

World's Longest Privatization Process: Free Housing in Russia

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Although one might not expect this, the State Duma rarely votes in unison. However, this week saw such an occasion, when all 444 Duma deputies voted yea to extend the Free Housing privatization extension. Not an unexpected turn of events; the vote to extend housing privatization is not the first nor the last if one is to judge from history.

The Russian free housing privatization process might just be a case of the world's lengthiest privatization process — starting in 1991 after the breakup of the U.S.S.R. when the Russian Federation passed legislation allowing residents of municipal, federal and state-owned industry housing to purchase their units virtually free. Even early on, when it was implemented only in Moscow and a few other cities, the program yielded disappointing results and kept giving bad results till the present day. In the program's first year, the authorities failed to transfer anything close to planned quotas of state-owned housing units to current residents. However, the program's early disappointing results as well as the following two decades of continuous underperformance of the program were not enough

to persuade the authorities to consider alternative approaches to the difficult issue of sorting out the housing market or realize benefits of potentially high home-ownership levels. Thus, Duma extended free housing privatization until March 1, 2015 and, how things are doing — they might just do it again.

This week's extension is the third since 1992, allowing residents of state-owned housing to privatize their units without paying fees or full taxes. The failure of this process has repercussions to the Russian economy beyond mere statistics (that should not be ignored either). As long as the majority of remaining housing stock is not transferred from the state to private owners, meaningful development of the housing sector cannot follow.

This, in turn, reflects badly on Russia's mortgage market already facing a slowdown due to increased interest rates and the insurance industry. Another aspect affected is the development of the legal system and legal issues of ownership that are so often hailed as a major roadblock in Russia's economic development.

With the mortgage market facing a slowdown, it will most probably be substantially fewer people that will be able to realize the privatization of their housing units before the new 2015 deadline and not everyone remaining as President Putin expects. Finally, issues in housing privatization are often seen as giving rise to inequitable distribution of housing assets. With prospects of underpriced utility prices rising, the head of the Duma's Housing Policy, Galina Khovanskaya, is very right when considering this a premier social goal to achieve in the short term. What Russia does not need is more inequality, even between the middle and lower social strata. According to deputy Khovanskaya, the Housing Policy Committee is considering different ways to pursue free housing privatization — here's hoping that one of them works.

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