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Collective management of residential housing in Russia: The importance of being social

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ABSTRACT

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Homeowners associations (HOAs) implement collective management in residential housing. We assess the performance of such associations in Russia by using the stochastic frontier technique. Cultural traits enabling tenants to make proper use of the HOA decision-making procedures are essential for resolving the collective action problem and ensure accountability of governing bodies and outside contractors. Such "technical civic competence" has a stronger impact on HOA performance than more conventional forms of social capital which rise in their significance when HOA governance breaks down and informal grassroots alternatives are mobilized instead. Massive and indiscriminate "supply-led" introduction of collective management in residential housing without matching cultural and institutional prerequisites could be counterproductive. Flexibility, freedom of choice, and market development are required to avert the failures of HOAs commonly observed in Russia. *Journal of Comparative Economics* **42** (3) (2014) 609–629. National Research University Higher School of Economics, Center for Institutional Studies, Moscow, Russia; National Research University Higher School of Economics, Moscow, Russia; National Research University Higher School of Economics, International Laboratory of Quantitative Finance, Moscow, Russia.

1. Introduction

Transfer of ownership and management of common-pool resources and local public goods from governments to communities of users has become a global trend (Mansuri and Rao, 2004). Community members have powerful incentives to properly manage an asset essential for their livelihood and well-being, whereas public management is often hampered by a hard-to-resolve agency problem. Community ownership is consistent with the dictum that efficient property rights are those assigned to the parties which are most directly affected by asset performance (Grossman and Hart, 1986). In addition to stronger incentives, users have valuable grassroots knowledge which would be costly to acquire by a "remote" public agency.

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Community management of common-pool resources and local public goods is not however a win–win solution. Massive implementation of such regimes has produced mixed results which do not demonstrate an unqualified advantage of communities over governments (Ostrom, 2010). The main liability of community governance is a collective action problem: unrestricted access of community members to common pool resources or local public goods is not conditional on bearing the necessary costs, which could lead to free-riding. Therefore devolution of common-pool resources and local public goods to communities entails the trade-off between the benefits of stronger incentives and better information (Araral, 2009) and the complications and obstacles of the collective action problem.

The capacity to resolve the collective action problem is known as social capital (Woolcock, 1998; Keefer and Knack, 2005), which should therefore be expected to play out prominently in community management of the commons. However, empirical confirmation of such conjecture in the literature is elusive, in no small part due to the excessive breadth and vagueness of the social capital concept (Mansuri and Rao, 2004; Durlauf and Fafchamps, 2005). Usually community governance of the commons is associated with traditional types of social capital embedded in shared norms, local networks, and informal enforcement (Ostrom, 1990; Sethi and Somanathan, 1996). This kind of social capital operates at the grassroots and is considered an alternative to formal rules and organizations established to manage common-pool resources and local infrastructure. Performance of formal organizations in its turn depends on the ability of the user communities to meaningfully participate in collective decision-making and ensure representation and accountability of governing bodies. Such collective competence to make use of formal rules and procedures is a yet another type of social capital, which *complements* formal institutions, rather than *substitutes* for them.

In this paper we study the role of such disparate stripes of social capital in the performance of Russian homeowners associations (HOAs) which implement collective ownership and management of common property (facilities) of apartment buildings where apartment units are privately owned by tenants. Under the command economy a bulk of residential housing in Russian cities, including apartment buildings which housed nearly all of the country's urban population, was publicly owned and managed. In the early 1990s ownership of apartment units was en masse turned over to the tenants; however joint facilities (building exterior, hallways, elevators, piping and wiring, parking etc.) which combine features of common-pool resources and local public goods, for almost a decade remained under public ownership and management. Large-scale transfer of such facilities to tenant communities organized in homeowners associations began in the early 2000s, and presently close to 90,000 such associations operate across the country comprising about 20% of urban residential housing stock.

Despite of its promise and appeal, this reform proved to be highly controversial, and led to uneven outcomes, where visible improvements in upkeep of apartment buildings coexist with egregious neglect, mismanagement, and theft (Borisova, 2013). Such performance variations provide a valuable opportunity to identify and measure socio-cultural as well as institutional and physical factors which underpin successes and failures of collective management of apartment buildings.

Two arguments further motivate such analysis. First, since residential housing was allocated throughout the Soviet period primarily on a non-market basis, we can take advantage of a "quasi-natural experiment" in relating HOA performance to social capital in tenant communities. Second, generic nature of HOAs which exist in large number alleviates the "small N" problem which often precludes rigorous hypotheses testing in common-pool resource analyses (Bardhan and Dayton-Johnson, 2002).

HOAs present a relatively rare case of urban commons (Ostrom, 2000), whereas most of the literature in the field deals with natural resources (forests, fishery stocks etc.) and rural settings. In modern megapolises communal and associational ties which are considered essential for collective action in traditional commons are usually weakened (Putnam, 2000). Residents of an apartment building are often socially disconnected from each other and form "planned communities" (Lehavi, 2010) bound together by a physical structure and a pre-established legal and regulatory framework, rather than by interpersonal ties and cohesion. Such communities do not encounter institutional supply failures that often beset common property regimes (Ostrom, 1990; Bardhan and Dayton-Johnson, 2002), but need to show the capacity to properly operate a formally established organization. When this capacity is in short supply, a reform that introduces "best-practice" institutions of collective ownership could founder – culture and prevailing social practices and customs hold back a faster-moving institutional change (Roland, 2004).

Given the growing value of urban real estate, large financial flows originating in the residential housing sector, and significant market power of local utilities and management companies, HOAs could be attractive targets for capture by various vested interests. As long as common property of residential housing remains under local governments' care, public sector rules and control procedures provide a degree of protection from potential captors. HOAs do not have such third-party protection, and if tenants' capacity for self-organization is weak, these entities become "sitting ducks" for takeover and subversion (Polishchuk, 2012). Our analysis highlights the threat of capture of common-pool resources transferred to users, and provides a yet another illustration of the complementarity between property rights and market development (Besley et al., 2012).

The paper is based on a survey of 82 Russian HOAs conducted in the late 2008; 40 HOAs in the sample were located in Russia's capital Moscow, and the rest – in Perm, major industrial city in the Northern Urals. Performance of the sampled HOAs was measured by the stochastic frontier technique (see e.g. Kumbhakar and Lovell, 2000). We demonstrate that physical characteristics and conditions of apartment buildings and socio-economic features of tenant communities are highly relevant for the outcomes of collective management of residential property. While conventional social capital measures reflecting interpersonal communications, mutual help, and trust among the tenants are predictably significant for HOA performance, their impact is considerably milder than the relevance of special kind of social capital, called in the paper *technical*