Finance International

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# Time and tide

The death of Queen Elizabeth II was a reminder that, in the words of Geoffrey Chaucer, "Time and tide wait for no man" (or woman). While the demise of a constitutional monarch in the UK may not seem the most significant event in some parts of the world, for the UK and for many countries in the Commonwealth it is a stark reminder that comforting continuity is always ultimately disrupted by change. For many of my post-war generation the 70-year reign contributed a sense of stability that made changes seem more manageable and perhaps less threatening.

Nevertheless, massive change happened across the globe over that period. In terms of the economy, we had the post-war "Golden Years" when Keynes ruled supreme. Then we moved towards neo-liberalism and globalisation. Now the whirligig of time has introduced a new paradigm, economies are becoming more nationally focussed (BREXIT being just one example) and more subject to state intervention. The sustainability crisis has injected a further twist to this picture in the form of the need to subordinate economic factors to environmental imperatives, notably the need for decarbonisation to tackle global warming.

In terms of geo-political patterns, the post-war period began with the rise of the Cold War, with the key drivers being the tension between the West and the Soviet Union. This was followed by a period of apparent de-escalation of international tensions following the collapse of communism. Described by some over-enthusiastic commentators as "the end of history" this twenty plus year period was an apparent millennium characterised by (relative) geo-political stability, growth, low inflation across much of the globe and ever closer trading links with western countries and Russia apparently on the same side and with China moving ever closer to both.

The Global Financial Crisis (GFC) exposed the first cracks in that vision and with the rise in nationalism the tectonic plates of international relations have shifted steadily to the point where tensions in Europe have broken out into war. That war is having a dramatic effect on economic prospects and financial stability across the globe and at the time of writing the possibility of a nuclear dimension to the conflict cannot be discounted. The war

has also increased tensions between the West and other major countries who may not view the conflict from the same perspective.

It is therefore no accident that this issue of *Housing Finance International* (HFI) is pre-occupied with change and that our first main article focusses squarely on Ukraine. We are proud to be one of the few to feature a significant article of the impact of the war in Ukraine on that country's housing and housing finance markets. Julie Lawson and Grzegorz Gajda have pooled their considerable experience to analyse the underlying issues facing housing markets in Ukraine, including the inability of many homeowners to maintain their properties, an under regulated private rented sector and a lack of social housing. They go on to examine the impact of the conflict on housing provision and they then indicate the key elements that should underpin a recovery plan to facilitate reconstruction and renewal. This article should not be missed.

Not all change is international in its dimension. Changes in national governments are a case in point. In the UK, we have a new Conservative Government headed by Liz Truss. Australia has a Labor Government for the first time in nine years. The Truss Government will be examined in a later issue of the journal. In this issue we focus on Australia and the likely approach of the new Government to problems facing the country's housing markets. Alan Morris draws attention to "declining housing affordability and homeownership, mortgage stress, rental stress, limited social housing and homelessness." The conclusions Morris draws as to the likelihood that the new Government will effectively tackle these deep-rooted problems are not entirely optimistic.

The focus on change continues with an important contribution on the US, from Michael Fratantoni and colleagues of the Mortgage Bankers Association. In their article *Who owns climate risk in the U.S. real estate market?* Fratantoni et al examine the increased risk of damage and deterioration to the housing stock as a result of climate change and analyse where the key risks fall, between homeowners (with and without mortgages), lenders, regulators and government. This article makes timely and fascinating reading.

We continue our series of country-focussed articles on decarbonisation with an important article by Éva Geróházi, Hanna Szemző and Eszter Turai entitled *Decarbonising the Hungarian housing stock: the case of the multi-apartment buildings*. 40% of homes in Hungary are in multi-apartment buildings and the article focusses mainly although not exclusively on these. The housing stock in Hungary accounts for 27% of total energy consumption, and homes in Hungary use more energy per square metre than comparable properties in neighbouring countries such as Austria. With 91% homeownership across the country and an erratic and often ineffective grant system, tackling the need for decarbonisation is a major challenge.

Decarbonisation is also the subject of our final article by David Orr, former CEO of the National Housing Federation in the UK and an acknowledged expert on affordable housing in Europe. In his article *Affordable housing and Net Zero: tensions and possible directions* David Orr examines the issues raised by the massive investment required to decarbonize the affordable housing stock when set against the need to invest to improve amenities and expand the sector.

Overall, we can promise readers of HFI a stimulating and enlightening read and the opportunity to gain insights not available elsewhere. Future topics to be covered include the impact of planning on the promotion of energy efficiency in housing and affordable housing in India. Your feedback on the current issue will be most welcome, as always, as will any suggestion for future articles.

**Andrew Heywood,  
September 2022**

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**Alan Morris** is a professor at the Institute for Public Policy and Governance at the University of Technology Sydney. He works mainly in the areas of housing and marginality. His most recent book is *The Private Rental Sector in Australia: Living with Uncertainty*, co-authored with Kath Hulse and Hal Pawson.

**David Orr CBE** is a hugely experienced leader in both executive and non- executive roles. He was Chief Executive at the National Housing Federation, having previously been Chief Executive of the Scottish Federation of Housing Associations and of Newlon Housing Trust. In non-executive roles David is Chair of The Good Home Inquiry. He is Chair of Clarion Housing Association (HA) Board, Chair of ReSI Housing and ReSI Homes and a board member of Clanmil HA and the National Communities

Resource Centre. David is also co-Chair of #Housing 2030, a joint Housing Europe and UNECE study on affordable housing in the UNECE region.

**Alex J. Pollock** is a Senior Fellow of the Mises Institute, a past-president of the IUHF, and the author of *Finance and Philosophy—Why We're Always Surprised* and co-author of *Surprised Again!* (2022).

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## Contributors' biographies

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**Mark Weinrich** holds graduate degrees in political science and economics from the University of Freiburg, Germany. He is the General Secretary of the International Union for Housing Finance and the manager for international public affairs at the Association of Private German Bausparkassen.

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# Ukraine's housing recovery requires a well-designed capital investment strategy

↳ By Julie Lawson and Grzegorz Gajda

## 1. Introduction

Adequate housing provides an essential basis for social and economic well-being at any time, but when a war impacts homes and neighborhoods so directly as in Ukraine, it is vital that housing also lies at the heart of recovery plans. Restoring homes will require focused attention and commitment from all relevant stakeholders, including public investment banks.

The Russian invasion of Ukraine continues to have considerable impact on civilians. Lives have been lost and homes destroyed, as well as infrastructure, goods and services. In addition to the human cost, early estimates showed that residential structures, in the form of multifamily and individual homes contributed over one third of the material damage from the war, alongside damaged and destroyed neighborhood facilities such as hospitals, kindergartens, schools, cultural and commercial centers, public transport, parks, sport facilities and playgrounds. By July official estimates reported damage caused by Russian aggression to have reached \$750 billion.

Of course, the human cost to millions of Ukrainians who have lost family members, been displaced or had their homes destroyed, is beyond measure. Most want to return. A safe, secure, and adequate home and neighborhood will bring them back. It will also underpin Ukraine's economic recovery.

This article provides a concise overview of pre-existing challenges facing Ukraine's housing systems and ambitions for reform via the government's recovery plan, as well as the potential role of public investment bank EIB in achieving them.

## 2. Housing system failing

Mass-produced concrete panel houses built in the 1960's-90's, make up the majority of multi-apartment stock in Ukraine. Many of these dwellings were transferred or sold in the 1990s to their incumbents. In 2001, 52% of all dwellings in urban areas had been privatized, and in that year alone 227,000 apartments and single-family houses were sold, 86% of these at nil cost (UNECE, 2013, Durmanov, 2004:210). Today multiple individual owners reside in apartment buildings, and Ukraine's home ownership rate is one of the highest in Europe (over 90%). Yet in contrast to many EU member states, there are no well-developed alternatives to ownership, the private rental sector is weakly regulated and there are few dedicated affordable housing providers, such as municipal housing companies, nonprofit housing entities or cooperatives. New residential development has taken place in major cities, focused on the upper end of the housing market and in larger cities. These developments depend on down payments and regular installments from prospective purchasers – and take place only in areas where rate of return on investment are more certain, rather than where needs are greatest.

Competing priorities of public budgets and reliance on mortgage financed home ownership have inhibited the development of a more balanced housing system that delivers a wider range of housing options to address a range of needs at the required scale, location and duration. This is one reason why housing Internally Displaced Persons IDPs has proven so difficult for Ukraine since 2014 (IOM, 2022).

Continuing efforts are also required in the field of energy efficiency, which is strongly influenced by housing quality and consequently affordability of utility costs. Improvements in energy efficiency and decarbonization are a high priority for Ukraine and Europe, driven by the updated European Energy Efficient Directive (EEED). In 2022, the Parliament of Ukraine transposed the EEED in the Law "On Energy Efficiency". This also requires a 10 year strategy energy and climate plan outlining how it intends to achieve energy efficiency and other targets by 2030. It makes sense that these requirements be incorporated into the National Recovery Plan.

Already before the war, few affordable and accessible housing pathways existed for Ukrainian households. Unaffordability in major cities, as well as overcrowding, and energy inefficiency were commonplace (UNECE, 2013). The housing finance system had become increasingly connected to global finance. The rapid influx and retreat of mortgage capital led to a boom in the real estate market, asset speculation, but also a dramatic bust. Many mortgages were linked to the \$US and the Global Financial Crisis (GFC) exposed Ukraine to deep financial shock. IMF bailouts and conditional reforms followed. Public trust in the banking system remains low<sup>1</sup> and with mortgagees obliged to continue payments on destroyed homes, consumer confidence may be further eroded.

According to local UN agency reports, the energy efficiency of housing is very low and living conditions between urban and rural (including small towns) areas are increasingly unequal<sup>2</sup>. Unemployment and poverty in rural areas is widespread; and uneven

<sup>1</sup> <https://www.kyivpost.com/business/lack-of-public-trust-still-plagues-banking-sector.html>

<sup>2</sup> <https://wid.world/country/ukraine/>

logistical and social infrastructure (e.g., public transport, social services systems, health, education, culture, kindergartens etc.) undermines socio-economic development. Furthermore, there are serious problems in housing quality, environmental degradation, air pollution and toxic chemicals that contribute to worsened health outcomes. Among occupational risks, asbestos remains a real health threat (UNECE, 2018-2022 plan).

By 2017 Kyiv was the second most unaffordable city in the world, according to a Bloomberg Housing Index. Cities such as Kyiv and Kharkiv, where incomes from finance, information technology and real estate have greatly surpassed average wages, had the highest housing costs. But these relatively prosperous cities now face the variable impact of the war. With the massive movement from east to west of those in search of safety (IOM, 2022), pressure has generated rent increases as large as 72% in Lviv, in Uzhhorod by 46%, and in Ivano-Frankivsk, Khmelnytsky and Lutsk - by 10-15%, in Chernivtsi - by 80% (Liasheva, 2022).

In the absence of public interest stakeholders, a coordinated approach to reconstruction between international housing practitioners, international financial institutions and the Government of Ukraine will be challenging. Ukraine has demonstrated considerable capacities in the most difficult conditions. This self-determination and expertise now need to be applied to the recovery of its homes and neighbourhoods.

A new vision and pathway to repair and rebuild damaged housing will need to be established. However, for international donors, just providing recovery funds without a plan for housing reform, means exacerbating problems which have plagued Ukrainian cities in the recent past. As shown above, already before the war, Ukraine's housing system was failing to deliver affordable, comfortable and energy efficient housing for many households. Poor housing choice, as one of many inadequate elements of social safety, is one reason for low natural population growth and high emigration rates, leading to population decline: from 52 million in the early 1990s to an estimated 42 million in 2020 (CEDOS, 2019). If we want Ukrainians to return, every effort must be made to improve housing conditions.

### 3. A recovery plan can address both reform and recovery

A recovery plan can strive to offer homes and neighborhoods that support a secure and stable future for people in Ukraine. Clearly more of the same approach to housing will not do. This will require commitment from national leadership and a multi-level approach to governance that is able to guide efforts, with civil society and the private sector, to address varying territorial and sectorial needs for reconstruction.

NGOs played a prominent role in successful redirection of Ukraine's development course towards Western Europe, driving innovation in public administration. For example, the public procurement system Prozorro was developed by NGOs for government and is now accepted in the laws and also by foreign financiers. This open approach to innovation was also embodied in Ukraine's own Recovery Plan, involving many hundreds of meetings involving over 2000 stakeholders including NGOs, national and international experts, as well as the general public. NGOs and public discussion have a continuing role to play, also in shaping and implementing Ukraine's new housing approach.

Values that are important to the world and particularly Europe are embodied in the Sustainability Development Goals and European Pillar of Social Rights and influence responses to Ukraine's challenges.

Just as with the recovery of devastated European cities – to emerge from the chaos of war requires a strategic vision, clarity on land policy, mission focused investment and effective urban policy. The recovery plan should not only deliver a more balanced offer of tenure options aimed at increasing housing affordability for the vulnerable groups and rebuild lost stock. It must embrace the climate change and societal changes, by promoting more sustainable and inclusive urban life. Urbanistic practices from the past, which required separation of commercial, industrial and residential zones, created isolated islands, disconnected from adequate transportation and social infrastructure, comprising homogenous buildings must be replaced by new approach, which focusses on connectivity, diversity, sustainability and inclusivity.

Ukraine will inevitably shape and implement its own plan, requiring careful reflection on its own history, institutional capacities, and renewed ambitions. While the international community must not impose solutions, its role must be to ensure that all Ukrainian stakeholders are given equal voice in creating and implementing the plan.

### 4. Joining Europe

Europe needs to prepare for its role as the key supporter of Ukraine's post-war recovery and can draw on its own considerable experience in reconstruction. Europe's post WWII recovery, provides insights as to how to organize, fund and implement reconstruction that will shape homes and neighbourhoods for generations to come.

As a candidate member of the European Union, the recovery of its housing should strive to fulfil the European Pillar of Social Rights, where access to social housing or housing assistance of good quality shall be provided for those in need<sup>3</sup>. Furthermore, in light of EU accession, any revised social housing system must be EU compliant. Policies on state aid and Services in the General Economic Interest (SGEI) with regards to housing have evolved and needs are not simply to be defined by income. Relevant authorities, such as municipalities must define public need, and can choose from a wide range of criteria to do so, in order to reflect changing needs over time to ensure support to housing and communities, as confirmed by the ECJ ruling of 11/2018.<sup>4</sup>

### 5. Ukraine's self-determined recovery plan

To repair, renovate and renew Ukrainian homes and neighbourhoods will require focused attention and long-term effort from many stakeholders. It will need to be guided by committed leadership with a long-term vision, strong institutions and capable administrations.

Incorporating municipalities in this national effort is key. Together, public investment banks, municipalities, urban and housing policy makers and land developers ensured that the new homes and neighborhoods provided a secure foundation for social and the economic recovery.

<sup>3</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-20-principles\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-20-principles_en)

<sup>4</sup> See contribution to the issue of SGEI from Housing Europe to the discussion [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/11835-State-subsidy-rules-for-health-and-social-services-of-general-economic-interest-evaluation-/F470756\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/11835-State-subsidy-rules-for-health-and-social-services-of-general-economic-interest-evaluation-/F470756_en)

Amidst the continuing Russian aggression, Ukraine is already working towards a sustainable recovery. There has been an intense period of consultation, involving many working groups comprising government representatives, senior officials, implementing stakeholders as well as international experts. The Housing Policy working group included relevant minister from the Department of Communities and Territories, political representatives, advisors to the President, relevant senior government officials, invited national stakeholders and international experts including authors of the #Housing2030 initiative from Housing Europe, UNECE, UNHCR and Council of Europe.

The draft Plan was presented at the Lugano Recovery Conference in early July outlining the Governments goals and proposed tasks, including in the realm of housing, as outlined on the right.

*Source: Draft Ukraine Recovery Plan: Construction, urban planning, modernization of cities and regions, Ukrainian Recovery Council.*

### 6. Principles and policy discussions

Following best international practice, the ambitions of Ukrainian Recovery Plan should be respected by international donors (Tzifakis, 2022). Around 40 countries along with global organizations signed the Lugano Declaration to support Ukraine's Recovery in phases; emergency response, repairing damaged infrastructure and the long-term transformation of Ukraine. The declaration also outlined guiding principles for this process, such as democratic participation, transparency, and sustainability. The EIB has offered a new EU-Ukraine Gateway Trust Fund to support urgent needs and long-term investing in Ukraine's reconstruction and sustainable recovery.

What type of housing recovery and how it should be delivered is now the subject of an intensive public discussion in Ukraine, shaping the type of institutional framework to be supported and further developed. Leading public discussion is the independent NGO CEDOS, which has worked on social development issues since 2010 and also researched and hosted discussions on housing policy reform options. Since the invasion, academics and urban professionals have formed a coalition Ro3kvit including the New Housing Policy (NHP) project.

**TARGET AND TASKS** of the Reconstruction And Development Plan: Construction, urban planning, modernisation of cities and regions of Ukraine, Stage 3: January 2026 - December 2032<sup>5</sup>

Target. 100% of citizens are provided with housing (developed market and many tools for housing) Stage 3: January 2026 - December 2032

- 1 Departure from the established principles and logic of the Soviet times approaches to the realization of the right of citizens to housing, in particular by reverting privatization<sup>6</sup> January 30, 2025
- 2 New local and regional programs for the realization of citizens' housing rights have been adopted, state funding redirected towards housing associations, municipal housing companies rather than individuals December 2026
- 3 Mechanisms for providing housing for some categories of citizens entitled to state support have been improved, including municipal housing programs supported by the state December 2026
- 4 Integration of housing diversity, social inclusion parameter into the spatial zoning regulations and spatial planning regulatory framework December 2028
- 5 Creation of stable and viable non-profit municipal housing funds and/or municipal housing enterprises in urban hromadas<sup>7</sup> of Ukraine with efficient and resilient economic budgets December 2026
- 6 New tools have been introduced to encourage the use of vacant land for housing development, in particular through renting (by improving land assessment and taxation) December 2032

These groups also participated in the drafting of the Recovery plan. NHP has experience in urban planning, housing policy and energy efficient building, and aims to foster the implementation of needs based non-profit municipal housing and co-operative housing in Ukraine and has reached out to work with stakeholders, international experts and supporting international donors and public investment banks.

### 7. A strategic capital approach to crises, housing supply and recovery

Housing systems are shaped by many policy tools affecting the supply of housing and demand for it. Since the 1990s, many western governments have shifted public expenditure to support household capacity to pay for housing in the form of rent assistance and Vouchers, credit enhancement or tax policy, while capital investment in the supply of new affordable housing has diminished. Consequently, social housing providers in the absence of direct public

capital investment, have had to employ private financing instruments, sell existing stock and raise rent revenue, to continue to operate, maintain and grow (see Williams and Whitehead 2015). Some housing systems have fared better than others (Lawson, Milligan et al, 2010, Lawson, Berry et al, 2014), primarily through strategic land policy, active public financial intermediaries, as well as broader allocation and favorable rent policy. Informative comparative reviews such as Norris and Byrne (2020) on funding resilient and fragile social housing systems in Ireland and Denmark and Marquardt and Glaser (2020) comparing social housing in Berlin and Vienna demonstrate the importance of municipal land policy, revolving public equity and cost recovery rents. This research can be informative for Ukraine as well.

International research also suggests relying on demand side assistance alone can also be costly to governments and counter-productive for households. The OECD (2020) and Housing Europe report that the proportion of European housing assistance spent on rent allowances

<sup>5</sup> Draft Ukraine Recovery Plan Materials of the "Construction, urban planning, modernization of cities and regions" working group July 2022 [https://uploads-ssl.webflow.com/621f88db25fbf24758792dd8/62c6d255dff3f65c7b7e6539\\_Construction%2C%20urban%20planning%2C%20modernization%20of%20cities%20and%20regions.pdf](https://uploads-ssl.webflow.com/621f88db25fbf24758792dd8/62c6d255dff3f65c7b7e6539_Construction%2C%20urban%20planning%2C%20modernization%20of%20cities%20and%20regions.pdf)

<sup>6</sup> The Plan's ambitions with regards to the sale of public housing are unclear, and refer to

privatization being halted, reverted or completed. This process will impact capacities to ensure access to adequate housing.

<sup>7</sup> A hromada is a local level of administration, similar to a municipality, commune or country. It is responsible for planning, transport, social infrastructure and subsidized housing, amongst many other matters.



in the EU has risen steeply from 54 per cent in 2009 to 75 per cent in 2015 (Eurostat 2009; 2015; NHF 2017), while total expenditure on housing development has declined by 44 per cent, from €48.2 billion to €27.5 billion over the same period.

Further, demand side approaches such as housing vouchers do little to improve the quantity and quality of supply outcomes and their management. This is especially so where rents are deregulated, mission focused or public interest landlords are absent and vacancies are very low<sup>8</sup>, as in Ukraine now. In this context demand assistance can either be absorbed by landlords, be too minimal to make a difference, or even lead to inflated rents.

International advice on demand and supply side strategies has moved on in the 2020s (UNECE, 2021, OECD, 2020, 2020a, Lawson et al, 2018), accelerated by responses to the Global Financial Crises and the COVID pandemic. Long-term low-cost public investment, is now considered as an appropriate means to stimulate the economy, maintain employment and ensure the supply of needed social infrastructure, such as social housing (IMF 2015, OECD, 2020, Lawson, et al, 2018). A focus on affordable and green housing transmits economic stimulus with high employment intensity, it involves large scale expenditure with strong second-round effects and is also a policy mechanism for social and environmental transformation. It will produce durable assets that can contribute to wider social wellbeing and economic productivity. Importantly, investment in green affordable housing also has strong political legitimacy and relevance to Ukrainian households, whose incomes and affordability have been hit hard during and before the current crises.

Policy design and evaluation is important (OECD, 2020) and Ukraine's approach to recovery can certainly learn from past crises stimulus - where sufficiently large, timely and properly designed green stimulus measures have been used to generate economic growth, create jobs and bring about environmental benefits. Building Back Better (and stronger) is now a key policy document for nations designing housing focusing on energy efficiency and inclusive stimulus (OECD, June 2020). At the European level social inclusion is part of Green Deals – e.g., EC Just Transition Fund – where grants are used to promote economic diversification of the territories most affected by the climate transition and the reskilling and active inclusion of their workers and jobseekers (EC, 2020). Member states have produced

recovery plans with a focus on renewable energy, retrofitting, digitization and circular economy. Housing Europe, the federation of social housing providers reports that its members have embarked on the renovation of 4 million homes, providing appropriate financial and legal settings can balance renovation costs and affordability also between focus on renovation investments and renewable energy generation.

In a review of past GFC stimulus measures, the OECD (2020) raised critical concerns over uneven beneficiaries, from banks to low-income households, which can exacerbate post-crises inequality. Unconditional and un-strategic, support for efforts already in the pipeline may not be appropriate. Poorly administered investments can lead to corruption, and excessive austerity measures can also slow recovery, and lead to unfair outcomes. Rather, needs based planning and evaluation should be an integral part of stimulus programmes. Green and social measures must be sufficiently large, timely and properly designed being well-embedded into domestic settings, creating quality jobs and mobilising further investment in renewable-energy. Whole-of-government co-ordination can also help identify and mitigate potential divergence in the achievement of different policy objectives. Constant monitoring and evaluation are also required to ensure appropriate design of green and social stimulus to prevent rebound effects, limit market distortion, and ensure additionality of public funding by improving targeting. It is also important to ensure environmental and social externalities are taken into account and provide clear influential signals to better align incentives (OECD Review of Past Stimulus Measures, 2020)

There is an important role for strategic public investment in the housing recovery of Ukraine to ensure the development of well planned, sustainable homes and neighbourhoods. Currently households receive very low levels of support to cover the utility costs of accommodating IDPs in private accommodation. The private rental market is weakly regulated; since February 2022 rents have risen rapidly in the western oblasts, up to 225% in Lviv (Flatfly quoted in CEDOS, 2022). There is a lack of safety and security, and discrimination, and rents bear little relationship to dwelling size or quality. The Government, with the assistance of international donors, is supporting housing providers accommodating IDPs via payments to assist with utility costs.

## 8. Importance of a supply side approach

Building on national expertise and international advice as above, to maximize social and economic outcomes, Ukraine's housing recovery will require a strategic and well-designed supply side approach, necessitating much more significant capital investment in the form of conditional grants (land and equity) and the most efficient forms of long-term loans, via non-profit public interest landlords, informed by current and future needs.

Furthermore, policy efforts will need to be supporting a more balanced range of housing tenures, beyond home ownership (over 90%), to ensure access to affordable, adequate housing. Long term public finance, focused definition of eligibilities, a well-designed system of central government support with local delivery can strengthen the social inclusion of housing systems within reconstructed urban districts and provide affordable housing options for vulnerable households, give a boost to local economy and bolster housing market stability. Increased safety of tenure (in comparison to unregulated rental markets prevailing to date as the only alternative to unaffordable housing ownership) can help address inequality especially for woman-headed households with children.

In times of crises, social housing is often called on. In the post war recovery of European cities, public loans and capital grants helped revive housing systems, often through municipal housing companies. In stimulating economies post the GFC, many countries increased social housing production and during COVID, housing the homeless became a public health strategy.

In Ukraine, public investment in affordable housing, where needed in local areas, will also be vital. In areas partly or totally destroyed by war, private investment in housing is likely to be unavailable and unwilling to invest, further undermining efforts to rehouse returning IDPs. Green affordable housing promoted by municipal housing companies, non-profits and co-operatives can be a means to shift from a crises accommodation response to provide a long-term solution that supports economic stability and social harmony. It can also be used to support long-term social inclusion and environmental sustainability. Such housing can provide both a stepping stone and an oasis, as it does in many European countries, such as Austria, Denmark and Finland. Well-designed energy efficient housing schemes can also empower once passive consumers of fossil fuels to active

<sup>8</sup> <https://www.huduser.gov/publications/pdf/targetinglitreview.pdf>

communities with energy generating homes, with power in their hands. This will require active leadership of public policy and mission focused stakeholders and a more balanced approach by international funders and advice. On its own, private investment in private rental and for-ownership housing will not deliver a productive, sustainable or inclusive recovery.

Strategically stimulating housing construction to address varying needs can also deliver longer term economic value: supporting supply chains, producing valuable housing assets, generating economic multiplier effects. It will stimulate technological boost, by bringing best available technologies, especially the ones focusing on energy efficiency and on management of climate risks. Most importantly, affordable housing has enormous social value in providing healthy, secure, and affordable homes for Ukrainians to recover and prosper (UNECE, 2021).

As reviewed in Housing2030, public funding for affordable housing is increasingly available via EU Cohesion Policy: the EU dedicated EUR 6.6 billion towards housing between 2014 and 2020 and the latest Multiannual Financial Framework, provides significantly increased investment in sustainable neighbourhoods. This includes the promotion of energy efficiency in housing.

Multilateral-governmental banks such as the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) lends to member countries for these goals.

## 9. The role of the EIB in Ukraine

The EIB together with CEB are probably the only two multilateral finance institutions, which prioritize financing of public housing. The EIB lends to public housing projects between EUR 1 and 3 billion each year, mainly in Western Europe, where this sector is best developed and where the demand for the financing services is the highest.

The experience from Western Europe shows that a well-developed public and/or cooperative housing sector, with rents set at affordable levels for a widely defined eligible segment of the population can result in much higher affordability of housing and alleviate some of the affordability problems resulting from growing urbanization rates. An interesting element of the Western European experience is the ability to create a system which is not only affordable but also financially sustainable (i.e., does not require operating subsidies). This is achieved by a combination of three distinct characteristics of the system:

- Widely defined eligibility (i.e., involving between 30 and 70 percent of the population)
- Differentiated rent, linked to income of the tenant
- Government-sponsored long-term low interest rate financing institution for public housing projects
- Land policy and urban planning that ensures sufficient opportunities for affordable housing development

Within European Union the East-West divide is visible in the structure of housing markets. Western Europe has a well-developed public housing sector (responsible for between 25 and 50 percent of all housing units), while Eastern and Southern Europe has some 5-10 percent of public housing and relatively small investments in new public housing production compared to the private sector.

The ambition of the EIB is to contribute towards balancing of the situation and help Eastern and Southern European countries use the Western European experience and build a financially sustainable and affordable housing segment, which is so critical for sustaining economic growth and promoting social cohesion.

Ukraine could be part of this process promoted by the EIB. Development of the public rental segment, using Western European lessons can contribute towards rebuilding of damaged housing stock and benefit more vulnerable groups. At the same time, massive housing reconstruction can accelerate the introduction of better, more sustainable construction technologies and can be and should contribute to urban planning supporting sustainable mobility by moving away from wide car-oriented boulevards and separation of residential, office and commercial zones towards a walkable "15-minute city".

## 10. Conclusion

The war is likely to exacerbate the pre-war housing crisis, impacting the most vulnerable. Building Ukraine back better requires affordable, inclusive and green housing to be at the heart of recovery efforts, drawing on Europe's best practices and experience of recovery. The international community of housing professionals has sufficient knowledge and there are Ukrainian housing experts who can play a leading role in bringing Western European best practices to Ukraine. There is a need for coordinated and cooperative activities between Western European donors and governments and the Government of Ukraine to enable such knowledge transfer.

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