

# Housing Policy: the Stepchild of the Transition

*Local Government and Housing in Bulgaria*

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### INTRODUCTION

The total population in Bulgaria is 7,977,646, in decline by 510,000 since the last census in 1992. At the same time, the urban population has increased. An estimated 14.8% of the population (i.e. 1,177,517 inhabitants) live in Sofia, the capital. Compared to 1992, Sofia's population has decreased by 5,000. There are now 473,926 households in the capital city, while the number of dwellings stands at 480,580, the important fact being that there are more dwellings than households.

GDP per capita has increased over the last ten years. While in 1990 it was USD 347, in 2000 it reached USD 1,462. The GDP increased between 1999 and 2000 by 5.8%. Since 1998, there has been positive economic growth, the highest being in 2000. From the beginning of the transition in 1990, the private sector share of the GDP grew substantially: It formed only 9.1% of the GDP in 1990, while in 2000 reached almost 70%.

The political changes in Bulgaria started in 1989 with the fall of the last communist government. The first real democratic cabinet ruled very shortly between 1991–92 and was followed by different, more or less, post-communist coalitions until the beginning of 1997. All reforms went very clumsily and slowly, including the housing policy, which was completely neglected. However, since 1997, democratic political parties have formed the government and a lot of positive development has happened, both within the country and with its international performance. However, again little attention was paid to the development of the housing sector.

### 1. HOUSING AND NATIONAL HOUSING POLICY DURING THE TRANSITION

Since the transition begun in the 1990s, with the abolishment of the 5-year plans for housing development, none of the levels of the state authority have had any legal responsibility to provide housing for the increasing housing needs. The housing supply,

before the transition in Bulgaria, was under state monopoly. During Socialism, it was the State that invested in new public housing construction. No budget sources were, however, available for housing construction after the political transition begun.

During the socialist regime, the State determined prices for land, building materials, labor and the price of dwelling sold to tenants (usually two years after their construction). Housing that was initially built as state or municipally owned was later sold to the tenants. The state budget subsidized the difference between the set price of particular dwellings and the real construction costs. This sort of “privatization” was common practice in Bulgaria. The building costs were reduced by subsidizing state-owned construction companies from the state budget.

After the democratic changes, the situation moved from one extreme (strong centralized management) to the opposite extreme, an uncontrolled market. The State no longer bears any responsibility for housing supply. Social tensions have appeared as the majority of households cannot afford to purchase homes and homelessness may soon become a growing social threat. The new situation and the new actors, who have appeared on the stage of market-driven forces, require an adequate management approach and policies in support of the welfare of the public.

The number of dwellings per 1,000 inhabitants increased from 405 in 1994 to 424 in 1999. The average area of dwelling is currently 54 square meters. Thus, though the rate of housing construction decreased during the transition (it dropped from 2.9 per 1,000 units in 1990 to 1.1 in 2000) the housing in Bulgaria is relatively sufficient, at least from a statistical point of view. The qualitative standard of the housing is, however, very low.

## 1.1 Tenure Structure Changes and Privatization

Unlike other transitional countries in the CEE region, Bulgaria started its democratic development with 91% homeownership. The privatization and restitution processes did not cause considerable changes in either—housing ownership and tenure structures. The only exception concerns the private rental sector; its share of the total housing stock increased from 0.4% in the early 1990s to 1.6% in 1998. The tenure structure in 1995 was as follows: 92.5% of total housing stock was owned by private persons and 7.5% by public authorities.<sup>1</sup>

During Communism, a tenant of public housing could purchase rented dwelling—a minimum of two years after receiving it. The municipality did not restrict the privatization process. So, the general trend was that all tenants, sooner or later, bought their rented homes. They could take loans from the State Savings Bank at an interest rate of 2%. A mortgage was imposed on the estate until the full price was paid to the municipalities. The Regulation on Basic Prices of Real Estate defined and still defines

the privatization prices of public housing (so called basic prices). Table 7.2 shows the discrepancies between the market and the basic prices. The gap between them increased between 1992 and 1995, mainly due to the fact that basic (privatization) prices were not updated during a four-year period. Provided, are the prices of prefabricated dwellings as they form the prevailing portion of those which were sold.

*Table 7.1*  
Types of Construction and Ownership of Finished Dwellings

| Year | Total  | [%] | Public* | [%]  | Private | [%]  |
|------|--------|-----|---------|------|---------|------|
| 1992 | 17,996 | 100 | 13,734  | 76.3 | 4,272   | 23.7 |
| 1993 | 11,021 | 100 | 8,264   | 75.0 | 2,757   | 25.0 |
| 1994 | 8,669  | 100 | 5,341   | 61.6 | 3,328   | 38.4 |
| 1995 | 6,815  | 100 | 3,168   | 46.5 | 3,647   | 53.5 |
| 1996 | 8,099  | 100 | 2,548   | 31.5 | 5,551   | 68.5 |
| 1997 | 7,452  | 100 | 1,974   | 26.5 | 5,478   | 73.7 |
| 1998 | 4,942  | 100 | 1,071   | 21.7 | 3,871   | 78.3 |
| 1999 | 9,824  | 100 | 1,634   | 16.6 | 8,190   | 83.4 |
| 2000 | 8,795  | 100 | 846     | 9.6  | 7,949   | 90.4 |

\* Public housing is municipal, state owned and owned by different state organizations/companies. Municipal housing is allocated by municipalities to private individuals, while the regional government deals with state real estate and can allocate it to state organizations or companies.

SOURCE: National Statistics Institute (NSI).

*Table 7.2*  
Market Prices and Basic Prices (Set in the Regulation from 1992)  
of Prefabricated Dwellings in US Dollars Per Square Meter

| Year    | 1992   |       | 1993   |       | 1994   |       | 1995   |       |
|---------|--------|-------|--------|-------|--------|-------|--------|-------|
|         | Market | Basic | Market | Basic | Market | Basic | Market | Basic |
| Sofia   | 214    | 42    | 289    | 36    | 217    | 18    | 335    | 15    |
| Plovdiv | 193    | 42    | 199    | 36    | 131    | 18    | 179    | 15    |
| Varna   | 150    | 42    | 208    | 36    | 148    | 18    | 186    | 15    |
| Bourgas | 137    | 42    | 235    | 36    | 157    | 18    | 186    | 15    |

NOTE: In fact, the basic prices were the same but set in Bulgarian lev or BGL. (BGL 990 per square meter). The prices, when converted to US dollars, look lower due to inflation.

SOURCE: Monitoring of the housing sector, NCTDHP, 1994.

The construction of the public housing was subsidized by the State and the prices were very low and affordable for all. The Regulation on Basic Prices of Real Estate deals with this matter. The construction costs were scarcely covered by the price (in fact, state subsidies covered part of the real price). The main goal during the previous regime, and at the beginning of the transition, was to produce a social effect; rather than the provision of housing for all, or attaining economic efficiency.

The money paid by the buyers went first to the municipalities and then to the state budget for redistribution as new investment in public housing construction. This follows the Regulation on Collection and Spending of the Housing Construction Fund, according to which one of the accounts (No. 1) is formed for the refinancing of new construction.

In 1994, a new regulation was adopted which was intended to prevent further privatization of municipal housing stock and to introduce more severe criteria for their allocation. Later, (1996) the moratorium on the privatization of municipal housing was canceled and so the tendency of its reduction was enhanced. However, since 1994, there has been formal freedom for the local authorities to decide what, when, and at what price to privatize (breached by other legislative acts on the tenants' right to buy). However, in practice they follow, in the great majority of cases, the Regulation on Basic Prices of Real Estate. The reason is to provide for the social needs of the inhabitants of municipal dwellings who are socially disadvantaged, as well as cover unclear and non-consistent legislation. There is a constant process of privatization, the prices are below the real market value and this deprives the municipalities of precious housing funds.

## 1.2 National Housing Policy Objectives and Legislative Changes

The Ministry of Regional Development and Public Works (MRDPW) is the only national institution directly responsible for formulating and implementing housing policy. Though it still has the responsibilities, articulated in the Housing Profile from 1996, both its housing-related division (Department of Housing) and housing-related capacity have been reduced to a level of symbolic performance; a section within its Directorate of State Property and Housing Policy.

### 1.2.1 National Housing Policy Goals

The new housing policy of the Government is directed at stopping the degradation of housing stock and the creation of working market mechanisms for construction of affordable housing. The main state housing policy directives, the priorities for the period of 2001–2005, are as follows:

- Provision of opportunities for affordable mass housing construction, regulations for an effective credit-saving system, system for financing of technical infrastructure and updated building technologies.
- Maintenance and renovation of the housing stock via support to homeowners, introduction of subsidies for repair and improvement of the housing stock, energy efficiency improvement of the dwellings.
- Support of young families, homeless and vulnerable groups of the population. Qualified loans for young families will be introduced. The local authorities will get a mandate to raise funds to increase the housing stock for the homeless, together with NGOs, housing associations, etc.
- Restriction on functional changes of housing stock—tax alleviation and permits from the municipalities will be used to prevent changes in dwelling usage.

### 1.2.2 Changes in the Legal and Institutional Framework

At the national level, the following changes in the legal and institutional frameworks of the housing sector have taken place since the political transition started in Bulgaria. In 1990, the previous restrictions on the quantity, localization, and management of real estate were abolished. Free market transactions became possible. The State no longer imposed control on prices and changes in the primary function of the dwellings, did not introduce any tax regulations, did not ask for return of the subsidies, and invested in the later sold dwellings.

Premises for office or retail space and warehouses were in demand on the market. Private businesses readily paid speculative high prices for them. This led to a great loss of housing stock, which was turned into office space. This is one of the factors, which artificially increased housing prices. Access to housing for the socially disadvantaged decreased substantially.

A division of public properties was introduced: state and municipal property. Real decentralization in the housing sector had started. The law states: “State property are real estates and belongings: 1) Acquired inside or outside the country, according to international contracts and other actions and to the legislation of the Republic of Bulgaria; 2) Belonging to legal persons with a non-profit purpose, registered in the country after completion of their liquidation, except if a special act or their statutes do not envisage something different; 3) Being a liquidation share of the property of the Republic of Bulgaria of legal persons outside of the country, which exist no more, except if special acts do not envisage something different; 4) Included in heritages, without inheritors by virtue of the law”.

According to the Bulgarian legislation, municipal property is:

- Forests and agricultural lands, determined by the law;

- Quarries of local importance;
- Plots and estates, acquired through expropriation procedures before the 1<sup>st</sup> of June 1996, allocated for housing construction, public and welfare measures of the municipalities;
- Municipal roads, streets, squares, and public parking lots in the settlements and the green areas for public use;
- Housing estates, maintained by the municipality, objects of the municipal infrastructure of local importance, allocated for administrative, health care, educational-cultural, trade-household, sports and other needs;
- Networks and the equipment of the technical infrastructure of the transport, water supply, sewage, communication and engineering-defense systems considering the part of them which is servicing the territory of the respective municipality;
- Estates and their belongings, placed at the municipalities' disposal according to the law or granted by the Government and others.

The municipal rental housing is the only affordable shelter. The social needs are much greater than available municipal housing stock. The State and the municipalities are not capable of providing accommodation even for those in extreme need, as the homeless could be considered. An important element is missing: there is no legislative requirement for the municipalities to secure new housing stock or resources for this purpose. They have rights and mechanisms to distribute housing rental stock, but do not have resources for its reproduction, there are no investment funds available for new housing construction.

There is no recognition of the homeless. These are people who do not possess their own homes and have to withstand living conditions that are under the contemporary standards, or live in overcrowded dwellings. The official registration process of those in need for social housing is imperfect and affordable housing is lacking. Growing negative social tendencies include mass poverty, increasing unemployment and a high crime rate. Growing uncertainty and tension in society is gradually accumulating, which will lead to a social crisis if measures for provision of social housing are not undertaken in a timely fashion. Although Bulgaria has a relatively high number of dwellings per 1,000 inhabitants, there is a physical lack of flats in the bigger cities where the concentration of the population is. The housing stock, which appears as available in the statistical surveys, is located in small villages where nobody lives any longer, or it is housing stock that does not meet contemporary living standards.

*Housing cooperatives* are established by people who plan to construct private dwellings. They make a common fund with their own contributions, share responsibilities and tasks during the construction period or hire an entrepreneur to do the building, etc. They cease to exist when the building becomes operational.

The *condominium* is the new entity consisting of private owners from a newly constructed building ready for exploitation, and also from all privatized residential buildings. They are not legal entities and do not have any opportunities for new initiatives for development and maintenance of their property. The elected councils for management of the condominiums are responsible for maintenance and collection of common fees for utilities. A group called the Management of Condominium deals with the specific rules for getting a common meeting and decision taking. If a decision is to be made, 3/4 of the owners must attend the meeting, and changes are approved only if more than half of the present owners vote for them. Monthly fees are established and supposed to be paid by each owner to cover the common urgent needs of repair and maintenance, water, and electricity payments for the common space. Those who refuse to pay the fees (agreed upon by the council for common needs) can be forced to pay by legal procedure, but in practice this never happens.

### 1.2.3 Allocation of Public Housing

Before the transition, public dwellings were allocated to those who belonged to the first category of need. These were households, which had citizenship in the respective settlement, did not possess any other private real estate and lived in an insufficient surface area or premises inappropriate for dwelling. The rules for the size of the allocated dwellings to different households were as follows:

- Household with one member—in dwelling with one room and kitchen
- Household with 2–3 members—in dwelling with 2 rooms and kitchen
- Household with 4 members—in dwelling with 3 rooms and kitchen
- Household with 5 members—in dwelling with 4 rooms and kitchen

In Table 7.3, the old and new criteria for allocation of state and municipal housing are described. Most of the criteria mentioned as valid for the past are still the same: Priority is given to young families, invalids, low income households, households having no ownership on other real estate or any other property which has value equal to the dwellings value, etc. However, tenants in restituted houses now have the first priority.

*Table 7.3*  
Regulations for Allocation of Public Rental Housing from 1978 and 1996

| Old Regulation from 1978<br>—Valid Before the Transition Started  | New Regulation<br>Endorsed in 1996   |
|---|--|
| <b>I. category</b> —households, living in insufficient surface area or premises, inappropriate for dwellings  | <b>I. category</b> —households, living in homes, which are to be returned to previous owners (tenants in restituted housing)                     |
| <b>II. category</b> —households, living in premises, which do not meet hygienic standards, or are dilapidated | <b>II. category</b> —households, living in premises, which are not intended for residential needs (cellars, attics, etc.) for more than one year |
| <b>III. category</b> —households, condemned to eviction of their dwellings                                    | <b>III. category</b> —households, living in premises, which do not meet hygienic standards, or are dilapidated                                   |
| <b>IV. category</b> —households, living in homes, where the surface area per person is up to 5 square meters. | <b>IV. category</b> —households, living in homes, for which they pay market rent prices  |
| <b>V. category</b> —households, living in insufficient surface area   | <b>V. category</b> —households, living in insufficient surface area  |
| <b>VI. category</b> —households, living with other household in one dwelling                                  |  |

#### 1.2.4 Rent Regulation

During the previous regime the rent of the public dwellings was very low and affordable for all tenants. It was almost equal in all cities throughout the country. The central rent regulation was abolished in 1996. The local authorities now have freedom to set their own rules for the price of rent, according to the Municipal Property Act, the State Property Act and the Regulations for their implementation. However, the State Property Act recommends (not regulates) the basic rent price per square meter in public housing (currently BGL 0.30, USD 0.14). However, the municipal regulations for housing management, approved by the municipal councils, do not show substantial deviations from this basic price (10% below and 40% over). The difference between free market rents and the municipal ones, thus, remain significant.

The municipal council decides the rent prices per square meter. Factors influencing the price level are location, number of floors, amortization, etc. The tendency is for the rents of public dwellings to move closer to the free market rents, corrected for inflation. There are no regulations and local authorities have no influence on rent setting in private restituted homes.

Restitution of expropriated dwellings in the 1950s took place immediately after the transition started. A lot of tenants in such homes were supposed to be driven out. New public housing was to be provided quickly. The process of restitution ended in 1995. However, there are a total of 13,209 restituted buildings, while 11,172 people are still waiting for reallocation from restituted homes. In Sofia, 4,000 tenants from restituted homes were accommodated in alternative public housing during this period.

### 1.2.5 Energy/Social Allowances

Energy allowances were introduced for the socially disadvantaged. During the winter of 1999–2000 subsidies for electricity, central heating, wood or coal were granted to 570,000 individuals and households (about one million people). The Ministry for Social Affairs paid BGL 66 million (about USD 30 million) during six cold months from November to April.

For the season 2000–2001, the amount planned was BGL 84 million. The increase in the subsidy is needed, because the price of the electricity increased by 4%. The conditions for receiving these subsidies are low income (less than BGL 37.3 a month, USD 17) and social weakness (retired, handicapped, single parents, etc.). Since the beginning of November 2000, the subsidy has been paid to those people in need and its average value was BGL 32.12 (USD 14.6). This amount was high enough to cover 430 kilowatt-hours of electricity. For the season 2000–2001, 600,000 individuals and households (1.2 million) received the subsidy for heating.

The average value of the allowance changed during the last years as follows:

- 1999–2000—BGL 29.34 (USD 15.5)
- 2000–2001—BGL 32.12 (USD 14.6)
- 2001–2002—BGL 37.35 (USD 17).

### 1.2.6 New Housing Construction, the Housing Market and Housing Finance

High economic growth provides conditions for high volume and speed of construction of housing and the reverse. After 1988, when the transition started, there was a constant slow down of housing construction. The State stopped subsidizing the construction of public (state and municipal) dwellings and the populations' buying capacity dropped. The credit system was not, and still is not, favorable for people who can't afford to take out loans at high interest rates. These were 18% in 1998–99, 22.3% in 2000 and now they are at least 12% while some banks have even higher rates. The maturity period varies. Just recently, in 2001, the credit system improved by increasing the maturity period to 18 years. Still, variety and flexibility in the crediting mechanisms are missing.

The initiatives of the entrepreneurs are very restricted because of several factors:

- The municipalities cannot easily allocate municipal land;
- High prices of land offered on the free market;
- High prices of construction materials, transportation and services.

Public construction claimed 9.6% of all new dwellings built in 2000 while private construction built 90.4%. Out of the total new housing construction for 1992, the percentages were 76.3% for public construction and 23.7% for private. Since 1993 the type of construction has shifted from prefabricated elements to construction using bricks and new technologies.

There are many unfinished residential buildings. In 2001, there were 62,520 unfinished dwellings; out of them 9,412 (15.1%) were public ones and 4,747 (7.6%) municipal rental ones. The unfinished municipal dwellings are a big issue on the country level. The private unfinished housing forms 88.9% of total unfinished construction. This ratio confirms the perception that private construction seriously dominates the public sector.

*Table 7.4*  
Development of Interest Rate in Bulgaria—1991–2000

|   | 1991  | 1993 | 1995 | 1997  | 1999 | 2000 |
|---|-------|------|------|-------|------|------|
| Annual level of basic interest rate [%] | 45.1  | 48.5 | 48.5 | 64.5  | 4.7  | 3.9  |
| Annual inflation [%]                    | 473.7 | 63.9 | 32.7 | 547.7 | 7.0  | 11.3 |
| Interest rate on commercial loans [%]   | 485.0 | 75.0 | 44.0 | 559.0 | 18.0 | 22.3 |

SOURCE: Bulgarian National Bank

Annual inflation was the highest in 1991 and in 1997, while during 1999 and 2000 it decreased and stabilized. The inflation rate in Bulgaria was very high in 1997 once the Currency Board was introduced. Because of this, inflation dropped and the Bulgarian Lev began to be pegged to the German Mark (DEM).

Interest rates on commercial loans were very high between 1991–1997 and have been reduced during the last three years of 1999–2001. All banking institutions set the interest rates for credit 10–12 percentage points higher than the basic annual interest rate. This measure blocked the credit system as only a few people could afford to pay back such loans. The old housing savings and interest rate subsidies for the old housing credits provided a compensation mechanism.

A housing market emerged at the beginning of the transition and then quickly developed after the restitution. However, after 1998 almost complete stagnation started.

The housing market has developed only in big cities. There is only sporadic, scattered and an insignificant number of transactions in the urban areas and in villages.

The strongly shrunken effective demand and the much higher supply have led to a logical congruence of the poles of offered prices on the second-hand market. While in 1996-1998 rent price differences were 3–3.5 times the minimum levels of a local housing market, now price differences are less than 200% (with the exception of Sofia). Market rents in the smaller cities can be two times higher nowadays (there is less demand than the offered dwellings), while in Sofia the gap is much higher.

New relationships were established among the institutions and the acting forces with the appearance of the private sector. In the production and marketing of dwellings the following emerged:

- Developers or entrepreneurs;
- Private producers of materials;
- Real estate agencies;
- Management firms, the financial institutions or banks providing credit at very high interest rates;
- Owners of land interested in getting the highest and best profit out of their plots;
- The class of the “nouveau rich”; the consumers, driven by fashion to live on the city outskirts and able to pay the speculative high prices.

The public construction firms' performance is very inefficient, but still many of them are not yet privatized. They now compete with private firms and the private builders are gradually moving ahead. A restriction on their success is that those who need dwellings cannot pay enough and that the investment in housing construction is not attractive.

There are also a few non-profit organizations, however, with no tradition and no significant role in the sector. This is due to the lack of legal regulations in this field. Housing cooperatives, according to the Western model, do not exist in Bulgaria. The existing housing cooperatives are transformed into condominiums after the completion of the construction. Condominiums are not legal entities and cannot apply for funding subsidies, cannot raise funds and cannot start investment or reconstruction initiatives, all of which are very important and needed now.

The quick socio-economic changes, the emerging income and class differentiation, brought segregation amongst the groups of homeowners, who were more or less equal in the past. Those who have a high and reliable income aim for a better quality of living and move to more attractive areas, thus they support the market development. Meanwhile, low-income groups struggle under the current situation to sustain their status. It is a common occurrence that the inhabitants cannot pay their heating bills. This is a priority problem for prefabricated residential districts where marginal social groups live.

Speculative entrepreneurs took advantage of the demand on the housing market in the capital, Sofia, and other big cities. The most typical model for the development of a multi-family housing building is as follows: large firms buy land from private owners, while the future owners of the dwellings provide advance payment or shared participation. The market prices are high and increase in an uncontrolled way during the construction (due to inflation or to other external factors during the project realization). The income of the consumers becomes an important factor influencing the market. Access to housing was no longer socially founded, but based on market-based principles. The greater part of the population was thusly excluded from the opportunity to get a new home under the new conditions.

### 1.2.7 Housing Affordability

Affordability from an economic point of view is the balance between market supply and demand, where new production is feasible and efficient. The price of housing in the long run reflects the costs of new production. The market relies on demand to drive the prices up to such levels that building of new housing becomes profitable.

Housing needs in the current market context are covered by efficient demand only in 5–7% of the cases of those who seek homeownership and in about 10% of those looking for a private rental dwelling. Choices are extremely restricted. The prices in the private sector supply are unaffordable and the public sector has been reduced to a small share.

Indicators of affordability of Bulgarian housing are comparable to those in developed market economies. For example, in 2000, an average-income household needed 5.1 yearly incomes to buy a 75 square meter dwelling in the medium housing markets of Bulgaria. The ratio is, however, twice as high for the capital, Sofia.

*Table 7.5*  
Prices and Income

|                                      | 1990  | 1991  | 1992  | 1993  | 1994  | 1995  |
|--------------------------------------|-------|-------|-------|-------|-------|-------|
| Housing prices<br>[1,000 BLG/unit]   | 234.8 | 341.2 | 397.5 | 562.5 | 675   | 1,100 |
| Public rent<br>[1,000 BLG/unit/year] | 1.5   | 1.5   | 1.5   | 1.5   | 1.5   | 6.3   |
| Market rent<br>[1,000 BLG/unit/year] | 10.4  | 22.6  | 30.2  | 38.3  | 43.2  | 53.1  |
| Household income<br>[1,000 BLG/year] | 9.7   | 26.4  | 47.4  | 69.9  | 116.8 | 173.3 |

|                                      | 1996  | 1997   | 1998   | 1999 | 2000 |
|--------------------------------------|-------|--------|--------|------|------|
| Housing prices<br>[1,000 BLG/unit]   | 2,300 | 20,400 | 21,785 | 20.4 | 22.3 |
| Public rent<br>[1,000 BLG/unit/year] | 6.3   | 160    | 168    | 0.2  | 0.3  |
| Market rent<br>[1,000 BLG/unit/year] | 128.7 | 1,120  | 1,178  | 1.5  | 1.2  |
| Household income<br>[1,000 BLG/year] | 263.5 | 2,544  | 3,948  | 4.2  | 4.4  |

NOTE: An income is counted for an average household (3.1 members). The average size of dwelling allocated to such a household is 75 square meters in the private sector and 54.3 square meters in the public sector. The housing prices are for finished dwelling units.

SOURCE: NSI.

*Table 7.6*  
Housing Affordability

| Affordability indicators     | 1990 | 1991 | 1992 | 1993 | 1994 |
|------------------------------|------|------|------|------|------|
| House price-to-income ratio  | 25.1 | 12.9 | 8.4  | 8.0  | 5.8  |
| Private rent-to-income ratio | 1.1  | 0.9  | 0.6  | 0.5  | 0.4  |
| Public rent-to-income ratio  | 0.15 | 0.06 | 0.03 | 0.02 | 0.01 |

| Affordability indicators     | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|------------------------------|------|------|------|------|------|------|
| House price-to-income ratio  | 6.3  | 8.7  | 8.0  | 5.5  | 4.9  | 5.1  |
| Private rent-to-income ratio | 0.3  | 0.5  | 0.4  | 0.3  | 0.4  | 0.3  |
| Public rent-to-income ratio  | 0.04 | 0.02 | 0.06 | 0.04 | 0.05 | 0.07 |

NOTE: This table is the result of the values stated in Table 7.4. The ratio is received by dividing the prices of housing units or rents by the household incomes.

SOURCE: NSI.

Recent indicators for affordability of private rents seem acceptable too. An average-income household pays 30% of its income to rent a two-room apartment in a medium-size town. However, the rent for a comparable dwelling in a large city exceeds half of an average income. This is the highest rental market. Housing allowance systems in better-developed market economies do not allow such expenditures to surpass 30% of household incomes.

There is no balanced housing market which can meet the needs of affordable housing. The market expects the demand to increase pricing to levels that will allow new

construction to grow. A major problem to be solved is the difference between the demand of those who can pay the real prices and the real cost of the new construction.

The affordability issue in Bulgaria seems insoluble, because the average household income is too low for a new dwelling to be affordable and the public/state's resources are too small to provide both general and individual subsidies.

### *Box 7.1*

#### Family Housing for Socially Disadvantaged Roma (Gypsy) Families in the Municipality of Radnevo

##### *History*

*The idea for the project implementation started as an experiment for solving the complicated social and economic problems of the Romany population in the city. Their living standard is lower than that of the other citizens. The crisis in the Romany community affects all parameters in the individual and group existence: unification, deterioration of the economic statute, poor housing supply, etc. All this requires strong action and the realization of a well-defined policy by the state institutions and the local authorities.*

##### *Practice*

*In 1993, the municipality of Radnevo developed a project for building family housing for socially disadvantaged Romany families. The idea was prompted by the numerous problems of this ethnic group: high unemployment, poor professional preparation and educational level, large households, primitive lifestyles in extremely bad conditions. The currently existing social protection cannot guarantee housing supply for such socially disadvantaged families. The project in the municipality of Radnevo aimed to change this situation. It proposed the construction of a small housing complex of 73 houses:*

- *50 single-family houses of 50 square meters;*
- *two family houses of 80 square meters.*

*To facilitate the initiative, investment assistance was sought, with credit granted from the Social Development Fund of the Council of Europe. The Council of Ministers approved (by decision No. 11/03.10.1996) partial project financing through a credit of USD 574,000. The Parliament also gave its approval for the contracting of the credit. In April 1996, the Council of Europe Representative in Bulgaria presented the project. The Municipality of Radnevo also supported the project with its own means (BGL 120,000 or USD 60,000). This is what the city could contribute at this stage. Later, when it may have more funds, it will provide a larger share in the construction. With this money six residential buildings were finished and part of the infrastructure. The total project cost was USD 1,436,000. This was shared between the Social Development Fund at the Council of Europe and the Municipal budget at a ratio of 38%: 62%.*

##### *Results*

*The model for integration and support to socially disadvantaged families in Radnevo demonstrated its effectiveness. The priority needs of the socially disadvantaged are unemployment and lack of housing. Real steps were made and six buildings have already been constructed and the families in the greatest need accommodated. Contracted is a further credit from the Social Development Fund at the Council of Europe.*

## Box 7.2

## Establishment of the Bulgarian Housing Association (BHA)

*The Bulgarian Housing Association (BHA) was established as the first non-profit housing organization in Bulgaria to attract local resources, foreign investment and technical assistance, as well as the widest possible public participation, in order to make housing investment initiatives.*

*The BHA recently completed a pilot scheme that provided affordable housing in the city of Shumen. The project is funded on an interest-free loan, provided by Ulster Garden Villages Ltd. This was possible due to the collaboration between the Northern Ireland Federation of Housing Associations and BHA and funds from the British Know-how Fund and the Northern Ireland Public Sector's overseas marketing company.*

*The pilot scheme consists of 12 apartments to be used on a shared ownership basis and a common public area with relevant facilities to be used by households from the dwellings. The residents will register "a management cooperative" for improved maintenance of common areas of the building. The second housing development is planned to start in Sofia in collaboration with housing associations from Northern Ireland.*

*The goal of the Affordable Housing Project, developed by the Bulgarian Housing Association, is to create a sustainable model for social housing provision for Bulgaria, in terms of financial and management efficiency.*

*The results so far are:*

- *Interest free loans provided by Ulster Garden Villages Ltd.;*
- *Know-how Fund Technical Project expertise and additional financial support;*
- *Attraction of supplementary foreign technical assistance at all stages of the construction development and subsequent management of the finished dwellings;*
- *Project implemented by BHA staff and active involvement of local organizations.*

*The citizens who can benefit from the project must meet the following criteria:*

- *To be in housing need as defined in Bulgarian legislation;*
- *To be ready to participate entirely in the project realization;*
- *To be ready to participate in the Tenants' Management Cooperative after allocation.*

*In order to provide affordable prices and rents, the project needs:*

- *Interest free loans;*
- *Negotiated building contract with reduced profit;*
- *Optimized construction program, improved planning and construction technology;*
- *Subsidizing of the rent level by sale of some of the property.*

*In accordance with the main social aims of the project, it was decided to construct a "Community Housing Unit", a structure that consists of a number of relatively small dwellings (average 60 square meters each) with a common public area and shared public facilities. Social services include retail stores, recreation amenities, sport areas, etc. within the residential units, for common use by all inhabitants. It is designed to promote the "community sense" that is necessary for the establishment of a tenants' management cooperative later.*

*The rental fee will be lower than the market average. The rent will be subsidized from the sales of some of the developed properties. It will be achieved also by means of efficient local management, through the tenants' management cooperative). At the end of the project period,*

*the dwellings will be sold to the residents at preferential prices. An opportunity to buy part of dwellings earlier (through a co-ownership model) has been considered for the residents, thus lowering the amount to be paid as rent.*

*The final project results are as follows:*

- *Lowered local housing prices through improved coordination between the partners in the development process, improvement on the efficiency of the architectural design and construction stages of the project;*
- *Enhanced quality and energy efficiency for the newly constructed dwellings as a result of the optimized design and construction stages;*
- *Creation of employment, related to construction activities;*
- *Affordable housing units were provided for eligible households;*
- *Establishment in Bulgaria of a new property management structure, the tenants' management and maintenance cooperative, that can be replicated in other similar projects;*
- *Strengthening of the capabilities and experience of the staff of the Bulgarian Housing Association as the first non-governmental housing organization in Bulgaria.*

The right of the municipalities to set their own rents was the first step towards real decentralization.

Recently some legal documents were drafted:

- Draft housing savings law;
- Draft law for amendment of the “Old Savers’ Act”;
- Draft decree for amendment of the Regulation for Implementation of the State Property Act;
- Draft decree for amendment of the condominium regulations.

## 2. EFFICIENCY AND EFFECTIVENESS OF LOCAL GOVERNMENT HOUSING POLICIES

### 2.1 Administrative/Territorial Structure

In Bulgaria, a number of territorial and administrative reorganizations have occurred since 1878. Until 1959, the administrative division had three levels. Since then a two-tier structure has been applied. The country's territory is divided into 28 regions and 262 municipalities. The regions have an average population of 263,000 (ranging from 144 to 730,000) and an average territory of 4,061 square kilometers (ranging from 2,107 to 7,753 square kilometers). The municipality is the major unit of the local government. The average population of a municipality is 27,200 inhabitants, while the average size is 420 square kilometers.

*Table 7.7*  
Groups of Municipalities, Population Distribution

| Population      | Municipalities (2000) |      | Population in Groups of Municipalities (2000) |      |
|-----------------|-----------------------|------|---|------|
|                 | Number                | [%]  | Number  | [%]  |
| Up to 1,000     | 0                     | 0.0  | 0   | 0.0  |
| 1,001–5,000     | 27                    | 10.3 | 92,012  | 1.1  |
| 5,001–10,000    | 69                    | 26.3 | 522,489                                       | 6.4  |
| 10,001–50,000   | 133                   | 50.8 | 2,834,217                                     | 34.8 |
| 50,001–100,000  | 21                    | 8.0  | 1,531,701                                     | 18.8 |
| 100,001–500,000 | 11                    | 4.2  | 1,946,869                                     | 23.9 |
| Over 500,000    | 1                     | 0.4  | 1,222,180                                     | 15.0 |
| Total           |                       | 262  | 8,149,468                                     | 100  |

SOURCE: NSI.

*Table 7.8*  
Population Structure by Settlement Categories

| Categories of settlements in the Republic of Bulgaria | Number of Settlements | Population (2000) | [%]    |
|---|-----------------------|-------------------|--------|
| Very big city (over 400,000)                          | 1                     | 1,142,152         | 14.00  |
| Big cities (100–400,000)                              | 7                     | 1,371,228         | 16.83  |
| Medium-size cities (30–100,000)                       | 25                    | 1,472,146         | 18.07  |
| Towns (10–30,000)                                     | 51                    | 860,244           | 10.56  |
| Very small towns (up to 10,000)                       | 156                   | 731,087           | 8.97   |
| Total cities  | 240                   | 5,576,857         | 68.43  |
| Villages  | 5,100                 | 2,572,611         | 31.57  |
| Total   | 5,340                 | 8,149,468         | 100.00 |

NOTE: In 2000, 5,576,857 people (or 68.43% of the total population) lived in cities. The rest (31.57%) lived in villages.

SOURCE: NSI.

## 2.2 Financial Abilities of Local Authorities

In recent years there has been a negative tendency: a decrease in municipal resources that has made them impotent under the market conditions. The Ministry of Finance regulates the municipal revenues from taxes and gives a framework for expenditures, one that restricts and hampers the municipalities. There are certain budget stipulations only under which spending can be done. There are no limits on borrowing or types of borrowing. The insufficient financial means and the restricted opportunities for improving budget revenues have become a permanent obstacle hampering the functions of the municipalities.

According to the Municipal Budget Act (adopted in March 1998) “the assets of the municipal budget are formed on the basis of their own revenues and of public revenues granted to the municipalities, subsidies and subventions from the state budget”. The municipal revenues are: 1) own revenues; 2) subsidies from the state budget; 3) solicited funds. The own revenues have a different relative share in the budget of each municipality, but for the country, in general, they have a prior position (in 1999, they formed 72% of total revenues). The total amount of the own revenues is raised from taxes and fees such as personal income tax, license tax, profit tax and municipal tax. Local taxes are taxes on property according to the Municipal Taxes and Fees Act. They have a relative share of about 20% in the group of the tax revenues and include real estate property tax, inheritance tax, tax for motor vehicles, and tax for acquisition of property in a refundable way. According to the Constitution, the size of the taxes is determined by the Parliament.

The fees are municipal non-tax revenues that are administrated by the municipality and determined in size by the Municipal Council under the limits defined by law. The fee for household waste is determined according to a proposal by the mayor, on the base of proven expenditures from the previous year. The revenues from real estate and movable properties, according to the Municipal Property Act, are important. They are determined with a separate decision of the Municipal Council for each procedure.

The size of the revenue is planned through summarizing the forecast of the tax administration for tax revenues and the forecast for non-tax revenues. In 2001, the State Budget Act put limits on the size of the municipal tax revenues. The surplus is directed to the state budget, while the shortage of the non-tax revenues remains on the account of the municipalities.

The state budget subsidy is the second largest municipal revenue. The total amount includes a general subsidy, planned subsidy for aids and a planned subsidy for capital expenditures. The “general subsidy” is the main municipal budget revenue (about 30%, but for some municipalities even as high as 80–90%). The planned subsidy for capital expenditures is one of the indicators of the level of decentralization. The building of public services is a desire of the citizens and an important condition for business and investments. Unfortunately, the state funds are insufficient to cover it.

As subsidies, the municipalities get what is available from the state budget, but not what they really need to realize their obligations. The small municipalities are mostly affected, as their own revenues are very small. The approach utilized for the decisions on subsidy and its allocation needs improvement as its insufficiency makes the local people dependent and powerless.

The solicited funds are alternative sources for long-term investment programs. Most often they are loans from banks or sources from allocation of municipal bonds. Their use has to be approved by the Municipal Council.

The lack of funds for investment projects is partially compensated through the use of non-budget resources accumulated in the municipal funds:

- *Privatization Fund*—Regulated through the Transformation and Privatization of State and Municipal Companies Act. It is an annual program for privatization of municipal properties and a plan for the expected revenues and expenditures after the deals. The expenditures are divided into three groups:
  - 9% general expenditures for the privatization procedure,
  - 5% for the municipal “Environmental Protection” fund,
  - 86% for investments accepted according to the approval of the Municipal Council.
- *Environmental Protection Fund*—Revenues from sanctions for ecological violations, part of the Privatization Fund.
- *Housing Construction Fund*—Revenues from sale of municipal housing units. The expenditures are oriented towards construction of new municipal housing stock, for public services and improvement of the urban environment.

Following are the main trends and consequences of current local government financial ability:

- In recent years negative tendencies were outlined on a national level (due to the fast decrease in the resource abilities of the municipalities);
- The insufficient and irregular income causes the accumulation of significant duties, delayed labor payments, which is a prerequisite for social pressure and a negative indicator for the investment interest;
- The postponement in maintenance expenditures makes the works more expensive (the delayed repair of municipal housing causes capital repairs in the future) and decreases the quality of social public services;
- The monopolistic policy disturbs considerably the functioning of the budget branches. Delayed payments for electricity, water, telephone and other utilities mean a disruption of their delivery, so the simple conditions for operation of the budget structures are disturbed;
- The housing investment abilities for implementation of long-term goals and strategies are strongly restricted;

- The impossible estimation of the future subsidies, which is an impediment to undertake long-term engagements related to co-financing, as well as to the application of particular projects or programs;
- There is no precise legislative base to motivate the private and the public sectors for implementation of mechanisms for efficient public/social housing investment.

There is no stability in the local tax revenues, hence no long-term budget planning can be made, and the subsidies cannot be predicted. There is a certain annual deficit in the budgets of a great number of the municipalities, linked with their limited resources and insufficient self-revenues. The independence of the municipalities is still limited to forming their own incomes, mainly in relation to the possibility of independently determining the amount of local taxes and duties.

All these factors do not allow for long-term budget planning. So, debts are accumulated and there are no opportunities for investment initiatives. Though there are no legal restrictions on local government housing spending (no special account in which it is collected so the revenues from rents can be spent on local government activities other than housing), the fact is that this budget is insignificant and cannot cover the needs for repair and investment. However, the revenues from privatization go to the local “housing fund”, which is the only municipal source for investments in new housing.

Local governments do not have a borrowing limit on housing or construction loans, but they do not take such loans as that they cannot afford and cannot be paid back. There are independent control institutions, that generally monitor the financial deals and spending of the municipalities: this is mainly “Smetna palata” (the Accounting Palace), which is an independent state institution related to the State Court.

### 2.3 Role of The Local Government in the Field Of Housing

Local administrations usually have a department called “Municipal property and housing” which, among other chores, performs the municipal housing-related obligations such as:

- Allocation of municipal housing (under the regulations of the Municipal Property Act);
- Provision of land for those who are eligible for it under the “Old Savers’ Act”;
- Provision of dwellings for homeowners whose properties have been expropriated (compulsory purchased);
- Maintenance of the “waiting lists” (people in need of housing meeting certain social criteria).

The municipal council decides on rental prices and sets its own local regulations in conformity with the State and Municipal Property Acts and the Regulations for their implementation. The municipal council also decides on the available dwellings to be privatized. Though the municipal councils have the right to decide on the scale of privatization, in fact, this power is reduced by endorsement of the applications submitted for home purchase by municipal housing tenants. The municipal councils now have the right to refuse the application of tenants concerning privatization, but this rarely happens in practice. This is not a good practice, as municipal housing stock gets constantly reduced. The municipalities should have had a clear vision of management of their housing stock from the beginning and seek to preserve it, rather than to sell it to inhabitants.

The municipalities have relatively restricted possibilities to impact the process of housing supply and development. Their mandate regarding housing issues covers the following areas: allocation of available municipal rental units, following centralized eligibility criteria; determination of rents in the municipal housing stock; construction of housing for compensation of homeowners whose property was expropriated by the State; privatization of public housing stock; provision of construction land for people eligible under the “Old Savers Act” at “basic market prices”.

*The “Old Savers Act”* was adopted in 1991. It deals with compensation to those people who had savings for the purpose of purchasing homes in the State Saving Bank for over five years. After 1990, these savings were severely depleted by inflation. In 1990, 320,000 people had such savings without any hope that there would be enough housing units to satisfy their needs. Now people, who had such savings and are categorized as being “in need” in their municipality, can buy homes (if there are any available) from the municipal housing stock. Otherwise, they can get compensation to cover the difference in the prices, resulting from inflation over the last 10 years, in case municipal housing is allocated. Those having a right to compensation can also get it if a deal for the purchase of a dwelling was already in place or if they had already started construction as members of a cooperative. There was an insignificant number of free homes that could be bought by beneficiaries.

The State can no longer ensure optimal conditions for development of local housing systems. Future trends of local housing policies need to be identified at local level and tailored to specific local conditions and needs. In the future, a purely administrative approach will not be enough; the involvement of all local stakeholders—private sector, housing associations, citizens organizations will be needed. The local government shifts nowadays from providing, to an enabling position. As there will be no more state subsidies in the old form, the local level will need to provide new organizational conditions for the housing sector development. The municipalities have weak or missing administrative structures for elaboration and implementation of local housing policy. They need new administrative structures to wield their authority and multiply their estates.

## 2.4 Local Governmental Housing

In this chapter, results received from the Local Government Housing Survey (LGHS) conducted for this project will also be presented. The table below shows the categorization of cities, their numbers in each group and the rate of return of the questionnaire. As the return rate in November was not satisfactory, in December a second mailing was done. Telephone calls were made to assist the process, but, in the end, no more than 31% of the questionnaires were returned.

Apart from the questionnaire survey, we arranged several meetings with high level experts from different ministries and the Sofia municipality dealing with housing and gathered their opinion on specific issues. Their comments are included in the text.

The weighting of data raised through LGHS was necessary because there was an underrepresentation of some groups of cities. For the purpose of weighting, we introduced coefficients for each category. The weights for particular categories of size of residence are in Table 7.10.

*Table 7.9*  
Categorization of Cities

| Categories of Cities by Population | Population | Municipalities                           |                                      |                         |       |                    |
|------------------------------------|------------|--|--------------------------------------|-------------------------|-------|--------------------|
|                                    |            | Reality [% from Total of Municipalities] | Sample [% from Total Municipalities] | Returned questionnaires |       |                    |
|                                    |            |  |                                      | Number                  | [%]   | Rate of Return [%] |
| 1                                  | 2          | 3  | 4                                    | 5                       | 6     | 7                  |
| >100,000                           | 2,513,380  | 8  | 5.7                                  | 4                       | 9.3   | 50                 |
| 50,000–99,999                      | 1,021,447  | 14                                       | 10                                   | 7                       | 16.3  | 50                 |
| 25,000–49,999                      | 664,687    | 19                                       | 13.6                                 | 8                       | 18.6  | 42.1               |
| 10,000–24,999                      | 646,251    | 43                                       | 30.7                                 | 9                       | 20.9  | 20.9               |
| 5,000–9,999                        | 411,279    | 56                                       | 40                                   | 15                      | 34.9  | 26.8               |
| Total                              | 5,257,049  | 140                                      | 100.0                                | 43                      | 100.0 |                    |

SOURCE: Local Government and Housing Survey (LGHS)

*Table 7.10*  
Weightings for the Result Presentation

| Categories of Cities by Population | Weights |
|------------------------------------|---------|
| >100,000                           | 0.61    |
| 50,000–99,999                      | 0.61    |
| 25,000–49,999                      | 0.73    |
| 10,000–24,999                      | 1.47    |
| 5,000–9,999                        | 1.15    |

### 2.4.1 Overview

According to LGHS, municipal housing forms 2.2% of the total housing stock, while in the largest cities it forms 2.7% and in the smallest municipalities 1.9% of the total housing fund. The general conclusion is that public rental (affordable/social housing) is insignificant in its size and that there should be measures planned for its increase (municipal construction of new rental units, opportunities for credits for the local authorities to start investment and the construction of new rental units).

The average size of the municipal rental dwelling is 54.3 square meters while larger dwellings can be found in the cities with a higher population (57.8 square meters in cities with over 100,000 inhabitants, while only 49.5 square meters in cities with populations between 5,000 and 9,999). The average number of rooms per dwelling is 2.1 and there are no big differences among different categories of municipality size. If compared to private housing size, it is as follows:

|                                | <i>Public</i> | <i>Private</i> |
|--------------------------------|---------------|----------------|
| • Average size [square meters] | 54.3          | 63.2           |
| • Average room number          | 2.1           | 2.6            |

The average size of household living in municipal housing is 3.1 members. This can be compared to those households, that rent private housing, with 2.77 members. The average income of households living in municipal housing compared to other tenures is as follows:

- Annual income of households living in municipal housing  
—BGL 1,440 (USD 700);
- Annual income of households paying market rent  
—BGL 4,364 (USD 2,000).

The income of those renting public housing is three times lower than that of those households in private rental sector. The percentage of the municipal housing distributed in different types of buildings is as follows:

*Table 7.11*  
Municipal Housing Stock in Different Types of Buildings

| Categories    | Single Family Houses | Up to 4-floor Apartment House | More than 4-story Apartment House | Other |
|---------------|----------------------|-------------------------------|-----------------------------------|-------|
| >100,000      | 1.0                  | 14.3                          | 83.6                              | 1.1   |
| 50,000–99,999 | 7.5                  | 5.1                           | 64.2                              | 23.2  |
| 25,000–49,999 | 23.1                 | 5.3                           | 69.4                              | 2.2   |
| 10,000–24,999 | 30.2                 | 6.8                           | 60.4                              | 2.6   |
| 5,000–9,999   | 15.0                 | 14.2                          | 59.3                              | 11.5  |
| Total         | 1.3                  | 14.1                          | 83.0                              | 1.6   |

Public dwellings are most prevalent in multi-story houses. During Socialism, the State made mostly prefabricated buildings in order to satisfy the housing needs (6–8 stories high and more). The prefabricated buildings are those in the worst condition now, as the construction was not of high quality. No repair and proper maintenance was made during their usage and they have been especially neglected since the transition, as there are no subsidies available for maintenance. The municipalities urgently need to find a solution to the issue of maintenance and repair of its prefabricated building property. The mixed property in such buildings, where some of the dwellings are privately owned, also hampers the opportunities for repair.

*Table 7.12*  
Municipal Housing by Decade of Construction

| Categories    | 1950–60 | 1960–70 | 1970–80 | 1980–90 | 1990–2000 |
|---------------|---------|---------|---------|---------|-----------|
| >100,000      | 0.4     | 0.5     | 23.1    | 32.6    | 43.4      |
| 50,000–99,999 | 3.7     | 5.1     | 45.9    | 39.3    | 6         |
| 25,000–49,999 | 14.0    | 9.3     | 30.6    | 42.8    | 4.1       |
| 10,000–24,999 | 10.0    | 19.6    | 46.3    | 23.8    | 0.3       |
| 5,000–9,999   | 9.0     | 9.2     | 17      | 58.3    | 6.5       |
| Total         | 0.6     | 0.7     | 23.6    | 32.9    | 42.2      |

Table 7.12 shows the percentage of municipal housing construction over the past five decades. The local authorities sell housing to the tenants two years after the construction in order to get back its investment and pay back the credits received from the savings bank. They do not have their own means for construction investment. If the rate between private and public housing construction is followed, the public construction will constantly decrease. The municipal housing built after the 90s is mainly for the compensation of those owners whose property was expropriated.

#### 2.4.2 Management and Maintenance of the Municipal Rental Housing

Municipal firms manage and maintain the rental housing as well as care for public works and handle repairs. In filling out their obligations, these firms can invest as much as the income/revenue from the rent, in other words, less than 10% of the amount needed. The revenues from rent are insignificant and do not cover the costs for management and maintenance of the public housing stock. An average of about 80% of the municipalities agreed that maintenance costs are not covered by rental income.

The municipalities manage and maintain public housing. In the smaller cities, with populations less than 100,000, the municipal administration does this by itself, while in the larger cities in the first category (with over 100,000 inhabitants), municipal companies do the maintenance.

Another important issue relates to the management of the mixed property titles, when there are private and public housing units in one building. About 70% of the municipal housing stock are situated in such condominiums. This makes their management difficult.

In the case of mixed ownership, when private (owner-occupied) units are in the majority, maintenance activities in common parts are usually performed by private companies. When the public units prevail in numbers, they are maintained by public municipal companies. Specialized works, like elevator or roof repairs, are usually carried out by private companies or even individual persons acting as subcontractors.

The insufficient investments available for maintenance of the public stock make it an unprofitable and unattractive sphere of business. Moreover, the inherited network of municipal maintenance companies still exists. As their traditional field of activities shrink, they try to expand to public works and the private sector. In fact, the public maintenance companies are those that compete with private ones, but outside the sphere of maintenance and management of the public stock.

Substantial renewal of residential buildings by condominiums takes place very rarely, if at all. Full consensus of owners is required for such a decision to be made. No subsidies or even tax exemptions are provided. Credits are available, but still unaffordable. Condominium fees are decided at common meetings of the condominium

and collected by the co-owners, in order to cover common bills for electricity in the stairwells, water in the basement, urgent repairs (of roof leakage), etc. Money can be accumulated for planned repairs. The practice is discouraging, as most of the owners do not pay their fees.

*Box 7.3*  
Condominium Practice

*The chairman of the board for a condominium property located in Sofia (consisting of over 60 housing units) reports:*

- *Each fourth owner delays or refuses to pay for common expenses. The compulsory procedure is known, but is considered to be too complex and socially unacceptable*
- *Since June 2001, they haven't paid the water bills, the board has no money to hire someone to read the water meters, so, they are going to pay on a per-capita basis*
- *Damages in common parts have gone unrepaired for years.*

In almost 100% of the cases where mixed-ownership of housing exists, the owner-occupied units are more numerous than public ones. Management and maintenance responsibilities, referring to common parts of such buildings, are more often done by owners. Whatever costs are due to repairs, the public owner is supposed to pay his relevant share (and usually does so).

### 2.4.3 Rent setting in Municipal Housing

In general there are no big differences in the rents for municipal housing; the rents are kept as low as possible in order to meet social needs. The municipal councils approve the prices locally. Usually the rent is a portion of the lowest salary. The revenues from the rent is not enough to cover the maintenance needs of the municipal stock, as there is no special account in which this revenue is stored in the municipal budget.

The average monthly rent for the municipal housing is BGL 0.4 (USD 0.18) per square meter; the highest rents are in the largest cities (BGL 0.5 per square meter).

It would not be correct to calculate the average rent for the country as there are large regional differences; districts in one city may differ a lot.

Annual rent (without utilities) in an average municipal dwelling is BGL 260.2 (54.3 square meters at BGL 0.4), while the annual income of the socially disadvantaged and those eligible to receive such housing is BGL 1,440 (this is normative income as per the allocation criteria). When all additional costs for utilities are included, during the cold months, the ratio is 54.6%. During the summer months, when no heating is paid, the rent-to-income ratio is 36.1%.

*Table 7.13*  
Average Rents in Municipal Dwellings and Rents  
in the Uncontrolled Private Rental Sector

| Categories    | Average Size of Dwellings [m <sup>2</sup> ] | Rent in Public Housing/m <sup>2</sup> [BGL] | Market Rent/m <sup>2</sup> [BGL] | Monthly Rent in Public Dwelling [BGL] | Monthly Market Rent [BGL] | Difference between Market and Public Rent |
|---------------|---|---|----------------------------------|---------------------------------------|---------------------------|---|
| >100,000      | 57.8  | 0.5   | 3.3                              | 28.9                                  | 190.7                     | 6.6                                       |
| 50,000–99,999 | 51.6  | 0.4   | 1.6                              | 20.6                                  | 82.6                      | 4.0                                       |
| 25,000–49,999 | 52.2  | 0.3   | 1.0                              | 15.7                                  | 52.3                      | 3.3                                       |
| 10,000–24,999 | 46.5  | 0.3   | 0.5                              | 14.0                                  | 23.2                      | 1.7                                       |
| 5,000–9,999   | 49.6  | 0.3   | 0.5                              | 14.9                                  | 24.8                      | 1.7                                       |
| Total         | 54.3  | 0.4   |                                  |                                       |                           |   |

NOTE: these are rents for dwellings in prefabricated peripheral residential districts. Exchange rate: USD1 = BGL 2,22.

#### 2.4.4 Allocation of Municipal Housing

The Act on Municipal Property and the Regulations for its Implementation deal with the allocation of municipal housing to the households in need. The criteria for allocation of municipal housing are very strict. They are mainly for socially disadvantaged groups—handicapped, elderly homeless people, young homeless families—all with low income. The income limit changes; it is defined annually by the Ministry of Social Affairs. As the municipal housing stock is insignificant, there is only a very limited opportunity for the allocation of dwellings in cases other than those regulated by the Act. The criteria for eligibility are strictly defined in the implementation regulations and they describe the groups of people “in need” who are eligible for a dwelling. The listing of these people, earmarked in the municipal registers of households as in priority need, is done on the basis of their declarations/applications in which they state their ownership status and the income of their household. The opportunities for the municipalities to formulate their own local policy (for allocation of municipal housing to socially disadvantaged citizens groups, as above mentioned), is only in the fixing of the rental price for the dwellings or to slightly change the set of their own priorities for the ranking of those in need.

Re-lets are very rare. The annual rate of “tenant turnover” or “re-lets” as a proportion of the number of dwellings in municipal ownership is 1–3% (according to an expert opinion). In Sofia, where the needs of municipal housing are the highest, this percentage

is 1.36%. The average time from application to allocation of municipal dwelling for a household of two adults and one newborn child, where only one adult person is earning the average salary, is about 42.1 months. A longer waiting period is apparent in the largest cities (48.5 months) and the shortest time in the smallest cities (11.1 months). In larger cities the waiting period is naturally longer as the number of applicants for municipal housing is much higher than the number of new municipal housing.

The waiting list for socially disadvantaged households/individuals “in need” for municipal housing is provided by 87.5% of the municipalities. When allocating municipal housing, the municipalities use a clearly defined system for ranking the social needs of the applicants. Most of the answers (66.2%) received from the five categories of cities confirm this.

The municipalities do not apply different policies for allocation of public housing to applicants “in need”. In general, the local policies are in conformity with the regulations of the Act on Municipal Property with insignificant deviations according to local priorities.

#### Box 7.4

#### Reserve Municipal Housing in Veliko Tirnov

*Citizens may be accommodated in reserve municipal housing stock, according to the Law for Municipal Property. A commission establishes the needs and the conditions/criteria for accommodation. Its members are as follows:*

- *Secretary of the municipality*
- *Chief of the civil defense*
- *Territorial and urban management chief*
- *Chief of the department of municipal property and an expert from the department in charge of the municipal property register*
- *Mayor of the city*

*The Mayor defines the staff of the commission and it remains permanent until a new order is issued.*

*The commission makes an evaluation of the situation on the spot, refers to the consultations of specialized bodies and, after collecting and reviewing all data, makes a proposal to the Mayor for accommodation of those in need of the specified dwelling. A commission with similar staff defines the conditions and the housing need. An external expert can be also involved. The conditions for accommodation in a reserve municipal dwelling can only be those that directly jeopardize the life and the health of the inhabitants. The conditions for allocation of a reserve municipal dwelling and moving into it are forwarded for decision to the commission after a decision of the court has been made, that gives sufficient grounds for leaving the old dwelling.*

*The reserve municipal housing stock obligatory has, at any time, two unoccupied, independent dwellings for extreme situations. This balance can be changed in conditions of natural disasters or accidents, but not for more than two months. In urgent necessity, accommodation in reserve municipal housing can happen without observing the rules/criteria for allocation*

*of housing dwellings for households in need, according to the Regulation for Implementation of the Law of Municipal Property.*

*Allocation of reserve municipal housing is not allowed to people whose own dwellings became unusable due to natural deterioration/wearing out, had bad hygienic conditions or can not be repaired any longer and should be demolished.*

*Reserve municipal housing may accommodate mayors, deputy mayors and other high level managerial municipal staff during their mandate in case they do not have their own dwelling in the city where they work. Proposals related to such cases are made by the Mayor.*

#### 2.4.5 Voids and Rent Arrears

There are no voids in housing stock in Bulgaria. If some municipalities answered that they have some vacant dwellings, this refers to “reserve” housing stock, which is supposed to provide temporary shelter people in extreme situations—natural disaster, accidents, etc.

The average sum of rent arrears forms about 19.7% of the gross rent roll, including the arrears carried forward from previous years. The share of arrears is different for the different groups and it is due to the low paying capacity of the tenants. For the year 2001, the situation is similar. Generally, for the country it is 18.6%. There are different measures for overcoming the issue. The municipalities, in most cases, take a social approach; they give the tenants the opportunity to pay in installments or allow postponing of the due payment. Recently, municipal programs for temporary employment of the socially disadvantaged unemployed tenants have been used. Eviction is not very common practice.

The measures, which the municipalities apply to collect the arrears, are as follows:

- Delayed payment of rent;
- Payment by installments;
- Provision of temporary employment under social municipal programs.

Stricter measures are needed, as the municipalities do not have enough revenue and the percentage of rent loss is too high. The best solution would be, of course, a general economic improvement of the situation in the country, less unemployment, and more opportunities for an increase in the income of the tenants.

A direct result of the low paying capacity is a trend towards an increase in the number of rent and housing utility arrears. The lack of subsidies targeted to cover at least those deficits in incomes is the second reason. The administrative inefficiency of urban communal economy facilitates development of another negative factor: poor paying behavior.

Purely rent arrears threaten tenants with eviction and not by foreclosure or cutting off services, because the rent in Bulgaria does not include utilities. However, utility

charge arrears represent a huge issue. Arrears on central heating bills currently threaten 589,000 households by cutting off services. Their first step of self-defense has been to voluntarily give up central heating. Estimates based on heating company reports show that the radiators of 50% of those with central heating are cold (about 300,000 households or 10% of all). In Sofia alone, 207,000 households do not use central heating (entirely or partially)—this equals 58% of all dwellings with central heating and 44% of all households. Furthermore, the central heating systems were abandoned in several medium-sized towns and another three are facing collapse, again, due to mass voluntary refusal of this service. The seriousness of this issue is supported by the intention to introduce a legislative reform aimed at transforming the debt into a loan, and then the dwelling becomes collateral and is subject to foreclosure.

As for electricity, exact arrears rates are not available (according to the estimates it concerns 5% of the households). The Roma minority creates the most serious issues, resulting in temporary cuts of electricity in whole quarters. Another legal reform envisages a mechanism for paying electricity subsidies directly to the supplying companies, as currently these subsidies are misused for food.

#### 2.4.6 Energy/Social Allowances

Energy allowances (social assistance for low-income families) for heating are allocated to 31.1% of tenants or households living in municipal housing. They receive them during the cold seasons, six months out of the year.<sup>2</sup> There are no other types of available allowance for the socially disadvantaged. Opportunities are needed for provision of allowances, which would partially cover the rent (a recommended portion is about 2/3 of it). This would increase the opportunities for available private units to be rented.

#### 2.4.7 Privatization of Municipal Housing

The municipal housing privatization is suffering losses, as the general approach of price setting was not based on market prices. Privatization did not solve the problem of insufficient financial sources in public budgets for the maintenance of housing stock. The new owners have not been responsible enough to take care of their dwellings after privatization.

The privatization mechanisms allowed the dwellings, built before the price changes, to be sold at the same prices during 1990–1993. The rule that the selling price should not be lower than the construction price was not observed. The basic prices were six times lower than the construction cost of these dwellings. The privatization of public housing was not part of the housing market. The construction of public dwellings built before 1990 was subsidized. The fact that they were sold at a much lower price has

social ramifications. However, there is no justification for the fact that there were no restrictions on the re-selling on the real market.

The financial conditions for construction of new public municipal housing after 1991 were more severe than those for private entrepreneurs. The municipalities had to bear the risks of the market credit. The cost of the new market product was very high, while it was intended to meet a social need for those who had the right to public shelter. The contradiction resulted in the fact that there are 62,520 unfinished dwellings and huge municipal debts for unpaid loans from the State. No more municipal credits were allocated during 1996 and the share of affordable housing dropped dramatically under this situation, where the population had a very low income and low GDP per capita.

#### 2.4.8 External Support and Co-operation Among Municipalities and Other Institutions

There is a well-developed cooperation between municipalities and other institutions, consulting organizations and external experts. During the transition, a lot of international influence took place through round tables, conferences, discussion meetings, etc. The municipal administration is exposed to a lot of new useful external experience, training, and technical assistance which is provided by international organizations. Following are the results of such mutual activities:

- Preparation of a strategy for national policy (supported by the British Know-How Fund);
- Master plan of Sofia (supported by the World Bank);
- Development of a Roma neighborhood, construction of housing and infrastructure for Roma minority in Plovdiv, Radnevo, Sofia and Pazardgik (supported by the European Social Bank);
- Support for the development of a housing policy and NGO sector housing associations (funded by MATRA / IHS).

There is no state support for municipalities to construct new rental housing. The existence of housing associations is not a common practice yet (except in the case study presented at the end). The municipalities can provide land to housing cooperatives and receive a share of the apartments, usually 17–20% of the future housing units. This is how rental housing can be increased. However, there is not much vacant municipal land since restitution took place and the new owners take their own initiatives for private construction.

*Box 7.5*

## New Housing Construction in the Sofia Municipality

*Housing construction in the municipality of Sofia is restricted to the provision of dwellings for compensation to homeowners whose property was expropriated by the State for realization of public urban development initiatives. During 1989-90 the municipality inherited from the State the obligation to provide compensation housing for 861 owners of expropriated property. For this purpose the municipality needs to build 41 blocks of flats with 1,748 apartments, at a cost of BGL 84 million, including BGL 37 million for compensation to the owners.*

*Construction of 26 blocks with 1,252 apartments has started, but to be finished another BGL 59 million are needed (including BGL 24 million for compensation of owners).*

*Each year the Housing Construction Fund of the Sofia municipality contributes about BGL 7 million from its budget. The municipality is making efforts to speed up the construction.*

*Since September 1997, after a decision of the Municipal Council, a search was started for co-investors who were ready to finish the buildings in progress. As compensation, the firms that enter into deals with the municipality to finish the housing will receive a share of the ownership of the apartments. The purpose of this decision is to finish the construction quicker and to provide homes for the owners who are waiting for their compensation. This process will take about 15 years before compensatory dwellings are provided for all eligible owners.*

*A second option is for the owners of expropriated property to be compensated with money at real market prices in the respective district of the city where their property is located. For this purpose the government should allocate about BGL 50 million. This measure would enhance the real estate market, the construction business and all ongoing production. If the idea is accepted the expropriated owner problem would be solved in three years. The number of municipal housing units built in the last 5 years follows with totals and the number of compensated owners:*

- 1997:702, including 464 for compensated owners;*
- 1998:252, including 108 for compensated owners;*
- 1999:374, including 125 for compensated owners;*
- 2000:215, including 205 for compensated owners;*
- 2001:112, including 41 for compensated owners.*

The example from Sofia (described in Box 7.5) presents the idea of owners of expropriated real estate to be compensated by the market value of their former property. The idea is an innovative and positive policy that, however, is not yet realized.

There are no state programs for support of the local authorities to build new rental housing, as their budget is insufficient. The demand is much greater than the supply and the housing issue is a big problem everywhere in the big cities. No renewal programs are in place. Only sporadic experiments are ongoing and external donors support them. This cannot be considered a sustainable approach. There is a richness of theoretical

knowledge and ideas of how to evaluate the needs of renovation and how it can be realized, but more time is needed to estimate their efficiency.

*Box 7.6*  
**Enhancement of the Role of Local Governance  
 and the Third Sector in Housing**

*A MATRA project, funded by the Dutch government at the national level is under implementation. Its major goal is to be enhanced the establishment and the activities of the housing associations in Bulgaria. This will be done in two cities; Sofia and in Shumen, where one such association was already established.*

*The institutions participating in the project are HIS, the Netherlands, National Center for Territorial Development and Housing Policy, Bulgarian Housing Association, Sofia and Shumen Municipalities.*

*The project duration is during the years 2000–2002. The content of the project covers the following topics:*

- *Organization*
- *Updating of the diagnosis of the housing sector and training of trainers. Bulgarian experts will survey the current situation of the sector in Bulgaria*
- *Education program, seminars on the following topics:*
  - *Municipal policy and organization;*
  - *Municipal strategies;*
  - *Instruments for housing offers and demand;*
  - *Interaction among the actors;*
  - *Housing finances, mobilization of private and public resources;*
  - *Legal aspects of the housing policy and municipal legislation;*
  - *Management and maintenance of the housing stock—energy efficiency, urban renewal.*

*Practical actions: With the support of the Dutch partners in the pilot municipalities of Sofia and Shumen, action will begin for identification of the problematic areas, defining this role in the housing sector and preparing strategies for action and collaboration with NGOs. Dissemination of results will take place. The project results will be discussed at a national symposium with the participation of institutions on the national and local level.*

## 2.5 Local Housing Policy Strategies and Objectives

A local authority strategy for municipal housing policy is in place in about 50% of the municipalities (LGHS). In some cases, such policies are not approved officially by the Municipal Councils. There are clearly defined goals in the housing policy strategies according to the majority of the answers (about 70%).

The ranking of the municipal priorities in their local housing policy strategies is as follows:

- Provision of municipal plots for construction of dwellings;
- Reconstruction of buildings with non-housing functions into dwellings;
- State housing stock that is unused and in need of repair is to be transferred to the municipalities so that they can repair it and allocate it to those in priority need;
- Search for undeveloped municipal plots for private housing construction;
- Preparation of different options for reconstruction of dilapidated or unused housing stock;
- Reconstruction of existing municipal housing stock;
- Provision of housing opportunities, accommodation or construction of new units for the Romany minority who are usually the cause of social tension and urgently need support;
- Fundraising and applications to external funding institutions;
- Energy efficiency programs.

The registered need of social housing exceeds the available stock. New social housing construction has been extremely reduced. The market of cheap private housing is highly restricted due to a lack of proximity to labor markets and public services. The transition to a market economy required radical reductions in state subsidies and shifted the whole burden of housing costs to the households. The low income of the population makes such a policy impossible.

Transition to market rent, without subsidized new housing, proved to be infeasible for another reason as well—the existing public stock is extremely insufficient. The raising of public rents to their economic cost proved to be impossible without considerable allowances. Therefore, maintenance costs can hardly be covered by the rent receipts. The provision of social housing is a crucial need for Bulgaria.

### 3. CONCLUSIONS AND POLICY RECOMMENDATIONS

#### 3.1 Conclusions Directly Related and Derived from the Survey Results

The following conclusions are directly related to, and derived from, the survey results:

- The rental affordable housing stock is insufficient, new municipal investment and construction is needed. The municipalities need access to cheap credit, public/private partnerships among local authorities and private entrepreneurs should be enhanced, and the legal and organizational framework should be changed to allow more construction of rental housing.

- The average monthly rent is low and the revenues from it are not high enough to secure proper management and maintenance, renovation and a good standard. The municipal authorities intentionally keep the rents low to respond to the social needs of the population.
- One third of the tenants in rental dwellings get allowances for covering their utilities for heating, but no other allowances are available. There should be possibilities for the municipalities to provide subsidies for those who rent private homes at market rates, for example; 2/3 of the rent to be provided as an allowance. The income of the tenants in public housing is three times lower than that of those in their own dwellings.
- The majority of public housing is in prefabricated residential buildings. Urgent measures for repair are necessary. Management of common areas in such buildings is a difficult issue caused by mixed ownership; private owners and municipal property. The local authorities should better regulate the upgrading and regular maintenance of the utilities as facilities are getting old and unreliable.
- Construction of public housing has seen a dramatic decrease during the last few years and it is on the way to disappearing. Private entrepreneurship in housing construction dominates, but it is unaffordable for most of the consumers.

The normal rate of production of the housing sector has stopped; new construction (for 10 years now) is below the critical minimum of two dwellings per 1,000 people. Housing is left to “the will of market” and is affordable for no more than 10% of the potential demand. The State abdicated from its economic responsibilities concerning housing; the volume of budget expenditures on housing is extremely low (about 1%). The housing markets are undeveloped, because capital of unproven origin was initially invested. Prices are speculative and have increased public expenses for providing mass shelter opportunities. Some recent governmental measures (for example, the Act on Measures against Laundering of Money—SG 85/1998) have decreased demand and led to a stagnation of the housing markets. No state subsidies are available for the vulnerable groups to solve their housing needs.

Ways for the municipalities to invest and provide new public housing stock are needed. The housing lending and savings system is in deep crisis. New instruments, improving affordability and ways of diminishing the risks, should be found. Some of the measures which should be introduced are: Accessible credits for local authorities, the creation of special funds, co-financing with the private sector for new construction, the establishment of charity funds, provision of state subsidies, provision of better conditions for private construction such as the allocation of municipal land at preferential prices.

- Rent arrears form one-fifth (19%) of the expected rents. The local authorities should implement stricter measures to collect the rent. General economic and

social measures are needed to increase the income of the tenants, higher employment rates and improved local policies for economic growth.

- The waiting period for the allocation of public dwellings is long, as the public housing stock is insufficient. Provision of more municipal dwellings is necessary. An investment framework for the local authorities—organizational, financial, new institutional structures—is needed.
- In many municipalities, there are good examples of improvement of the status of municipal housing. They are the result of untraditional local approaches, or prevailing results of international projects with technical assistance and external funding. Good practices must be made popular and disseminated to facilitate the local initiatives for improvement of local housing policies. The subjective role of the municipal management is a very important engine in such initiatives, as when there is a political will, a way can always be found to accomplish more.

## 3.2 Recommendations

### 3.2.1 National Level

The Central Government—the Ministry of Regional Development and Public Works, in coordination with the Ministry of Finance, the Ministry of Justice and Legal Euro-Integration and the Ministry of Social Affairs—should be involved in housing reform. A new housing policy should be directed to prevent the degradation of the housing stock and enhance working market-oriented mechanisms for construction of affordable housing. The State should start an institutional and legal reform, covering the following aspects:

A. *Political framework of housing*—adoption and implementation of a national housing policy. Recommended priorities would be:

- Administrative aspects of housing provision, i.e. division of labor between different governmental levels and between central governmental ministries;
- Development of the construction industry and the promotion of cost effective methods;
- Real estate management strategies;
- Fiscal strategies, i.e. subsidy system and privatization of local government assets;
- Initiation of process of rehabilitation of prefabricated housing stock;
- Renovation of the open space amongst the blocks of flats and the living environment in the residential districts;

- Support production of new and affordable housing by creation of functioning market mechanisms;
- Direct help to the homeless and the disadvantaged;
- Prevention of losses of housing stock to other than residential needs;
- Improvement of the effectiveness of housing policy;
- Assist municipalities in the preparation of housing programs;
- Provision of training courses and workshops addressing local needs related to housing programs, planning, fundraising, preparation of proposals;
- Protection of homeownership among low-income groups in order to prevent increase of future demand for social rental housing and avoid unbearable budget burdens;
- Assistance to homeless and disadvantaged should be direct; cheap rents and social benefits. The network for social services should be extended;
- Low-income groups and young families need to have access to one, or both, of two options—public rentals with regulated rent plus allowances; or private rentals, charged with social responsibilities, i.e. below-market rents, plus allowances;

B. *Housing/finance framework*—system for subsidizing, mortgage instruments, re-organization of the savings system, financial provision of direct budget subsidies for affordable housing. The most important measures to be taken on the national level are:

- Creation of regulative grounds for a new housing savings system (housing savings banks similar to the European ones);
- Introduction of financial mechanisms and different forms of alleviation and subsidies for repair;
- Subsidies and improvement of the existing housing stock in conformity with the European standards;
- Introduction of preferential credit for young families with low income.

C. *Legal framework* for establishment of new legal entities such as the National Housing Agency, housing associations and condominium cooperatives. The above mentioned steps imply elaboration and adoption of a special act or a set of acts:

- Amendment of the Housing Construction Cooperatives Act;
- Elaboration of a draft act on promotion of new housing construction and renewal of existing stock;
- Elaboration of a draft of the Housing Association Act.

D. *Institutionalization*—adequate institutional framework for the housing system; distinct definition and real undertaking of public responsibilities towards housing; real decentralization of the housing system. Accomplishment of an institutional reform, including establishment of the National Housing Agency with the National Housing

Fund and a legal basis for establishment and development of housing associations. The Agency is supposed to assess housing needs and to meet them by implementation of national and regional programs. It will administer the subsidy system and will implement the national housing policy strategy. The housing associations would rely on methodological guidance and financial assistance through applications to the Fund under certain conditions.

In organizational structures, Bulgaria is behind the developed countries. A rich variety of non-governmental housing organizations exist only in research and in draft pilot projects. If affordable social housing is to be constructed, and homes provided, both major investment and commitment from the maximum number of supportive organizations is required. The lack of official support for housing provision and the inadequate performance of the existing state agencies in managing the public housing sector, lead to the necessity of independent organizations concerned with all aspects of housing and comprising both public and private interests.

The creation of *housing associations* (like business structures/enterprises, molded after the western models) will fill a gap in the housing provision, management and maintenance of the affordable public housing stock. As independent legal entities, they will be able to invest, realize new construction, or rehabilitate existing housing stock for the socially disadvantaged. The establishment of condominiums (legal entities of the inhabitants of housing units) can help in the maintenance and management of the private housing and those buildings with mixed ownership. They will be able to fund-raise, apply for financial support and better deal with organizational issues within the buildings and around them. Support to housing associations and other NGOs participating in the development of the housing sector will enhance the process of increasing the housing stock and its renovation.

### 3.2.2 Local Level

The State alone cannot create mechanisms and optimal conditions for development of effective local housing systems. Local housing policies should be specifically tailored for local conditions and meet local needs. The main goals of local housing policies should be enabling affordability and access to adequate dwelling for all inhabitants of the municipality. A comprehensive analysis of the entire housing stock is required.

The priority tasks of a municipal housing program should be:

- Planning of real housing needs - setting of optimal scale, proportions and standards of housing construction, inventory of needs, investigation, identification of problems, registration of resources, preparation of waiting lists, prognosis making and planning of resources for a long-term planning period (10–15 years).

Municipalities should be responsible for own local housing programs, containing identification of local housing needs, ranking of priorities, planning investment for housing. A program can serve as an instrument for further negotiation with the central government. Municipalities should compete for resources if they have an adopted program, proved housing needs, developed feasibility studies and have already attracted some resources—private and public (co-financing).

- Allocation of direct responsibilities and roles, rights of local stakeholders/partners in both the public and private sectors. The local authority can and should have an enabling role in providing organization for participation of private sector and other external partners, facilitate conditions for investment, collect resources. The municipalities can act as entrepreneurs in the market conditions, dealing with their assets and attracting private sector to accomplish social benefits like affordable housing, maintenance of public space, stock, etc. The housing issues involve many stakeholders—citizens, construction companies, banks, local business, municipalities. They all have different interests and goals in the process. The role of the local government is important in the communication with the third sector (NGOs) and the voluntary sector—housing associations, public support, NGOs. Through them, significant support can be mobilized, assistance and resources, if a consensus is in place. The private sector has serious potential to both replace the traditional functions of local authorities and fill in the gaps in the sphere of social, i.e. publicly supported housing. The possible benefits are realized, but targeted policy and legislative actions have still not been undertaken. A new institutional structure and new types of organization can facilitate the communication and enhance their interaction and resource mobilization. This can be some sort of a private/public partnership enterprise outside the municipality, but answering to it, that can more effectively work for enhancement of affordable housing construction. The assets of the municipality would be used for deals, which would provide new rentals. A similar approach can be applied to services and maintenance of public housing stock. The local authorities should facilitate the establishment of associations for partnership (legal entities) owned by the local authority. The initiative for its establishment should come from the local authority
- Coordinating an active invitation for involvement from all possible partners from the private sector and stimulate their readiness, intentions, resources, capacity, motivation to enter into deals with the municipality;
- Upgrading areas, to increase the density of existing sites and benefit from the full capacity of the existing infrastructure;
- Introduction of mechanisms and techniques for improving maintenance of the (a) housing stock, (b) prefabricated residential areas and (c) new private construction initiatives:

- a) Most of the inhabitants/owners of their own dwellings at this the moment need support for maintenance. The availability of indirect subsidies in the form of fiscal alleviation can provide significant resources for repairs and improvements. There is also a necessity of changes in the regulations for the obligations of the owners regarding the buildings.

The existing possibility for purchase of shares of the land under the buildings, as well as the possibility for further building and additional building onto some of them, could be transformed into an indirect subsidy in the form of “property for repair”. An inseparable part of each investment project in the sphere of renovation has to be the package of measures for improvement of the energy efficiency. Programs and subsidies coordinated by the State should be oriented towards the renovation of the housing environment of the housing complexes.

- b) For the improvement of housing rehabilitation—the institutional framework should be changed in accordance with the recently endorsed six laws related to restitution. Currently, there are a number of issues related to the open public space in the residential complexes.

A national long-term program is needed. It should be realized with specific local projects identified by the local authorities according to their priorities. Some steps to be undertaken are as follows:

- Provision of updated cadastre and geodetic surveys;
- Clear information about property and ownership titles;
- Inventory of housing stock (private, municipal) reserve for temporary shelter while repairs are being done;
- Survey the intentions of the owners of flats;
- Formulation of municipal strategy for management of the land;
- Urban planning policy for actualization of the plans;
- Investment program for rehabilitation process;
- Provision for funding resources from physical and juridical subjects, the municipality as an owner, the enterprises that manage and maintain the infrastructure, developers and investors of private construction firms;
- Creation of documentation for the rehabilitation process, urban plan, architectural and installation projects, documentation for financing, contracts for concession on the project, deadlines, compensations, forms of payment, etc.;
- Facilitation of public/private partnership, involvement of public and private sectors.

- c) Of strategic importance is the package of stimulating conditions for private/personal investments, a working housing-saving system, municipal land

banks, a proper system for financing the technical infrastructure, consultant services, appropriate project and building technologies.

Training and methodological guidance needed to show administrative staff how to improve upon local housing policy, make a program, develop applications for subsidies for investment projects, land provision program (cadastre surveys and land inventory), how to be active in attracting the private sector and make efficient public-private partnership deals.

An effective local housing program should:

- Be in compliance with national housing policy guidelines, the macro-economic framework and local specific conditions;
- Involve and rely on all participants in the investment process, such as housing markets, citizens, business, and citizens, NGOs;
- Consider energy efficiency;
- Address social issues, facilitate integration, be against social segregation;
- Secure sustainability, continuity, and political consensus.

The actions mentioned above are general and aim at the creation of a sustainable framework for rehabilitation based on the principles of equal rights of the owners, principles of the free market and a balance between the private and public interests. The realization of a national policy for rehabilitation should be realized by specific projects developed at the local level and reflecting the local needs.

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*Draft act for accumulation and spending of financial means from the fund “Housing Construction”*—adopted by the Council of Ministers and introduced to the Parliament.

*Draft act for activating and stimulation of the housing construction and the reconstruction and renovation of the housing fund.*

*Draft act for amendment of the Act for Solving the Problems of Citizens with Long-term Savings on Housing*, the draft was adopted by the Council of Ministers and later introduced to the Parliament.

*Draft act for the Housing Construction Cooperatives*, coordinated with all the Ministries.

*Draft act for the Housing Savings Banks.*

Municipal Budget Act.  
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Regulation for basic prices of real estate.  
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State Budget Act.  
The Administrative Proceedings Act.  
The Constitution of the Republic of Bulgaria.  
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The Municipal Property Act.  
The National Housing Strategy of the Republic of Bulgaria.  
*The State Budget Act.*  
*The State Property Act.*  
*The Territorial and Urban Development Act.*

## ENDNOTES

- <sup>1</sup> We only have access to statistical data regarding the tenure structure up to 1995. Since that time, the process of housing privatization has continued forward. The municipalities, however, do not have an overview of what happens with state public dwellings. No inventory has been taken recently. The data from the Local Government Housing Survey (see below) conducted for this project seems to be more reliable. The municipal public housing would form about 2% of the total housing fund, while another 2% of the stock would consist of state housing, according to expert estimates. The rest is privately owned (definitely more than 92.5%).
- <sup>2</sup> The distribution in the five categories of the size of residence (as a percentage of beneficiary households from all households in municipal housing) is as follows: I. category—30.9%, II. category—41.6%, III. category—29.9 %, IV. category—38.3%, V. category—22.6%.