

# HOUSING MARKET AND ENERGY POVERTY

## POLICY BRIEF

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Energy poverty on the housing and renting market

## The housing market (selling and buying properties)

According to the World Bank (The World Bank, 2015), Romania's housing stock consists of around 8.5 million units located across 5.3 million buildings. Having the highest rate of unoccupied houses (16%) in the European Union, would in principle translate into higher mobility and a more stable housing market. However, most of the unoccupied houses are located either in areas where the real-estate market is practically idle and properties are low-value and low-quality, or in holiday areas and are thus occasionally occupied (Lăzărescu & Diacon, 2020).

Romania also has one of the highest home ownership rates in Europe with a 94,7% private property ratio (Guvernul României, 2020). Three factors contribute the most to an entrenched culture of home ownership: a dysfunctional rental market, the post-communist housing legacy given the house-access policy practiced by the socialist regime and the unfavourable banking terms in place. In Romania nine out of ten homeowners live in dwellings for which they have to pay loans, while in the EU only 26.5 % of the properties are encumbered by loans.

While the ownership rate is one of the highest from the European Union, the living standard is one of the lowest (small living spaces that are overcrowded, poor building materials, energy inefficient housing units). Based on several indicators related to the living standards, such as the provision of housing with utilities and the share of housing agglomeration, Eurostat (Eurostat, 2021) has developed a composite indicator (the rate of housing deprivation) to measure the population ratio living in substandard housing units (i.e., with damaged and leaking roofs, walls and floors, broken windows, lack of bath/shower, toilet inside the house, housing rated as too dark). Based in this indicator, Romania (Eurostat, 2021) has the highest rate of people living in severe housing deprivation (14.2%) in comparison to the European mean of 3.8%. Moreover, people living rural areas in Romania are by far the most deprived (26.1%), as most of the dwellings located here lack access to utilities (sewage, running water, bathroom inside the house) and are in poor condition (Lăzărescu & Diacon, 2020).

While the ownership ratio is very high in Romania, it is usually one family member that owns the household where all the other members are registered. The same data (Housing Right Watch , 2020) indicates that the problem of housing affordability is present all across Romania, including in the big cities like Bucharest and Cluj-Napoca, where the average income is around 700 euro/month. Even with this income people barely afford to pay a market rent (at around 400 euro/ month for a two-room apartment) from one salary, and provide for the other household needs on top. Housing costs indicate a high financial burden on the Romanian households, one of the highest at the European level. Under these conditions, people either resort to various forms of informal renting, or take second jobs and a bank loan to acquire their own property. If the existing housing market puts pressure on households with average incomes, the situation is even more problematic for those with low incomes. Marginalized communities, much of which are of Roma (Housing Right Watch , 2020) ethnic background experience extreme forms of living conditions (see policy brief on urban living). The lack of an adequate social housing policy, doubled by other social and economic incentives push these communities of people at the margin of society, most frequently living in informal settlements.

Evidence on the ground accounts for high disparities in terms of the real-estate market in Romania. Generally, following the global financial crisis of 2008, the housing market experienced a severe

downward evolution (World Bank (2015)). Some areas of the country managed to stabilize quickly and even experience an upturn in housing supply in the last two to three years. In Cluj-Napoca (DELMENDO, 2021), for instance, Romania's fourth most populous city, saw the biggest y-o-y increase in apartment prices of 7.48% (6.13% inflation-adjusted) to an average of €1,840 (US\$2,230) per sq. m. Though it is still lower than 2019's increase of 10.1%.

The impact of the COVID-19 pandemic on the market was quite obvious and split effects could be observed: the renting market was particularly affected as rents decreased 15% since March 2020. In contrast, property sales increased due to the number of houses sold as prices generally remained relatively constant in 2020 and 2021, with minor rises in some big cities and their metropolitan areas. This may be explained by means of a double tendency: In addition to internal migration (into and from the cities to the countryside), due to the pandemic-related evolution on the markets of Western EU Member States, many Romanians living abroad decided to return home and buy properties, which led to a sustained real-estate demand in the most developed localities in Romania (Cristea, 2021).

Overall, the Romanian housing market is still dynamic, and people prefer to buy the properties instead of renting them. When selling a property, there are certain obligations that constructors or vendors need to respect. First and foremost, no housing facility can be sold or rented in the absence of a valid energy performance certificate. The Romanian energy performance certificate system (iBroad, 2020) was first developed in 2001 as a voluntary system. After the transposition of the Energy Performance Building Directive in the national legislation in 2005 (law 372/2005, amended in 2020), energy certificates became mandatory. However, despite it being a legal obligation, it is rarely respected (iBroad, 2020). Real estate agencies active on the market manage to bypass them successfully, especially for the renting situations, whereas authorities fail to overview implementation.

Energy performance certificates are normally issued by energy auditors who are responsible for applying the official methodology (Ministerial Order 1057/2007 and the Energy Performance Building Directive, EN 13790) when assessing a building. However, as provisions with respect to the methodology are quite vague and, in certain cases, give room to interpretation, there is much room for bias and inconsistency. Furthermore, energy auditors must keep a certificate registry with all the assessments performed. An electronic version of this registry should be transmitted to the Ministry of Public Administration and Development, which is responsible for collecting the data on buildings in Romania. However, since there was no standardised format for the certificates, auditors collected and transmitted the data in a large diversity of forms, which made it difficult to generate an uniform national database. This situation was signalled by the European Commission and Romanian authorities are under an obligation to amend the legislation and offer a standardised template for certificates.

An energy performance certificate (iBroad, 2020) contains data about energy consumption related to space heating, domestic hot water installations, lighting, mechanical ventilation and space cooling. Despite many limitations (including those regarding the category definitions<sup>1</sup>), the information offered by this document, if centralized, could have a high potential to offer a clear image of the general state

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<sup>1</sup> Currently, an energy performant housing unit labelled "A" would range from a consumption of 125 kWh/m<sup>2</sup>/year (for all energy uses) to 150 kWh/m<sup>2</sup>/year. These labels are currently under revision, as some experts consider them to be insufficiently ambitious. Moreover, many experts request the inclusion of deem the technical details included in the Annex as rather insufficient or incomplete for an appropriate assessment of a unit.

of the national buildings' capacity, which coupled with socio-economic information, would offer a fair image of energy poverty across the country. An improved assessment methodology, with a clear reporting procedure, may offer a good representation of the situation on the ground and the real structural need attached to energy poverty and otherwise. Moreover, some experts say that energy auditors can play an important role in the process of identifying and addressing situations of energy poverty by offering counsel to vulnerable consumers on methods tailored for their needs. But quite adversely, certificates are used on the market rather as a formality, with little function in the process. Given the situation, there is also low trust attached to it and a very low value of relevance.

Besides the information component on the building stock, intervention programmes are an additional topic of importance in the process as they have the capacity to improve the quality of the buildings stock and to improve their market value. Experts unanimously agree that most financial programs have been dedicated to multifamily buildings despite single family households making up a much larger part of the national buildings' stock (50%), with a higher consumption and climate impact. In Romania the largest part of refurbishing projects have addressed multifamily buildings almost exclusively, whereas single family houses have been systematically excluded from refurbishing support programmes. The table below illustrates the number of buildings renovated. It is unclear if the numbers also include new buildings and only initiatives financed by public resources or also own funds – more likely at the level of single-family buildings. Based on a national legislation from 2011 (Ivanov, 2011), some local initiatives aimed at changing the face of the urban setting have conditioned lower property taxes (or have imposed fines for non-compliance) on the refurbishment of facades, such as was the case in Cluj-Napoca, Oradea or Arad (Sfârlea, 2018). Despite important progress, the provision did not involve structural changes and was financed by a variation of solutions that involved household budgets almost exclusively or to a high extent. Private owners criticized the high costs involved and the complicated bureaucracy to receive intervention permits. Other programs targeting single family houses have been marginal and mainly dedicated to higher income families, and even so, they have been slow to deliver. Programs like Casa Verde Clasic (The classic green house programme), only aimed to install PVs on individual houses. 30.000 individual houses have been targeted, but no structural intervention was involved. Casa Verde Plus (The green house plus) (Ziare.com, 2018) was designed to be an upgrade for the previous program and also include efficiency works by financing building insulations. Casa eficienta energetic (The energy efficient house) was aimed exclusively at financing energy efficiency works on private houses. 60% of investment (up to 15.000 EUR) involving insulation, heating system improvement, and window and door improvement would be supported from the grant. These programs have faltered out of various reasons, such as the lack of funds (Casa Verde Plus), slow bureaucracy (Casa verde) (Digi24, 2020) or low institutional capacity despite high public interest in the program (Casa eficienta energetic) (Alba24.ro, 2021).

**Figure 1. Renovations in the residential sector**

| Type of building | Category | Number of building | Total heated area (th M2) | Renovated until 2020 |
|------------------|----------|--------------------|---------------------------|----------------------|
|                  |          |                    |                           |                      |

|                         |                   |                        |        |    |
|-------------------------|-------------------|------------------------|--------|----|
| Single family hh        | Rural             | 3,810,737<br>(71.6%)   | 247.80 | 3% |
|                         | Urban             | 1,354,263<br>(25.46%)  | 124.46 | 8% |
| Multifamily hh<br>(30%) | P+ >= 4<br>floors | 92332 (1.7%)           | 94.51  | 7% |
|                         | P + < 4 floors    | 61554 (1.1%)           | 115.51 | 7% |
| Totals                  |                   | 5,318,886<br>buildings | 582.27 | 5% |

Source: World Bank 2019 based on URBAN INCERC INCD

With some variations, funds are allocated in a 60-40% share national-local administration, whereas the national share had to be firstly accessed by local authorities. Homeowners contribute with another (approx. 20%, but some categories of vulnerable citizens may be excepted).

Besides their general focus on multifamily buildings, these programs have additional limits to effective implementation. Firstly, families with very low incomes who cannot afford to pay their shares or find it difficult to navigate through the bureaucratic process find themselves at a disadvantage. The existing national programmes for the residential single-unit buildings from the urban and rural area (Casa Verde and Casa Verde Plus), have a very slow reimbursement pace, they are designed for households with at least a medium income and are not suited to deal with situations of energy poverty. Secondly, the capacity of local authorities to attract and manage these funds is another important factor that renders energy poverty intervention ineffective. Evidence on the ground displays many limits in this regard especially at the level of semi-urban and rural local administrations (Jigla, Sinea, & Murafa, 2017). Besides capacity to act, political will and action at the level of decision-making is also important. Local authorities can be proactive in addressing the phenomenon of energy poverty, or rather choose to avoid it. An example of good practice was displayed by the municipality of Zalau, which accessed both Governmental and European Funds (Regional Operational Programmes) to thermally rehabilitate residential buildings. Households that could not afford to contribute to the rehabilitation process, were shortlisted for a grant. High homeownership is the third factor that may impede intervention. Reaching consensus between tenants to renovate an entire building block has proved to be a difficult task ( Jigla, Sinea, & Murafa, 2017).

Green mortgages, another financial instrument well promoted by authorities and administered by private banks, have been accessible solely to real-estate investors and solvable families (RoGBC). The national resilience plan will implement a scenario where multifamily buildings will be mainly targeted and completely refurbished by 2026, whereas for individual houses the two latter programs will be activated to be accessed by beneficiaries. Energy poverty is not an express target (PNRR, 2021).



## The renting market

Unofficial estimates consider that anywhere between 7 to 15% of the national housing stock is rented, with numbers going higher for cities like Bucharest and Cluj-Napoca (up to 20%). The high variance between official numbers and estimates are due to the high degree of informality on the market and the lack of reporting to fiscal authorities. Moreover, even for registered rental contracts, the reported rent value is usually lower than in reality. A potential explanation to this is that Romanians tend to avoid interacting with authorities, including the fiscal ones, as the bureaucratic process of declaring additional incomes can be rather difficult and time consuming. Moreover, the low levels of trust in authorities and the perceived high levels of taxation discourage people from signing enforceable contracts ( (The World Bank, 2015).

The precarious rental market increases, as an end effect, the demand to purchase new houses, instead of renting them, which limits labour mobility, increases the vulnerability of the tenants and keeps the market prices high, especially in the big cities. Moreover, there is a social and urban pressure on the rural areas around the big cities that transform into peri-urban localities which reach the need of substantial investments in infrastructure and public transportation and which have hardly met (see the village of Floresti, Cluj county). Here and elsewhere the high demand for houses has sustained a dynamic construction industry that delivers fast and below standards. Corruption with regard to access to building permits, low access to public facilities, low quality urban planning and structural buildings issues are topics at the ordinary in the local and social media. Research on energy poverty in peri-urban settings is an important topic of interest.

During the Covid-19 pandemic, the renting market was the first to decline, especially in the big cities, as there was a reduced demand for properties. But even in this context, the cost of renting remains high especially for the low-income households.

Apart from these challenges, social housing is yet another topic of interest. There is very limited social housing in Romania, which renders the low-income renter extremely vulnerable to the fluctuations on the market fluctuations, forcing entire groups of people into the outskirts of the cities, where living costs are lower, but the living conditions are extremely precarious. As an alternative, poor households cannot afford a formal rent. This pushes them into additional forms of vulnerability with regard to housing: an informal renting contract does not give them the right to apply for heating subsidies. While not enough for covering the heating costs, these subsidies can still be an important income for the vulnerable citizens. Around a quarter (Georghe, 2020) of Romanian employees (out of 5.6 million employees) earn the minimum wage (1364 lei - around 280 Euros), whereas the value of the monthly consumption basket for a decent living is evaluated at around 2700 lei (around 540 Euros), which leads to an increased vulnerability for the low-income population, who can barely afford a decent living.

The Romanian housing market, selling or renting, is mainly dictated by private investors, developers and owners and is driven by the logic of profit-making, increasing the inequalities between social groups. The state is a minor player through very limited social housing and little involvement in regulation and capacity to enforce, for that matter (Housing Right Watch , 2020). What is more, renting is very often itself captive to a subsistence logic, as renters and landlords may mutually lack investment capacity while seeking to evade taxation for an additional source of indispensable income. No programs to address the improvement of renting facilities has yet to be available on the market, neither nationally or locally.

In terms of state interventions to correct the effects of an unregulated renting market, beginning with 2001, the National Housing Agency (ANL) has built more than 17.000 social dwellings dedicated to young people up to 35 years old, all across the country. After 2004, the number of new social dwellings built has decreased constantly. While this programme was designed to help especially young families with low or medium incomes, based on income criteria, the number of dwellings proved to be considerably below, whereas the vulnerable categories were rarely admitted to housing (Amann & Mundt, 2010). Another governmental programme with national coverage is "Prima Casa", a programme that offers guaranteed state loans, with preferential interest rates for the acquisition of the first property. This programme is also destined mainly to young families, to improve their access to better living conditions. The programme was highly criticized for causing more gain to real-estate developers than to low- and middle-income households. What is more, low-income households can rarely afford to access a private mortgage, even under the circumstances of a state guarantee, as they are not able to meet even the minimal solvability criteria demanded. As a result, their need for access to decent living conditions remains largely unmet.

Some rather exceptional programs that feed into the lack of national initiative can be found at the local level. In Cluj-Napoca, vulnerable families (these are families with low incomes or other social vulnerabilities) can benefit from a subsidized rent of up to 1400 lei (approx. 280 EUR). However, the programme is available for a maximum of 36 months, it requires official renting contracts and does not succeed in solving the problem of a limited social housing stock (DASM, 2021).

In conclusion, the Romanian housing market is dominated by a high degree of informality with official numbers that do not reflect the realities on the ground and construction standards that are difficult to enforce, whereas market regulations are highly insufficient, very limitative and bureaucratically complex. Being highly unregulated, developers and other constructors have a high leverage in dictating prices. This situation affects vulnerable households disproportionately. There is insufficient housing available for the vulnerable categories. Moreover, without a proper legal framework, there are no clear rules on who bears the responsibility of managing the property and which should be the basic facilities included in the renting offer. Energy performance certificates, which have a certain degree of correcting this flaw are rarely used up to their potential in property sales. On the renting market, its employment is rather an exception. Energy poverty remains completely unaddressed on the housing market, being only marginally discussed in the case of subsidies for heating or other social benefits or in rather exceptional local retrofitting programmes.

## Recommendations

- Romania needs a robust social housing system that can accommodate the needs of decent living for the low-income households. While creating a national programme may be difficult and lessons need to be learnt from the ANL programme, local authorities can assume an active role and subsidize rents for the social situations. The model developed at Cluj-Napoca, with marginal improvements, can be replicated and adapted by other municipalities.
- Energy poverty should be included in the housing strategies. A better understanding both in the legal frameworks and in society, in general, is needed for better addressing its root causes. (low-incomes, other social vulnerabilities, old building stock, limited number of social buildings, informal renting market, etc).
- Rental contracts should be brought into formality with substantial incentives for the owners to declare their renting contracts with considerable support for vulnerable citizens. Moreover, the

renting system needs a better legal framework where tenants' rights and obligations are well stated and protected.

- More legal force for the Energy Performance Certificates is needed, as they can include the most important details of the building.
- Energy auditors need more training, as in their work they can identify cases of energy poverty. Local authorities should be a robust partner for energy auditors and their professional organizations. This can improve the building's assessment, data collection and management and local policy-making.
- While the ownership rate is very high, rehabilitation programmes should address energy poverty in buildings by offering real opportunities to vulnerable households to renovate their property (single and multifamily buildings alike). The solutions implemented by the Zalău municipality should be replicated by other local authorities.
- Municipalities should also be active and buy properties with the destination of social housing and act as a stabilizer for the existing market.

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