

State and Local Government: How to Improve the Partnership

Local Government and Housing

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1. STATE HOUSING POLICIES IN THE SELECTED CEE COUNTRIES

1.1 Introduction

The sharp decrease in state subsidies for municipal (formerly state) rental housing, the sharp increase in construction and housing prices, the maintenance of non-targeted rent regulation (leading to very little private investments and a black market) and the diminished public control after 1990, resulted in both new housing being less affordable and growing social tensions concerning the housing markets of many CEE countries. In some countries, the State refused to subsidize new housing construction but decided to maintain tenant protection and rent control in rental flats. Decreased availability of dwellings with controlled rental prices meant that the doors were closed to newly established households looking for affordable rental housing and there has been a rapid growth of black market rental contracts. Moreover, very often it is higher-income households that are benefiting more from poorly-targeted rent regulation than other, more needy, social groups [Czech Republic: Lux, Burdová 2000; Poland: Bonczak-Kucharczyk 1999; Slovakia: Zapletalová *et al.* 1999].

In many CEE countries, a large-scale privatization of municipal/state housing took place, that resulted in the almost complete residualization of public (potential social) housing. Though public housing is very often the only affordable housing available on the housing market, efforts by the central or local governments to sell almost all the public housing stock has had important consequences. In countries like Bulgaria, Hungary, Romania, Estonia, and others, such property accounts for only about 5% of the total housing stock. In Slovakia, Estonia, Russia, Bulgaria, Romania, Hungary, and other countries, the problem of poor home-owners has also arisen after large-scale housing privatization [Hungary: Hegedűs J., Tócsics, I., Geróházi, É. 2001; Slovakia:

Zapletalová *et al.* 1999]. The creation of a new social/affordable housing system is thus urgently needed in almost all of the CEE countries.

However, the current level of social/affordable rental construction is very low for the following reasons:

- High construction costs leading to relatively high rental prices and unaffordable rent expenditures burdening households in new social dwellings;
- Low level of state housing expenditures and the lack of a social housing legislative framework;
- Continued non-targeted rent regulation in public housing, very low efficiency of municipal housing control and no incentives for filtration process;
- Deregulation of energy prices leading to large total housing expenditures burdening households.

1.2 Economic, Social, and Housing Conditions

Economic and demographic conditions differ significantly among the selected CEE countries.

Table 8.1
Socio-economic Indicators in Selected CEE Countries

	Population [Thousands] mid-2001 (United Nations)	Population growth rate [%] 2001 (United Nations)	Share of urban population [%] mid-2001 (United Nations)	Area [km ²] (United Nations)	GDP (PPP) per capita [USD] 2000 (CIA)	2000 (OECD)	Unem- ployment [%] (CIA)
Bulgaria	7,867	-1.14	67.4	110,910	6,200	—	17.7 (2000)
Czech Republic	10,260	-0.07	74.5	78,866	12,900	14,285	8.7 (2000)
Estonia	1,377	-0.55	69.4	45,226	10,000	—	11.7 (1999)
Poland	38,577	-0.03	62.5	312,685	8,500	9,588	12.0 (1999)
Romania	22,388	-0.21	55.2	237,500	5,900	—	11.5 (1999)
Slovakia	5,403	0.13	57.6	48,845	10,200	11,643	17.0 (2000)

SOURCE: United Nations "World Urbanization Prospects, The 2001 Revision"; CIA: "World Factbook 2001"; OECD Statistics (www.oecd.org).

As can be seen in Table 8.1, with the exception of Slovakia, the total population is shrinking in all the selected CEE countries, particularly in those countries with the

lowest GDP per capita (Bulgaria, Romania) and in Estonia. The Czech Republic has the highest percentage of its population living in urban areas, while Romania and Slovakia are among the countries with the lowest percentage. Bulgaria and Romania have the lowest GDP per capita and Bulgaria and Slovakia are struggling with a relatively high unemployment rate.

Tables 8.2 and 8.3 summarize the analyzed information about the general housing conditions in the CEE countries.

Table 8.2

Tenure Structure and Its Change between 1991–2001 [% of Total Housing Stock]

	Bulgaria		CR		Estonia	
	1992 ¹⁾	2000 ¹⁾	1991	2001 ²⁾	1992 ³⁾	2000 ³⁾
State rental housing	1.8	1.8	39.0	—	25.8	0.7
Municipal rental housing	2.0	2.2	—	24.0	34.7	3.3
Enterprise rental housing	2.9	3.2	—	—	—	—
Cooperative housing	0.2	0.3	20.4	20.0	5.0	3.9
Private rental housing	0.5	0.8	—	7.0	n.a.	n.a. ⁸⁾
Rental stock of housing associations	—	—	—	—	—	—
Homeownership	91.0	92.5	40.5	49.0	34.5	85.9

	Poland		Romania		Slovakia	
	1991 ⁴⁾	2000 ⁴⁾	1990 ⁵⁾	1998 ⁵⁾	1991	2001 ⁶⁾
State rental housing			21.4	4.0		1.1
Municipal rental housing	17.9 ⁷⁾	11.5 ⁷⁾	—	—	21.2 ⁷⁾	5.4
Enterprise rental housing	13.7	4.6	—	—	6.5	—
Cooperative housing	25.4	28.6	1.5	—	22.1	15.6
Private rental housing	n.a.	n.a.	1.0	3.0	—	4.1
Rental stock of housing associations	—	0.01	—	—	—	—
Homeownership	43.0	55.3	76.1	93.0	50.2	73.8

¹⁾ Statistical Office of Bulgaria

²⁾ Housing Policy Strategy, Ministry for Regional Development of the Czech Republic

³⁾ Statistical Office of Estonia; in 2000: 1.1% of housing stock is owned by other owners and the owner of 5.1% is unknown

⁴⁾ Statistical Office of Poland

⁵⁾ UN/ECE–CHF Practical Workshop on Housing Privatization, Krakow 1999.

⁶⁾ Preliminary results of Census 2001; Slovakian Statistical Office

⁷⁾ Including state rental housing

⁸⁾ The share is estimated at a level of 10% of total housing stock

Table 8.3
Main Housing Condition Indicators (1991–2001)

	Bulgaria ¹⁾		Czech Republic ²⁾		Estonia ³⁾	
	1992	2000	1991	2001	1992	2001
Number of dwellings per 1,000 of inhabitants	400	424	396	424	407	434
Average floor area of dwelling [m ²]	63.5	63.9	70.5	49.3 ⁷⁾	53.5	54.0
Average floor area per person [m ²]	25.4	27.1	25.4	18.6 ⁷⁾	21.8	23.4
Average number of rooms per dwelling	2.92	2.89	2.66	2.71	2.9 ⁸⁾	2.6 ⁸⁾ (1999)
Average number of rooms per person	0.86	0.82	n.a.	n.a.	1.2 ⁸⁾	1.1 ⁸⁾ (1999)

	Poland ⁴⁾		Romania ⁵⁾		Slovakia ⁶⁾	
	1991	2000	1992	1999	1991	2001
Number of dwellings per 1,000 of inhabitants	289	306	336	352	336	350
Average floor area of dwelling [m ²]	59.6	61.5	33.7 ⁷⁾	34.4 ⁷⁾	48.3 ⁷⁾	56.1 ⁷⁾
Average floor area per person [m ²]	17.5	19.2	11.3 ⁷⁾	12.1 ⁷⁾	14.6 ⁷⁾	17.5 ⁷⁾
Average number of rooms per dwelling	3.41	3.48	2.46	2.50	2.86	3.21
Average number of rooms per person	1.00	1.09	0.80	0.88	0.88	1.00

NOTE: Dwelling is defined as; room or set of rooms, and facilities that serve or are assigned to permanent housing and create one structural/technical unit (in Bulgaria: has one or more exits to commonly accessible area; in Romania: with separate entrance from the staircase hall, yard or street which has been built, transformed or arranged with a view to be used, in principle, by a single household). The indicator is calculated from the total number of dwellings (including both inhabited and vacant dwellings), if it is not stated otherwise. Room means; habitable room that has the possibility of daylight, ventilation and heating, including kitchen when it is only a one-room flat and with minimum area of 8 m² (in Bulgaria: minimum area of 7.5 m²; in Poland: minimum area of 4 m²; in Romania: minimum area of 4 m² with at least 2 meters high at its tallest point, excluding kitchen; in Estonia: kitchen and other supplementary spaces are excluded). The floor area is defined as total floor area of the dwellings, if it is not stated otherwise.

1) Statistical Office of Bulgaria.

2) Czech Statistical Office.

3) Statistical Office of Estonia.

4) Housing Economy in 2000, Central Statistical Office.

5) National Commission for Statistics (2001).

- 6) With the exception of the first figure (number of dwellings per 1,000 inhabitants) all other figures are for only inhabited housing stock. Source: Slovakian Statistical Office.
- 7) Average living floor area of dwelling (floor of habitable rooms and part of kitchen area, over 12 m² for Czech Republic, Slovakia; floor of habitable rooms for Romania).
- 8) The figures are calculated only from inhabited housing stock.

The most significant changes in tenure structure appeared in Estonia, Slovakia and Romania; these are the consequence of large-scale public housing privatization. In all the selected CEE countries the former state rental housing stock was transferred to the ownership of municipalities and then often privatized to the ownership of former tenants. In the Czech Republic and Poland, due to the slower speed of privatization, municipalities remained the important and significant landlords of rental housing in 2001. Unfortunately, the figure indicating the share of private rental housing of the total housing stock is very often not available, though this sector is present in all analyzed countries. The highest share is probably in Estonia and the Czech Republic, where restitution of property to former owners was applied to a relatively large amount of expropriated residential housing. With the exception of Poland, there is no rental housing stock owned by non-profit independent housing landlords (other than housing cooperatives), the housing associations. On the other hand, housing cooperatives still own large numbers of dwellings in the Czech Republic, Poland and Slovakia even though the fact is that in the Czech Republic and Slovakia the free-of-charge transfer of cooperative dwellings to the full ownership of cooperative members was introduced already in 1994. Cooperative housing obtained more or less the status of ownership housing in Slovakia and the Czech Republic (freedom to sell or rent out the cooperative dwelling by user/cooperative member was introduced). In Poland, two statutory forms have been introduced: ownership and rental cooperative housing.

Though not all statistical figures are fully reliable, due to the very specific methodological problems of data collection in CEE countries, we can see the widest range of dynamics in housing construction (and growth in number of dwellings per 1,000 inhabitants) in the Czech Republic, Estonia and Bulgaria; the lowest in Slovakia. The values of the indicator in Estonia and the Czech Republic are relatively high, close to the levels of some EU Member States. From this point of view, it would seem that these countries are characterized by relative housing sufficiency. However, in practice many other factors enter the equation: rent regulation and non-effective allocation of rent-controlled housing in the Czech Republic, high costs of acquiring new housing and residualization of municipal (affordable) rental housing in Estonia. Poland has the lowest value of this well-known indicator and, probably together with Romania and Slovakia, suffers from a real physical lack of housing.

In Romania, current dwellings are also very small in comparison with the situation in the other selected CEE countries (though the figure is provided only for dwelling living area). The highest values of average total floor area per dwelling can be found in

the Czech Republic, Bulgaria and Poland. Unexpected are the dynamics in the growth of this indicator in Slovakia, where we see the lowest dynamics in housing construction and growth of the number of dwellings per 1,000 inhabitants. This is probably caused by the limited construction of large dwellings in the luxury sector of the housing market.

1.3 Comparison of State Housing Policies

Though the aim of political leaders in all the selected CEE countries is to enter the European Union, housing policy strategies differ significantly. Part of the reason lies in the fact that housing policy is under the competence of the individual European Union member countries and supra-national institutions have only a limited influence (derived from fiscal and tax standardization or monetary union regulations).

In all countries with a Socialist/Communist past, the transition to a market economy brought the introduction of much new legislation (including new Constitutions). Though developing adequate housing legislation is a very important task, it requires the introduction of other necessary economic reforms. Such reforms include the establishment of an efficient banking system, privatization of former state enterprises, agricultural land reform, the reform of the judicial system, redefining state social policy, etc. Together with the politicians' implicit fears of rapid changes to the conditions related to the functioning of the housing market, in most of the countries (the exception being Poland) reform in the sphere of housing and the creation of a standard sustainable housing environment was realized only partially or completely postponed to later years. Many relics from the past remain in place which have significant negative aspects from the point of view of economic efficiency and social effectiveness and new housing policy programs are often implemented before in-depth efficiency and effectiveness analysis is performed.

State housing policy changes, apparent in all the selected CEE countries, consist of sharp decreases in direct state subsidies for housing construction (or a general decrease in public expenditures with respect to housing); liberalization of construction material prices (leading to an exponential increase in construction costs as well as ownership housing prices); transfer of ownership of rental housing from the State to municipalities; introduction of legislative foundations for public housing privatization and restitution of housing to former owners (mostly restitution of residential building expropriated by Communist governments); and the introduction of limited state subsidy programs. Though the decentralization of competence, in the sphere of housing policy, to the local level is in accordance with trends in developed countries, the general financial resources of municipalities (fiscal income of local governments from taxes and state contributions as well as income from rents) remained so restricted that active housing policy programs could not be prepared and realized. Moreover, there was a general lack of willingness

at the level of central housing policy to remove the main barriers to the development of effective local housing policies (rent regulation, tenant protection) and under such conditions the privatization of former public housing has been shown to be the only possible way to be “liberated” from the burden of housing stock and the implicit high debt associated with its maintenance.

1.3.1 Privatization of Public Housing

The rules and scale of privatization were, however, very different in the individual countries. In Estonia, Romania, and Slovakia, large-scale privatization of former public housing took place mainly because of the application of the tenants’ right to buy (in Slovakia only a limited form of this was applied). The central legislation defined the general terms for privatization (right to buy for tenants in public housing, calculation of privatization prices, condominium registration, sometimes-public loan conditions) and municipalities had only limited possibilities to influence the scale or the most fundamental conditions of privatization. In Poland and the Czech Republic, the scale and speed of privatization was much more modest. Tenants in public rental housing did not receive the unrestricted right to buy in those countries and municipalities could decide for themselves the scale as well as the terms for privatization (discounts on privatization prices). The central government did not offer any special financial programs to promote privatization (state-qualified loans, interest subsidies, etc.). Bulgaria has a special status in this context, as the privatization of public rental housing was also common practice during the Communist regime. We can thus distinguish three groups among the selected CEE countries: fast privatizers, slow privatizers and the special status of Bulgaria.

- *Fast privatizers*

In Romania, all tenants who could make the down payment and receive a qualified mortgage loan were eligible to buy the public rental housing they occupied. The qualified loan from the Savings and Deposits Bank, with a 25-year maturity and 4% p.a. interest rate (for married couples under 35 years of age, the maturity was 30 years with a 2% p.a. interest rate) was offered to all households willing to privatize their dwelling. The price was very symbolic; dependent on the date of construction.

All adult persons permanently living and working in Estonia received “privatization vouchers” (according to the length of time they had worked in Estonia since 1945) and the purchase of apartments was realized mostly through such vouchers. All tenants had a right to buy the public rental housing that they occupied for very low prices (with vouchers). Direct financial costs mainly consisted of only the legal fees for the transaction, not exceeding 1% of the total privatization price. Due to these very soft terms, no particular financial programs had to be introduced to help cope with paying the

privatization costs. However, part of the housing stock was restituted into the hands of former owners, which resulted in profound social tensions between those who could benefit from privatization and those who could not, due to the restitution of property. There was also an ethnic dimension to this problem, as the restitution concerned mainly Estonians, while Russian immigrants could benefit from the privatization of the more recently constructed dwellings. Municipalities are, thus, obliged to provide tenants in restituted buildings with flats close to their previous residence and having the same quality standard and size as their former residence. These flats may be privatized under the same preferential conditions originally applicable to tenants in public housing (using privatization vouchers).

The Act on the Privatization of Municipal Flats was one of the first acts of the independent Slovak Republic; in 1995 and 1998 amendments were introduced that strengthened the power of tenants applying to privatize their flats. The first amendment introduced the rule that municipalities were obliged to privatize the flats within two years if at least 50% of the tenant households in a particular rental house request their flats be privatized (limited right to buy). The privatization prices, regulated by the central law, were very low. However, no special financial conditions for households willing to privatize were prepared to further promote the privatization process.

- *Slow Privatizers*

In the Czech Republic and Poland, the right to buy was applied only to tenants in co-operative housing. The Act on Ownership of Apartments and Non-residential Premises (1994) with later amendments, enabled the privatization of public rental stock in the Czech Republic (condominium legislation), but the tenants' right to buy has not been introduced, nor has the regulation of privatization prices been applied. A look at the Polish situation gives us the same picture: dwellings were privatized generally for market prices and various discounts were granted. The extent of the discount, as well as the selection of the stock to be privatized, remained under the competence of the individual municipalities.

- *Bulgaria*

Unlike other transitional countries, Bulgaria started its democratic development with a high percentage of home-ownership, consisting of 91% of the total housing stock. The privatization and restitution processes did not cause significant changes in tenure structures. During Communism, housing was initially built to be state or municipally owned and was later sold to the tenants. Each tenant in municipal or state rental housing had a right to buy the dwelling after occupying it for two years and could benefit from comfortable loans from the State Savings Bank at a 2% p.a. interest rate. Moreover, the construction of public housing was subsidized by the State and the privatization prices were widely affordable (only the construction costs were not covered by the state subsidy,

thus determining the privatization price). A new regulation was adopted in 1994, supposedly to prevent further privatization of municipal housing stock and introduce more stringent criteria for their allocation, but this moratorium was cancelled in 1996.

1.3.2 Demand-side Subsidies (Housing Allowances)

Demand-side subsidies (housing allowances) were introduced in Poland, the Czech Republic, Slovakia and Estonia (now part of the subsistence benefit). In Bulgaria, only a special type of energy/social allowance has been implemented. A common feature of the housing allowance in all the countries mentioned is its marginal significance; a housing allowance serves as support for the lowest income families, rather than an effective demand-side housing policy instrument (part of the basic social assistance policy). This can be documented by looking at the percentage of the total number of households in each country that received benefits; in no country, except Estonia, does this percentage exceed 8%. The main goal of housing allowances is not to stimulate demand for housing, but to maintain the current housing standard for households in need. We can cautiously state that there is no significant relationship between housing allowances and the supply side of the housing market in these transitional countries. The income support provided through the benefits is not sufficient to stimulate the demand for new housing and provoke an appropriate response with respect to the supply.

Housing allowance programs in the Czech Republic, Slovakia, Estonia and Poland are targeted at low-income and handicapped households. The many restrictive conditions that apply (income ceilings) demonstrate this. Two types of income ceilings can be distinguished: implicit and explicit. Implicit income ceilings arise from the formula used for calculating the housing allowance, whereas explicit income ceilings are strictly set in the Act. A significant change can happen when an applicant's income exceeds the ceiling because, in such a case, the applicant is not eligible for any benefit (however, this is not the case, neither for the Czech nor for the Polish systems). The income ceiling (with no regard as to explicit or implicit), negatively affects the household members' work incentives and leads to a poverty trap. This concerns mainly the Estonian system where one unit income growth is connected with one unit allowance decrease.

With the exception of Poland and Estonia, explicit housing expenditure normatives are also applied in housing allowance models (normative housing expenditures). In Estonia, housing expenditures are not set as one-figure normatives but are limited by ceilings (maximum values); these limits are not set centrally but by the municipalities. Poland is the only country where real housing expenditures are included in the calculation with only indirectly set ceilings (comparable costs in municipal housing).¹ The normatives in the Czech Republic and Slovakia reflect only the composition of the household and not the local or regional particularities (regional rent differentiation).

Moreover, normatives in those countries are set at too low a level, reflecting the situation in the “privileged” rent regulated sector. From that point of view, the Polish model of housing allowances is the only model that is close to the standards of continental EU housing allowance systems.

Though, in all the above-mentioned countries, no tenure is explicitly excluded from the right to apply for a housing allowance (housing allowances help both tenants and housing owners) another common feature of these systems is that households living in market rental housing are at a disadvantage. Generally, the income of these households is relatively high and they are, thus, ineligible for the allowance (if an income ceiling is used), although their housing expenditures burden can be significantly higher than that of households paying regulated rental prices. Moreover, the calculation of the allowance is limited by housing expenditure normatives (with the exception of Poland and partially Estonia) that are significantly lower than housing expenditures of those living in the free market rental sector.

Another problem of the analyzed housing allowance models concerns the determination of so called *normative rate of burden*. The normative rate of burden is defined as the normative share of household income that a household must spend on housing (always based on a formula involving a coefficient). In other words, it sets the minimum financial participation of a household on its housing expenditures not directly (in absolute values) but indirectly in a form of a percentage of the total household income. In the Czech and Estonian models, the normative rate of burden varies according to the size and composition of the household (due to their connection to the concept of a subsistence minimum). In the Polish model, the coefficient varies according to income level. In all analyzed CEE models, the normative rate of burden does not increase with the level of housing expenditures (assuming constant income). However, in the standard continental models used in most of the EU countries, the normative rate of burden usually increases with the level of housing expenditures. For example, moving to better located or equipped housing would be connected with a rise in the normative rate of burden; the household covers the higher costs with a higher share of its income, compared to before the move. This is the common failure of all the analyzed CEE housing allowance models.

The danger of creating a poverty trap situation can also be evaluated (in EU countries this is discussed mainly in connection with the housing allowance in the United Kingdom). This could be measured by the so-called “rate of degression”, showing the amount of decrease in housing allowance when the income of a household increases by one currency unit. In most of the analyzed countries, degression rate is relatively sustainable (about 30%) and only the Estonian model with 100% degression rate forms an exception (one unit of additional income is connected with one unit of decrease in housing allowance). The Estonian allowance leads to a substantial decrease in work incentives and a poverty trap situation.

With the exception of Poland, housing allowances are paid from the state budget. In Poland, *gminas* (municipalities) are mainly responsible for covering housing allowance expenses, but they obtain a grant from the state budget, calculated according to two possible relatively complex formulas (on the average, they receive a subsidy equal to 50% of the total payment duty).

The systems among the countries are very different and the situation in Estonia is particularly unique. The basic principles of housing allowances were described in the country reports; a brief comparison of models is contained in the following Table 8.4 (Bulgarian energy allowances are not included in the comparison).

Table 8.4
The Comparison of Selected CEE Housing Allowance Models

	Housing Allowance is a Separate Benefit in Social System Designed Particularly to Cover Housing Costs	All Tenures are Eligible for the Housing Allowance	Explicit or Implicit Income Ceilings for Housing Allowance Application	What Kind of Income (Net or Gross) is Used for the Eligibility Test or for the Housing Allowance Calculation? Are Other Social Benefits Included?	What Housing Expenditures are Taken Into Account for Housing Allowance Calculation?	Who Provides Financial Sources for Housing Allowance Payments?	The Share of Households Receiving Housing Allowance from Total Number of Households
Czech Republic	Yes	Yes	Yes, explicit (as a multiple of household's subsistence level)	Net income, including illness and retirement benefits, unemployment benefits, parents benefits, care benefits, child benefits	Normative housing costs (part of a subsistence level) differentiated by size of household	State	7.6% (December 2000)
Estonia	No (a common subsistence benefit was introduced to cover all primary needs)	Yes	Yes, implicit (as household's income after payment of limited housing expenditures must remain below the subsistence level)	Net income, including social benefits with a few exceptions: one-time benefits, certain benefits to disabled persons, child benefits	Real housing costs to the extent of the standard allotted living space and to the limits established by local authorities	State	12% (in 2001)

Table 8.4 (continued)
The Comparison of Selected CEE Housing Allowance Models

	Housing Allowance is a Separate Benefit in Social System Designed Particularly to Cover Housing Costs	All Tenures are Eligible for the Housing Allowance	Explicit or Implicit Income Ceilings for Housing Allowance Application	What Kind of Income (Net or Gross) is Used for the Eligibility Test or for the Housing Allowance Calculation? Are Other Social Benefits Included?	What Housing Expenditures are Taken Into Account for Housing Allowance Calculation?	Who Provides Financial Sources for Housing Allowance Payments?	The Share of Households Receiving Housing Allowance from Total Number of Households
Poland	Yes	Yes (but there are important limits in cases when household is not living in municipal rental housing)	Yes, explicit (as a percentage of the lowest retirement pension)	Net income, including social benefits, with a few exceptions: one-time benefits and social transfers for orphans	Real housing costs to the extent of the standard allotted living space (limits are applied mainly for households living in market rental sector)	both State and municipalities	7.6% (in 2000)
Slovak Republic	Yes	Yes	Yes, implicit (emerging from the formula used for housing allowance calculation)	Net income, including other social benefits with a few exceptions: one-time benefits, social assistance	Normative housing costs calculated on the basis of allotted living space for the household multiplied by average rent, maintenance and energy fees [per m ²]	State	4.2% (December 2001)

1.3.3 Supply-side Subsidies (Social/Affordable Housing)

Supply-side subsidies directed towards new social/affordable housing construction are very limited in all the CEE countries analyzed and, with the exception of Poland, municipalities are the only providers of rental housing for low-income households. Legal definitions of social housing are found only in Estonia, Poland, and Romania. In all cases, it includes some kind of municipal shelter housing (very basic housing from the stock of municipal rental housing) for the most needy households. The residual character of the social housing definition is found mainly in the Southern European, EU member countries (and in Belgium); in an overwhelming majority of the EU countries, a much wider concept of social housing system is used (housing for low- and middle-income households). The understanding of the term “social”, in connection with housing, is thus different in the CEE region than in the countries of Western Europe.

In any event (even if social housing is not legally defined) the public housing stock is considered the only affordable housing for households in need of social assistance. This relates mainly to those countries ranked among the group of fast privatizers and Bulgaria (where municipal housing stock became residualised). With the exception of Estonia and Bulgaria, rents in municipal/state dwellings are regulated by the State. The process of rent deregulation is progressing very slowly, mainly in Slovakia and Romania (more details in the next chapter).

One of the most important contributions of rental housing reform in Poland concerns the introduction of a new type of social housing operator: social housing associations (TBS—*Towaryzystwa Budownictwa Społecznego*). A TBS can take different legal forms: limited liability company, joint-stock company, or cooperative of legal persons (but not physical persons who could set up the housing cooperative). In fact, more than 90 percent (probably over 95 percent) of new housing associations in Poland currently have the status of limited liability companies. A TBS can be started by a municipality itself and, in fact, more than 90 percent of the associations currently operating were started by municipalities. A TBS cannot make a profit (it does not pay income tax) and its status and rules (articles) and all changes to them must be accepted by the President of the State Office for Housing and Urban Development.

The rents in TBS housing are set by the Municipal Councils; they, however, cannot exceed 4 percent of the replacement value of a dwelling set by the *voivoda* (head of the Regional Council) in its quarterly edicts. The total income from the rent payments for all dwellings owned by a TBS must cover all maintenance and repair costs, as well as the repayment of the qualified loan from the National Housing Fund (cost rent). The explicit rules for allocating new rental flats and income ceilings were introduced by a special act. Moreover, once every two years the tenant households must present the TBS with a declaration of the average monthly household income for the past year. If the declared household income exceeds the ceiling, the association may charge a free

market rent. TBS housing has been constructed in Poland since 1996. The rents are relatively low and the new dwellings serve families with middle and lower incomes (though not those with the lowest incomes). Thanks to the process of transformation from municipal to TBS housing, the rate of turnover in municipal housing increased, thus allowing socially needy households from the municipal waiting lists to obtain municipal rental housing.

However, no similar process for the creation of non-profit independent social landlords cooperating with local authorities in new social/affordable housing construction can be found in the other selected CEE countries. Current state subsidy programs for new “rental” housing construction in the Czech Republic is susceptible to abuse and, in fact, it serves mostly as “quasi-ownership” housing construction (ownership of the “rental” flats will be transferred to the occupants after a period of 20 years). The State supports new “rental” construction with a subsidy of CZK 350,000 (USD 10,000) for each new flat (about one-fifth of the construction costs). However, there are no limitations concerning the maximum cost per m² or the maximum area of the dwelling; no means-testing is applied in the allocation of flats and no apparent filtration process has occurred (due to the rent regulation and the low level of municipal control). The program, therefore, serves in some cases as financial support for higher income households to construct comfortable dwellings that will later fall under their ownership. In the Czech Republic, no other support for social rental housing was introduced, social housing has not been legally defined and the non-profit housing association legislation has not been passed.

In Bulgaria, Estonia, and Romania there are no state subsidy programs supporting new social/affordable rental housing construction (with the exception of a very limited program in Romania) and, in Slovakia, such a program was not introduced until 2000. Although it is too early for evaluation, the conditions of the program supporting new municipal rental housing construction in Slovakia are promising: the construction costs per square meter are limited, rents are limited to five percent of the replacement value and means testing is applied. The problems, from the point of view of economic efficiency, are mainly that the potential developers are limited to municipalities (no housing association legislation has been passed up to now) and, from the point of view of social effectiveness, there is a lack of regular inspections (as is the case for households living in dwellings of housing associations in Poland).

Mortgage legislation has been introduced in all the selected CEE countries. With the exception of Bulgaria, some kind of national housing fund (in Romania the National Housing Agency) has also been established, providing financial sources to support new ownership housing construction or purchase (with the exception of Poland where the fund serves mainly for the purpose of new social housing construction by housing associations). This kind of support for increasing the affordability of home-ownership can be found in Romania (National Housing Agency and its mediating activity), Estonia

(qualified loans for young families and other socially needy groups through the Estonian Housing Fund), Slovakia (qualified loans for young and lower-income households through the State Fund for Housing Development) and the Czech Republic (qualified loans for young households through the State Housing Fund). Moreover, tax relief for mortgage interests has been introduced in most of the countries. However, such programs were not always effective (Slovakia, Czech Republic) as means-testing was not applied and the number of applicants often greatly exceeded the program capacity.

1.4 Conclusion and Evaluation

The general typology of all the selected CEE countries, according to the applied state housing policy, is scarcely possible as they are characterized by very particular approaches. Though there are some uniform features mentioned in the introduction to this chapter (sharp cut in state subsidies, sharp growth in construction and ownership housing prices, decentralization connected with housing stock transfer to the ownership of municipalities), the development of policies varied largely among those countries and lead to the creation of very diversified systems (a similar situation can be seen in the EU).

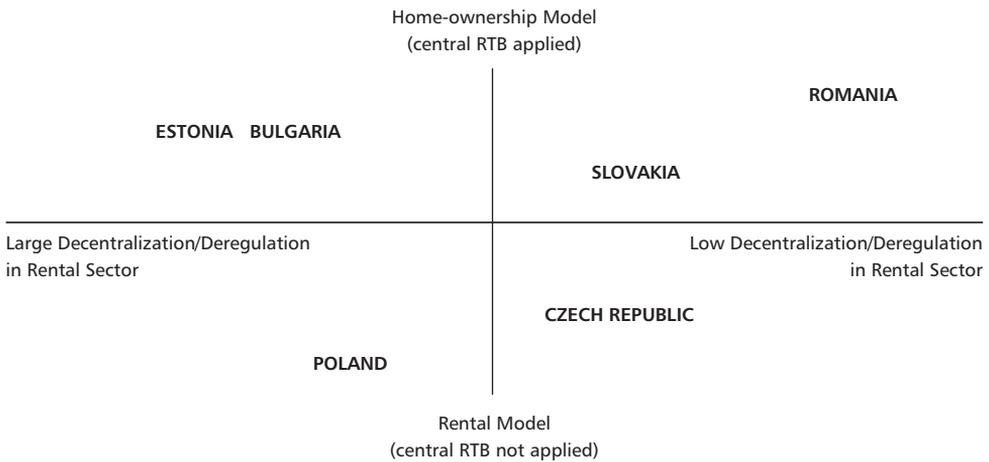
Selected countries have already been grouped into three types according to the housing privatization strategies: 1) Fast privatizers (Romania, Estonia, and Slovakia); 2) Slow privatizers (Czech Republic, Poland); 3) Bulgaria. Though there is a very slight correlation between level of country GDP and privatization approach, there are many exceptions to this rule (Slovakia, Estonia) that makes such a hypothesis unlikely. It is geographical factors that seem to have the most influence, as *Central European countries privatized less of their public housing than the Eastern and Southern European countries*. Together, with differences in the scale of decentralization/deregulation in the rental housing sector, Figure 8.1 can offer more comparative view.

Though in all the countries former state housing was transferred into the ownership of municipalities, the decisive state influence on management of municipal rental housing remained in Slovakia, Romania and the Czech Republic (mainly through strong tenant protection, central housing allowance models and rent control/ceilings). Higher deregulation / decentralization in rental housing is assumed to be connected with greater freedom in rent setting for landlords (though rent ceilings are applied in Poland), lower tenant protection and larger competence of municipalities in shaping/paying housing allowances.²

There is one clear logical implication: *the policy orientated towards the home-ownership model, combined with too low privatization prices (Estonia, Bulgaria, Romania), leads always to quick residualization of municipal housing, concentration of problematic households in municipal housing stock, social segregation, rise in rental arrears (we will see that in the next chapter), lower rental income (worst income-cost ratio), higher need for supply*

side subsidies for remaining public housing and mainly a strengthening of tensions between tenants in public and private housing sectors. In all countries that belong to fast privatizers and offered very advantageous right to buy, the problem with tenants in restituted houses, appeared. This is gradually solved by giving them priority in municipal housing allocations in Romania and Bulgaria, and “privatization voucher”, loans in Estonia. On the opposite end of the scale, tenants in restituted houses in Poland and the Czech Republic did not obtain any preferential conditions on housing market.

Figure 8.1
Comparison of State Housing Policies



We have already pointed out that “legislative” deregulation does not have to be (and in practice is not) accompanied by real rent price deregulation. *In countries with a more modest scale and speed of privatization, municipal housing did not become residualized and the deregulation of rents went much quicker (even for municipal housing stock).* In these countries (Poland, Czech Republic) generally only part of the municipal housing stock is used as social housing (rent is “affordable”). However, in the Czech Republic this concerns only those municipal dwellings that are re-let because municipalities then have the right to use different strategies for establishing rental prices (for running rental contracts, regulated rents are applied without an evaluation of the social need of the household). In Poland, rent prices (for running rental contracts) are regulated by legislation but the set limits are, however, relatively high (three percent of actual replacement value), allowing municipalities to raise rents substantially and to apply rent pooling. However, this would be unpopular with the population and thus, for political reasons, Polish municipalities do not raise the rents to this limit.

The policy orientated towards the rental model, which is not accompanied by the decentralization/deregulation process (Czech Republic), is logically connected with relatively passive municipal housing policy and the establishment of a black market with rent-regulated municipal dwellings. This practice is almost unheard of in most of the countries, while it is very common in the Czech Republic. The black market has basically two forms there: illegal subletting of rent-regulated municipal apartments and illegal “sale” of rental contract on rent-regulated municipal apartment via fictitious dwelling exchange. Due to the continuous strong protection of tenants (quasi-ownership character of rental housing) and slow performance of the Czech courts, landlords often have very little power to eliminate these practices.

No approach can be theoretically evaluated as purely bad from the point of view economic efficiency. Large-scale privatization is the speediest way to deal with the burden of non-targeted “socialistic” housing heritage (tenant protection, rent regulation), cut public subsidies substantially and to support the ownership housing market operation. Though it leads to tensions between different groups of society due to its very low social effectiveness, it is sometimes the best way to start the future housing policy based on targeted housing allowances that really help those who need help. On the other hand, policy orientated towards the rental model helps to maintain a significant rental sector (allowing higher labor mobility in the future), guards against social segregation and spatial residualization and allows more substantial rental price deregulation. Though the social effectiveness is due to the strong tenant protection and non-targeted rent regulation on current rental contracts very low, rental housing can be viewed as a better way to assist socially needy households with lower incomes.

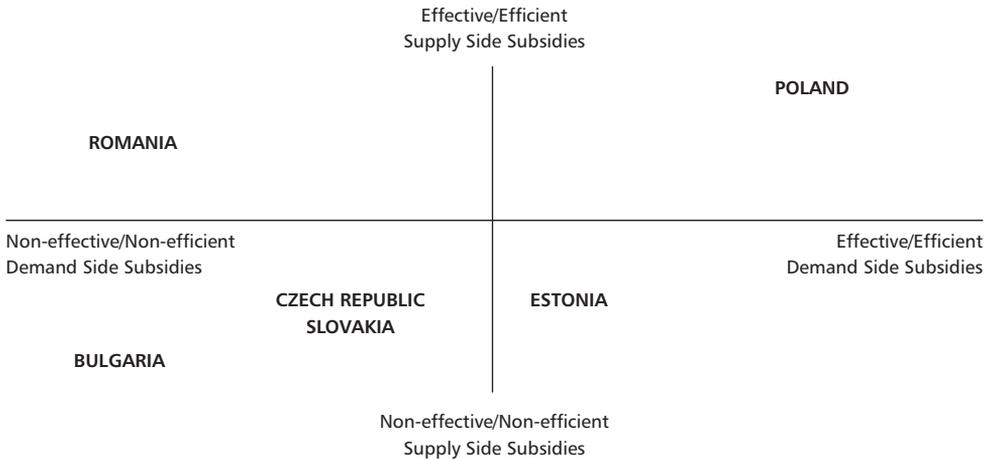
If we want to compare the countries/models according to the real and not only theoretical economic efficiency and social effectiveness of their supply- and demand-side state policies we would define:

- Demand-side subsidies are economically efficient and socially effective, if the housing allowance model; does not use explicit or implicit income ceilings (as there may be households with high housing expenditure burdens but middle or higher incomes); does not use housing expenditure normatives (for the same reason); applies a normative rate of burden rising with the level of housing expenditures and level of income of applicant households (the “participation share” of household on its housing expenditures rises with its income and housing costs reflecting the location and standard of housing); and applies an “optimal” normative rate of burden which does not lead to poverty trap (degression of the amount of allowance with the income growth is not as high as it would demotivate households to increase their own income);
- Supply-side subsidies as economically efficient and socially effective if; there is a clear definition of social housing and if particular subsidy programs (supporting both affordable rental and ownership housing construction/purchase)

are clearly targeted to households in social need and are sustainable in the long run (guaranteed sources, private capital participation)³.

Figure 8.2 summarizes the comparison of state housing policies in the selected CEE countries.

Figure 8.2
Comparison of State Housing Policies



Poland is the only country with relatively large efficiency/effectiveness of both demand- and supply-side subsidies. It has housing association legislation with very efficient state subsidy rules, applied definition of social housing, “optimal” normative rate of burden increasing with income level (not leading to a poverty trap as the Estonian model) and counting real housing costs into the housing allowance model. The precisely defined mediating activity of the National Housing Agency in Romania is, in our opinion, the example of efficient and effective way of managing state supply-side subsidies (eligible sources are, however, much lower than in more developed countries). The Estonian housing allowance (subsistence benefit) model does not apply housing expenditure normatives and ceilings are set at a local level of administration, therefore, it is more effective in helping those households with a higher housing expenditure burden than the Czech or Slovakian models. Bulgaria is the only country where no decisive supply- or demand-side subsidies (with the exception of temporal energy allowance) are implemented.

Other conclusions can be made from the above mentioned comparison: *the most effective/efficient housing policy was implemented where policy orientated towards the rental model was combined with decentralization/deregulation in the rental sector of housing (Poland). The least effective/efficient one, where policy orientated towards the rental model was combined with a low level of decentralization/deregulation in the rental sector of housing (the Czech Republic and partially Slovakia).*

From the comparison of housing conditions, in particular countries, we can offer the following empirical implication: *the relative housing sufficiency (Czech Republic, Slovakia, Estonia) leads to lower effectiveness/efficiency of housing policy while relative housing insufficiency (Romania, Poland) leads to the opposite. Bulgaria is a special case with no real state housing policy at all.*

2. LOCAL GOVERNMENT HOUSING POLICIES IN THE SELECTED CEE COUNTRIES

2.1 Introduction

In all of the selected CEE countries, the principles of decentralization and local government were set by new Constitutions passed at the beginning of transformation. Legislation made improvements to the rules concerning the distribution of responsibilities to different levels of the public administration as well as the distribution of financial sources from the state budget. Amendments to tax laws allowed municipalities to receive funds from certain taxes (proprietary tax) or a portion of the total funds raised from general national taxes (income tax).

Table 8.5, following, shows a comparison of the territorial administration structures in selected CEE countries and the number of municipalities that form major units of local government in those countries.

It is surprising that Estonia has almost the same number of municipalities as Bulgaria, though the total population of Bulgaria is more than six times greater than that of Estonia. Similarly, the number of communes in Poland (total population over 38 million) is almost three times lower than the number of municipalities in the Czech Republic (total population of 10 million). The large number of municipalities in the Czech Republic is a result of the Municipal Act, which led to the disintegration of municipalities originally amalgamated during the previous regime; however, about 60% of these have less than 500 inhabitants and self-government in such small municipalities is very weak with respect to financial resources and professional experience.

Table 8.5
Territorial/Administration Structure in Selected CEE Countries

Country	Administration Structure	Number of Municipalities/ Communes	Population [Thousands]	Population per Municipality [Thousands]
Bulgaria	Two tiers (municipalities and regions)	262	7,867	30.0
Czech Republic*	Two tiers (municipalities and districts)	6,200	10,260	1.6
Estonia	Two tiers (municipalities and counties)	247	1,377	5.6
Poland	Three tiers (communes, districts and voivodships)	2,489	38,577	15.5
Romania	Three tiers (communes/ towns, counties and regions)	2,688	22,388	8.3
Slovakia	Two tiers (municipalities, regions)	2,883	5,403	1.9

* The role of the district was greatly lessened with the recent establishment of regions and they will cease to exist by the end of 2002 when their responsibilities will be transferred to select larger municipalities. The future territorial administration structure will also be two-tier, consisting of regions and municipalities.

In Bulgaria, Romania, Slovakia and Poland there are no legal restrictions on local government borrowing, while in the Czech Republic (debt is limited to 15% of annual income in previous year) and Estonia (total amount of expected debt should not exceed a certain percentage of the proposed budget revenue) borrowing activities are limited by central legislation. However, in all the countries, the funds municipalities raise from their own sources (taxes, fees, rents, leases, income from privatization, etc.), transfer from the state budget, or borrow on the market are, in the opinion of the country report authors, still so restrictive that they do not allow municipalities to execute all the powers granted them as a result of decentralization. Moreover, in some countries (Romania, Bulgaria) municipal revenues are unpredictable (subsidies cannot be predicted, national taxes are changed).

2.2 Local Government Housing Policies in the CEE Countries

In almost all of the selected CEE countries, especially in the larger municipalities, there exist special departments dealing with housing issues. These are called "housing departments" or "departments of housing/urban policy", "municipal property and housing

departments”; only in Romania do communes/municipalities lack a specific department and activities/services are sometimes conducted by counties or are dispersed among different local governmental administrative departments.

2.2.1 General Local Governmental Housing Policy Strategies

The following information is mostly based on results from the Local Government and Housing Survey (conducted among all municipalities with populations over 5,000 inhabitants, in almost all countries, and over 20,000 inhabitants, in Poland). Due to the specific position of Poland the results for this country will be distinguished in the following tables.

Municipalities did not elaborate very often own housing policy strategies in the CEE countries, though the situation is far from uniform. In the Czech Republic only one third of the municipalities have a housing policy strategy approved by the Council (another 9% of municipalities have strategy but not yet approved by the Council). In Slovakia less than 40% of the municipalities have an approved strategy (another 20% of the municipalities have a strategy but it is not yet approved). On the opposite end of the scale, in Poland, half of the municipalities have an approved strategy (another 25% have a strategy that is not yet approved) and in Romania about 60% of the municipalities have a strategy approved by the Council (another more than 20% of municipalities have a strategy not yet approved). In Slovakia and the Czech Republic, there is the lowest share of municipalities with approved housing strategies while in Poland and Romania the opposite is the case. However, the term “housing strategy” translated into different languages can obtain different meanings and relate to different strategic documents.

Much more important are the main municipal housing policy goals in those strategies (with no regard to the fact if they were approved or not by the Municipal Council) that were outlined by respondents themselves. The objectives were ranked according to their importance. Table 8.6 shows the most frequent answers to the first three objectives.

It is surprising that the first, most important objective consists of housing construction in almost all of the selected CEE countries (with the exception of Estonia) though the physical as well as financial conditions differ significantly among those countries. It is hard to imagine that in Romania, where no significant state supply-side subsidies are provided to municipalities for the purpose of new social rental housing construction, the first objective of municipal housing policies concerns this very expensive activity. Municipal housing strategies as well as objectives defined there are very probably, in some of those countries, desires rather than real housing policy goals that could be attained under the current conditions. However, in Poland the stress is on new rental housing construction provided by housing associations (TBS) which really has appeared very successfully in many regions of the country.

Table 8.6
What Are the Main Housing Policy Objectives of Local Government Housing Policies?

	First; the most important objective	Second objective	Third objective
Bulgaria	Housing construction for socially disadvantaged households/individuals	Better maintenance of municipal housing	Enabling ownership housing construction on land owned by municipality
Czech Republic	New housing construction	Increasing quality of municipal housing stock—maintenance and modernization	Increasing quality of municipal housing stock—maintenance and modernization
Estonia*	Improvement of management of housing stock, privatization of municipal housing	Establishment and support for management of homeowners associations	Establishment and support for management of homeowners associations
Poland	Satisfaction of housing needs by intensification of housing construction in the form of TBS and social housing	Improvement of housing standards and to stop municipal housing stock degradation	Reconstruction, modernization, technical improvement of municipal housing stock
Romania	Support for new rental housing construction designed for low income households and other disadvantages groups of households	Support for rental housing construction designed for young people and specialists in partnership with the NHA through government housing program	Improvement of technical infrastructure quality of the existing social housing stock
Slovakia	Construction of rental housing	Provision of land and technical facilitation of housing construction	Construction of rental housing for socially underprivileged households, young families and temporary housing

* Due to the small number of municipalities in the sample and the large share of missing cases, this information is only partially reliable.

SOURCE: Local Government and Housing Survey, weighted sample

The second and the third objectives (ranked according to their importance), if not again social/affordable housing construction, concern mainly the issue of the improvement of a current housing stock; in Slovakia and Bulgaria, the appropriate land policy aiming at enabling private home-ownership construction is mentioned. Estonia has a little bit of an exceptional position as the second and the third most frequent goal (as well as the most frequent goal when counting it with no regard to ranking) is the establishment and support for management of homeowners' associations (moreover, the first most frequent objective concerned municipal housing privatization). This is a much more practical and realistic goal for a country with residualized municipal housing, relative physical sufficiency of housing and high debt on housing maintenance inherited from a previous regime.

In the Local Government and Housing Survey we also asked representatives of municipalities to rank a list of nine housing policy objectives according to their importance with no regard as to whether they are introduced in their own housing strategies/policies or not. Table 8.7 shows the results; the figures in brackets are the average ranking values counted as final school marks by a teacher.⁴ The objective with the lowest final average is considered the "first objective"; the objective with the highest final average is considered the "ninth objective".

With the exception of Estonia, the municipalities in all of the selected CEE countries evaluate the higher affordability of housing for low- and middle-income households as the priority goal in existing or desirable municipal housing policy strategies (in the Czech Republic this is apparent in support for goals like "the increase in new housing construction" and "availability and affordability of housing for young households"). Perception of municipal housing policy in Estonia is more orientated towards meeting special shortages (elderly, handicapped, homeless people) and support for refurbishment and regeneration of houses. The goal "improvement of housing conditions and higher quality of housing" appeared most often in the second/third place, ranked according to the importance; however, in none of the analyzed countries was it evaluated as the most important. The middle position on a scale of nine fixed objectives is occupied, generally, by goals concerning meeting special shortages.

At the end of the row there is the goal "higher labor/tenant mobility" (concerning higher turnover in municipal rental housing, household mobility, filtration) and mainly the goal "maintenance or creation of a social mix preventing social segregation". The last place of this particular housing policy objective, after the danger of spatial segregation, shows how different housing policy perspectives are in the Eastern and Western part of Europe (with the exception of Bulgaria). Though real housing shortage is no longer a problem in most developed EU countries, residualization of social housing and spatial segregation (mainly in prefabricated housing estates) belong currently among the main challenges for local governments in those countries.

Table 8.7
 Ranking of Fixed Housing Policy Objectives by Local Government Representatives

	Bulgaria	Czech Republic ¹⁾	Estonia	Poland	Romania	Slovakia
Higher affordability of housing for middle and low income households	1. (1.8)	4. (1.46)	5. (3.9)	1. (2.6)	1. (2.4)	1. (1.4)
To meet shortage of housing for disabled, handicapped people	3. (3.4)	10. (2.29)	1. (3.0)	4. (4.7)	4. (4.6)	4. (5.1)
To meet shortage of housing for elderly people	5. (4.7)	9. (2.10)	4. (3.8)	5. (4.8)	6. (5,0)	5. (5.6)
To provide housing for homeless people	2. (3.1)	13. (2.70)	2. (3.5)	3. (4.5)	2. (3.5)	7. (6.3)
Improvement of housing conditions, higher quality of housing	4. (4.5)	5. – 6. ²⁾ (1.55) (1.80)	3. (3.6)	2. (3.7)	3. (4.1)	2. (4.2)
Support for home-ownership and private housing construction	7. (6.4)	3. (1.41)	6. (5.1)	7. (5.1)	8. (6.8)	3. (4.6)
Introduction and/or improvement of tenant participation in housing management	9. (7.2)	8. (2.10)	7. (5.8)	8. (5.6)	5. (4.9)	6. (6.2)
Higher labor mobility	8. (7.1)	12. (2.48)	8. (7.2)	6. (5.0)	7. (6.4)	8. (6.5)
Maintenance or creation of social mix preventing social segregation	6. (6.3)	11. (2.32)	9. (7.3)	9. (6.3)	9. (7.4)	9. (6.7)
Availability and affordability of housing for young households	—	1. (1.21)	—	—	—	—
Increase in new housing construction	—	2. (1.35)	—	—	—	—
Better management of municipal housing fund	—	7. (1.88)	—	—	—	—

¹⁾ A different method was used: each objective was evaluated by each municipality on a scale from “very important” (1) to “not important at all” (4). Moreover, three further categories were added to the list of objectives.

²⁾ The improvement of housing conditions was divided into improvement of quality of municipal housing fund and improvement of quality of residential environment.

SOURCE: Local Government and Housing Survey, weighted sample.

The placing of the goal “to provide housing for homeless people” on a scale according to its importance differs very significantly among the analyzed countries. In some of them (Estonia, Poland, Romania, Bulgaria) this was ranked amongst the three most important goals, while in others (Czech Republic, Poland) it was ranked among the three least important goals. This reflects both the different number of homeless people and different perception of homelessness among the selected CEE countries. In the Czech Republic, a great deal of emphasis is placed on support for home-ownership and private housing construction.

2.2.2 Main Local Housing Policy Activities

Table 8.8 lists some of the main activities of local government in respects to housing. Though legal competencies sometimes include other fields, some of the services are often not provided by local authorities due to the lack of adequate financial resources. Even those listed here are sometimes realized only on a limited scale.

As the table shows, in addition to the general right to issue building permits, prepare/accept territorial/master/urban plans, prepare/implement land zoning/policy and provide housing for special groups of persons/households (handicapped, disabled, elderly), municipalities also have the right and responsibility to maintain/construct affordable/social housing for socially needy households. In Estonia, where social tensions erupted between people living in municipal housing (and profiting from following privatization) and those living in restituted private rental housing, municipalities (with the financial support of the State) were obliged to also secure housing for all tenants in restituted houses. In Bulgaria too, tenants in restituted houses were given priority, by law, during the allocation of vacant or new municipal rental dwellings. Though the duty to maintain and provide social housing for households in need is not always stated in the legislation of a particular country (at present it is explicit only in Poland, Romania, and Estonia) such a responsibility was the logical outcome of the realities that followed from the transfer of former state and/or state enterprise rental housing and land to the ownership of municipalities that occurred in all the selected CEE countries during the first years of transition.

2.2.3 “Social” Housing

In Estonia, Romania, and Poland, social housing has been explicitly defined in central housing legislation, but in a much more limited form than that in the majority of the EU countries (with the exception of Southern European countries and Belgium). According to the Estonian Welfare Act, a social dwelling is a dwelling under municipal

Table 8.8
List of Main Activities of Local Government with Respect to Housing

Activities in the Sphere of Housing	Bulgaria	Czech Republic	Estonia	Poland	Romania	Slovakia
Land policy	x	x	x	x	x	x
Urban/territorial planning	x	x	x	x	x	x
Building permissions, inspection, colaudation	x	x	x	x	x	x
Providing housing for special groups of persons/households (handicapped, elderly) and shelter housing	x	x	x	x	x	x
Maintenance/rehabilitation/regeneration of municipal housing	x	x	x	x	x	x
Providing waiting list of socially needy households	x	x	x	x	x	x
Setting rents for municipal housing • regulated by central legislation (ceilings) • not regulated by central legislation	x	x	x	x	x	x
Allocation of municipal housing among socially needy households • regulated by central criteria • not regulated by central criteria	x	x	x	x	x	x
Privatization of municipal housing • according to own decisions/conditions • largely regulated by central legislation and right to buy	x	x	x	x	x	x
New social/affordable housing construction • new municipal rental housing • cooperation with independent social landlords in new social/affordable housing construction (providing land)		x		x x		x
Support for new private housing construction (infrastructure)	x	x	x	x	x	x

Table 8.8 (continued)
List of Main Activities of Local Government with Respect to Housing

Activities in the Sphere of Housing	Bulgaria	Czech Republic	Estonia	Poland	Romania	Slovakia
Support for condominiums (homeowners associations) in the sphere of rehabilitation of the housing stock		x	x	x		
Housing allowances financing				x		
Implementation of national housing programs (using subsidies for particular projects)	x	x		x	x	x

ownership targeted for a person in need of social assistance. The Act states that the municipality has the duty to provide a social dwelling or the opportunity to use a shelter to any persons or households that are not able or capable of obtaining it themselves. However, municipalities are not obliged to set the rents below the average value and in reality these dwellings are generally rented out for prices applied to the entire municipal housing sector.

The Romanian Housing Act defines social housing as a “dwelling with a subsidized rent allotted to persons or families with a poor economic situation and without access to a property.” The maximum rental price cannot exceed 10% of the household income and the rental contract can be concluded for only a limited period of time (temporary solution of housing problem). In Poland, a portion of the municipal rental stock should be designated, by law, as social housing for the lowest income households and households with a high measure of social need (household incomes under the living minimum or in relative poverty). Under the Act, these flats should be of a lower technical quality and their amenities should be of a lower standard. The rental contract in social housing flats is concluded only for a pre-defined time period (usually one year) and though the Act does not require that rent prices be regulated in this sector, they are actually much lower than in other municipal dwellings (amounting to around half of the average municipal rent).

2.2.4 Rental Policy

Municipal housing generally serves as housing for lower-income households, even if there are no legal provisions on social housing in the particular country. Though there are relatively large differences among countries in terms of the percentage of the total housing fund dedicated to municipal housing (see Table 8.2), the “social” character of municipal housing can be found in all of them (even though not every vacant flat is always allocated according to the social need of the applicant). In all of the selected CEE countries, with the exception of Estonia and Bulgaria, rents in municipal dwellings (very often together with rents for running rental contracts in restituted private rental dwellings) are regulated by the State so that they are affordable, even for socially needy groups of society. In some countries, rent deregulation at the central (State) level progressed relatively quickly (Poland, Czech Republic, Estonia, and Bulgaria). In others, rent deregulation progressed at a much slower speed (Romania, Slovakia).

In the Czech Republic and Slovakia, the maximum rent prices in municipal rental dwellings are determined by central government/ministerial edicts (these limits are not applied to vacant dwellings or dwellings constructed without state subsidies). In Poland, the law sets the maximum rent price in municipal dwellings at 3% of the actual replacement value (according to region, voivodship). As the same limits are used

also for running rental contracts in restituted private houses, former owners disputed the form of the regulation at the Constitutional Courts in both the Czech Republic and Poland. Consequently, in both countries this kind of regulation has already been declared unconstitutional (but the problem is mainly related to private rental housing). It is important to bear in mind that rental price limits used in Poland are relatively high to allow municipalities an active involvement in rental policy setting and substantially increase their rental income. However, due to the financial obligations of municipalities following from the housing allowance and especially because of the opinions of the local voters, local authorities do not raise rents in their dwellings to the permitted levels and it is estimated that the average rental price reaches only about 2% of the actual replacement value.

In Romania, the maximum rental prices are regulated by the Housing Act and the rent ceiling is indirectly defined as 25% of the total household income (10% in the case of social housing). According to the Estonian Housing Act, rent regulation was abolished at the central level completely and rent regulation is not obligatory for local authorities at all. The only regulation concerns the potential profit of the landlord, which cannot exceed 10% of the total rent price. However, local authorities do have the right to impose rent regulation on areas under their jurisdiction. If this instrument is used, then rent ceilings are introduced, not only on the municipal housing stock, but also on other rental stock within the area under the jurisdiction of that municipality (theoretically also on new rental contracts concluded in vacant or newly built dwellings). In fact, about 50% of the municipalities introduced some kind of rent regulation that applies to municipal housing and running rental contracts in restituted houses. The Law on State and Municipal Property abolished central/national rent ceilings in Bulgaria and local authorities obtained the right to set their own rental prices. The tendency is that rents in public dwellings should be raised gradually to the market level while reflecting the differences in the location and standards of municipal rental dwellings.

In Estonia and Bulgaria, municipalities are thus completely free to establish policies determining rental prices (however, most of Bulgarian municipalities follow central government recommendations in practice). In other countries, there is only limited room for rental differentiation (used mainly in Poland where rents are differentiated according to the location and quality of the dwelling). In Slovakia and the Czech Republic, the rental prices are differentiated according to the size of the municipality and the basic quality categories set by the central government decrees. However, in the overwhelming majority of cases, further differentiation according to the location within the municipality and/or particular housing services offered by the landlords (reflected in the differences in market rent prices) is not applied in those two countries.

In comparing the countries, we see that changes in the actual average rental price for municipal housing stock is not too dependent upon whether rent regulation has been abolished at the central level or not (e.g. higher growth dynamics in municipal

rental prices is more apparent in the Czech Republic than in Bulgaria). The main reason lies in the few financial options available to households living in the municipal rental sector in those countries classified as fast privatizers. A marginalized municipal housing sector occupied by lower-income households after large-scale privatization is typical in Estonia, Romania, and Bulgaria and, to a certain extent, also for Slovakia. In those countries there is very limited space for further rent growth in the municipal housing sector, as it would lead to a substantial decrease in the financial affordability of housing for socially needy households.

It can, therefore, be concluded that though municipalities in Estonia or Bulgaria can behave like private landlords and raise the rents to the market levels, they have taken their responsibility of securing appropriate housing for lower-income households seriously. However, this has the drastic consequence of the rental income sometimes being too low to cover even basic repair costs and the postponement of necessary housing stock regeneration.

2.2.5 Other Local Governmental Housing Policy Competence

According to the information from the country reports, in all of the selected CEE countries, the rental income is insufficient to cover maintenance and reconstruction costs connected with municipal housing. Thus, different operational subsidies are provided by the municipalities themselves in some cases, but the most common strategy lies simply in postponing the regeneration of the municipal housing stock and extending the hidden debt on housing maintenance. None of the countries have any sort of general operational subsidy for municipal housing provided from the state budget (as is the case in the United Kingdom and Germany) and municipalities must deal with the lack of financial resources themselves. The privatization of municipal housing is sometimes chosen as the only possible way to address this challenge, even in those countries where the right to buy has not been enacted (see above). However, housing allowances (in Bulgaria energy allowances, in Estonia subsistence benefits) in those countries partially help to create a limited space for rent increases and fund raising.

Though rents in municipal rental housing often remain regulated by central legislation, even after the transfer of dwellings to the hands of the municipalities (this also concerns a large tenant protection), the local government did acquire a fair amount of relative freedom in terms of the types and forms of new social housing construction programs they could enact. These include the setting of rents for vacant or new municipal rental dwellings; the application of particular forms and rules for the allocation of vacant or new municipal rental dwellings (limited in Bulgaria, Romania, and Estonia by criteria set by the central government); and the privatization of municipal dwellings (limited in Bulgaria, Romania, Estonia and Slovakia by the right to buy and price regulation).

In all the countries where the allocation of municipal dwellings is restricted by central legislation, income ceilings (used in Germany or France) are not applied and only the list of the main groups of individuals/households needing help (beneficiaries) is defined (handicapped, young people, low income households, tenants in restituted houses).⁵ Moreover, there are no legal restrictions in any of the selected CEE countries on how income raised through housing privatization or renting flats is spent and municipalities can decide about how to use such income, even for purposes not related to housing. In some countries, municipalities also share the financial (Poland) or implementation (Estonia) responsibility for housing allowance programs together with the State. In Poland, municipalities must cover around 50% of the total payments for housing allowances from their own sources and, in Estonia, they set the ceilings for housing costs used to calculate the subsistence benefit.

Limited state subsidies for new social/affordable municipal housing construction are provided from the state budget in the Czech Republic and Slovakia; in Poland, subsidies are provided to non-profit housing associations, however, these associations are closely related to municipalities. The principles, as well as a brief evaluation of these programs, have already been mentioned above. In Bulgaria, municipalities must bear the risk of market crediting if they want to finish the construction of municipal dwellings started during the previous regime. The problem of unfinished dwellings is very acute in Bulgaria (14,000 municipal flats are still unfinished in 2002) and Romania, though in Romania this problem is being solved in cooperation with the National Housing Agency. It can be said that the National Housing Agency, controlled by the central administration, has a monopoly on state subsidies for new housing construction (exclusively ownership housing construction) in Romania.

Other activities of municipalities in the sphere of housing include land policy/zoning (that could help new social/affordable housing construction provided by housing associations in Poland or municipal housing construction in the Czech Republic and Slovakia), support for private ownership construction (loans to young households in Romania, providing infrastructure for subsidized prices in Bulgaria, Slovakia, Poland and the Czech Republic) and cooperation with homeowners associations (condominiums) on housing rehabilitation/regeneration projects (partially in Bulgaria and Slovakia). In the Czech Republic, projects are also supported by the state budget and ruled by the conditions defined by the central government.

In general, the transfer to local authorities of tasks relating to social/affordable housing was not accompanied by the appropriate financial means to allow for investments and/or maintenance; capital subsidies are generally very low and operational subsidies, in all cases, are non-existent.

2.2.6 Municipal Housing Management

As municipalities are free to choose the type of management for their dwellings, there are very diversified types of management within each of the selected CEE countries (Table 8.9).

Table 8.9
Management of Municipal Housing in the Selected CEE Countries

	Bulgaria	Czech Republic	Estonia	Poland	Romania	Slovakia
Municipal administration	X (69.8)	X (19.7)	—	X (2.5)	X (61.4)	X (13.5)
Public/budgetary company owned by municipality	X (9.3)	X (27.1)	X (88.0)	X (30.9)	X (6.9)	X (29.5)
Private company controlled by municipality	X (25.6)	X (20.3)	X (38.0)	X (55.1)	X (15.4)	X (28.7)
Private companies with no capital participation of municipality	—	X (21.5)	(38.0)	X (11.5)	X (7.9)	X (28.3)
More types of management applied	—	X (11.4)	—	—	X (2.2)	—

NOTE: The figure in the bracket shows the percentage of municipalities applying that particular type of housing management from the total number of municipalities in the LGHS.

SOURCE: Local Government and Housing Survey, weighted sample.

The private companies, not controlled by municipalities, are used for the purpose of municipal/public housing management only in Slovakia, the Czech Republic, Poland and Romania. In Romania and Bulgaria, the majority of residualized public housing is managed by the municipal administration itself, in Estonia, by a budgetary company owned by the municipality. The share of municipalities providing housing management themselves is the lowest in those countries where municipal housing still forms a significant tenure in the overall structure of housing fund (Poland, the Czech Republic). The most diversified management types can be found in the Czech Republic and Slovakia.

In Poland and Bulgaria, the management of municipal dwellings is more complex because of the existence of buildings that are under common municipal and private ownership. This is the consequence of the privatization of dwellings “by apartments”, when some households privatized their dwelling while other households decided to stay under the municipal rental housing umbrella. In Bulgaria, 70% of all municipal housing is located in buildings with mixed ownership. It is a common practice in Bulgaria

for maintenance activities to be provided by private companies in buildings where owner-occupied dwellings prevail, while public companies manage those buildings where municipally-owned dwellings dominate.

In Poland, 45% of the buildings in municipal ownership/co-ownership have the status of homeowners' associations (mixed public-private ownership of dwellings in one building), but the overwhelming majority of them (more than 85%) continue to be managed by public or private municipal companies. In Estonia, up to the end of privatization, before homeowners' associations were established, management was provided by the former owners (State, municipality). The trend is now to transfer management duties/responsibility to the associations, which in turn can employ different private firms that are operating on the market.

For the purpose of public housing management comparison, we counted the "country averages" of selected performance indicators. The following tables show, in total, two "country averages": A weighted average "per municipality" and a weighted average "per inhabitant" (see introductory chapter). Due to the very low number of municipalities in Estonia, the weighted average "per municipality" has not been calculated there and a simple average substitutes for it in the tables.

Table 8.10
Country Averages—Comparison of Municipal Housing Conditions

	Bulgaria	Czech Republic	Estonia	Poland	Romania	Slovakia
Average residential size of LA dwelling [m ²]						
weighted average "per municipality"	48.9	55.3	35.3	43.7	43.6	43.1
weighted average "per inhabitant"	54.3	56.3	33.3	42.3	44.1	43.7
missing cases [in % from total sample]	0	0	0	3.5	5.3	5.2
Average number of rooms per LA dwelling						
weighted average "per municipality"	2.2	2.1	1.7	2.6	2.0	1.9
weighted average "per inhabitant"	2.1	2.1	1.7	2.7	2.0	2.1
missing cases [in % from total sample]	0	1.1	6.0	0	3.9	5.2

NOTE: LA means local authority. Residential size means total area of habitable rooms in a dwelling (and a large kitchen). Room means habitable room. The definitions are the same as in Table 8.3.

SOURCE: Local Government and Housing Survey.

Due to the fact that in all of the selected CEE countries under-representation of smaller municipalities occurred in the survey, the first weighting of the data sample decreases the weight of bigger cities (weighted average “per municipality”). The second weighting substantially increases the weight for bigger cities, as its purpose is to reflect the number of inhabitants in particular municipalities (weighted average “per inhabitant”).

The Czech Republic and Bulgaria have the highest average residential size of municipal dwellings, while the highest number of rooms per dwelling we find in Poland. Some kind of misunderstanding of the term “residential size/area” probably occurred (though it includes just the size of habitable rooms, the total area of a dwelling was probably provided by some respondents). However, it is clear that the lowest average area of a municipal dwelling is in the Estonian residualized municipal housing sector. Though there are not big differences among the number of rooms per municipal dwelling (generally, around 2.1 rooms, with the exception of Estonia), the average area of a habitable room very probably differs significantly amongst the selected CEE countries. The situation in the Czech Republic is an exceptional one.

It is necessary to point out that this comparison does not offer the full comparison of housing conditions. The dilapidation of housing stock and hidden debt on housing maintenance cannot be measured by simple indicators and, though this problem concerns all the CEE countries, we can also expect significant differences there. The situation is the same with the differences in the standard of equipment in municipal dwellings, quality of heating and water supply systems, insulation, and electricity distribution. Further information from this field can be found in particular country reports.

Voids (and a rent loss through voids) and rent arrears represent very acute problems that need to be solved by social landlords (both municipalities and/or independent social landlords) in EU countries. Table 8.11 shows the situation in the selected CEE countries.

As we may see, voids (and rent loss through voids) does not appear to be a problem at all. In Romania, the majority of municipalities did not answer the question, as it perhaps could seem to them to be absurd in a situation where there is a physical lack of housing. On the other hand, rent arrears are very common in Romania, Bulgaria, Slovakia and Estonia. Total rent loss through rent arrears (including all rent arrears from previous years) forms about 27% of gross rent roll in Romania; 20% in Slovakia (probably even more due to the different calculation method) and Bulgaria; 18% in Estonia. However, in Poland (rent loss of 14% of gross rent roll) and the Czech Republic (rent loss of 10% of gross rent roll) rent arrears are not marginal issues either.

Table 8.11
Country Averages—Comparison of Rent Loss Through Voids and Rent Arrears

	Bulgaria	Czech Republic	Estonia	Poland	Romania	Slovakia ¹⁾
Average number of voids as a percentage of total number of LA dwellings						
Weighted average “per municipality”	0.9	0.1	9.4	0.2	—	0.3
Weighted average “per inhabitant”	0.8	0.1	6.1	0.3	—	0.5
Missing cases [in % of total sample]	0	5.6	24.0	0	84.2	13.1
Average rent loss through voids as a percentage of gross rent roll						
Weighted average “per municipality”	0.6	0.3	3.5	0.2	—	0.9
Weighted average “per inhabitant”	0.7	0.2	6.4	0.3	—	0.5
Missing cases [in % of total sample]	0	19.1	35.0	0	78.9	13.1
Average sum of rent arrears as percentage of gross rent roll in 2000						
Weighted average “per municipality”	17.7	7.7	11.7	11.6	38.2	20.2
Weighted average “per inhabitant”	19.7	10.4	18.4	14.2	26.9	20.2
Missing cases [in % of total sample]	0	3.4	41.0	9.0	22.4	13.1
Average sum of rent arrears as percentage of gross rent roll in 2001						
Weighted average “per municipality”	14.4	7.8	11.1	12.8	40.0	22.0
Weighted average “per inhabitant”	18.6	10.5	18.5	15.7	28.6	23.8
Missing cases [in % of total sample]	0	3.4	41.0	5.3	19.4	13.1

¹⁾ Slovakia: rent arrears include only arrears from the current year (2000 or 2001) and do not include arrears from previous years.

Missing cases means number of municipalities that did not answer the question. LA means local authority.

Voids, re-lets and rent arrears were defined in the questionnaire. Stock that is vacant and available for letting (voids) should include: a) All dwellings where the previous tenant is no longer being charged rent and no repairs are required before a new tenant can move in; b) All dwellings which have been newly acquired in a satisfactory condition for letting; c) All dwellings which have been handed over for new letting or re-letting after reconstruction/improvement; d) All dwellings to be let after minor repairs (simple maintenance between tenants moving out and new tenants moving in).

The rent lost through voids is the total amount of rent that was not collectable during the financial year because dwellings were vacant (though available for letting). Rent roll is the total amount of potential rent collectable for the financial year for all stock owned by local authorities, whether occupied or not. Exclude any rent losses arising from long-term voids that arise because a property is designated for major repairs.

The rent arrears should include any arrears carried forward from previous years.

SOURCE: Local Government and Housing Survey.

Another aspect of the comparison seems interesting. In Romania, Slovakia and Bulgaria (mainly in Romania) the weighted average “per inhabitant” is lower than the average “per municipality”. This means that the loss from rent arrears is higher in smaller cities than in the larger ones. The opposite is the case for the Czech Republic, Poland and Estonia where losses from rent arrears have the highest values in bigger cities. A further increase in the total amount of rent arrears (2000/2001) is expected in Poland, Romania and Slovakia; stagnation is assumed in the Czech Republic and Estonia and a slight decrease is expected in Bulgaria.

Municipalities try to solve the problem of arrears by agreements with tenants on an installment calendar (schedule) and in the cases of “principal non-payers” also by revoking the rental contract and eviction. However, in Estonia, Bulgaria and Slovakia evictions are very rare. Municipalities instead try to decrease the level of housing services (repair) until arrears are repaid. Bulgaria has municipal programs of temporary employment for unemployed tenants in arrears. In the Czech Republic, if no agreement is fulfilled or possible, municipalities often use their right to receive housing allowances directly (and not *via* tenant household) and pass the problem to the court. After the court decision the tenant is evicted (in the case of a family with children a shelter with a very basic standard is offered to them). About 8% of the Czech municipalities also use specialized private firms to solve the problem of arrears and it has shown to be a very efficient practice. Since the evictions have started to become a relatively common phenomenon in the Czech Republic (in 2000, it concerned 1% of the municipal housing stock) the rent payment morals have increased substantially. Many municipalities, however, still wait too long with the appropriate action, during which time the debt increases to an unrepayable amount.

Though the authors of some country reports (Estonia, Bulgaria) do not support a solution of evictions (due to the low income of households), it is clear that in countries where this kind of enforcement has started to be used (Czech Republic, Poland) the rent loss through rent arrears is much lower. However, this assumes an effective housing allowance for those who are really in social need.

Table 8.12 shows the comparison in municipal housing allocation policies in the selected CEE countries.

Though the indicators for Estonia and Romania are misleading to a certain extent, it is clear that the turnover in municipal rental housing is very low (around 2-3% of the total stock is newly rented out annually). The situation is very similar in the Czech Republic, Poland, Bulgaria and Slovakia. In our questionnaire we tried to create a hypothetical situation of a household waiting for allocation of a municipal flat. However, this has not turned out to be the best way to estimate the waiting time “from application to allocation”. In all of the selected CEE countries, a large number of municipalities did not answer this question and indicated figures must be used only carefully. The waiting period from application to allocation of a municipal dwelling for a household of two

adults and one child (newborn), where only one adult person is working for a country average salary, was estimated as being from 40 months (Bulgaria) to more than 60 months (Czech Republic, Poland) when using the weighted average “per inhabitant”.

Table 8.12
Country Averages—Comparison of “Allocation Indicators”

	Bulgaria	Czech Republic	Estonia	Poland	Romania	Slovakia
Average number of re-lets as a percentage of total municipal housing stock in 2000						
Weighted average “per municipality”	2.0 ⁵⁾	2.9	34.2 ¹⁾	2.3	9.8	2.7
Weighted average “per inhabitant”	—	1.8	12.0 ¹⁾	2.1	13.9	2.5
Missing cases [in % of total sample]	—	7.9	35.0	7.0	43.4	13.1
Average time from application to allocation of municipal dwelling under certain conditions ⁴⁾ [months]						
Weighted average “per municipality”	23.6	53.9	n.a. ²⁾	57.0	18.8	n.a. ³⁾
Weighted average “per inhabitant”	42.1	63.0	n.a. ²⁾	64.0	11.5	n.a. ³⁾
Missing cases [in % of total sample]	0	33.7	n.a. ²⁾	16.0	35.5	59.2
Average share of municipalities that provide the waiting list of applicants						
Weighted average “per municipality”	83.5	51.3	52.9	86.0	78.3	91.0
Weighted average “per inhabitant”	61.9	30.8	84.2	93.0	91.0	83.8
Missing cases [in % of total sample]	0	0	6.0	0	2.6	0
Average share of municipalities that clearly define pointing system on social need measurement						
Weighted average “per municipality”	60.6	n.a.	29.4	25.0	86.5	43.8
Weighted average “per inhabitant”	53.7	n.a.	27.3	19.0	90.0	39.9
Missing cases [in % of total sample]	0	n.a.	6.0	0	2.6	0

¹⁾ According to the authors of the Estonia country report, this figure is not reliable, though a precise description has been provided in the questionnaire.

²⁾ In Estonia, municipal housing is not normally allocated to the type of household indicated in the questionnaire and the respondents did not answer this question.

³⁾ The figure was not counted, due to the large number of missing cases.

⁴⁾ Household of two adults and one child (just born) where only one adult person is working for country average salary.

⁵⁾ Based on expert estimation (the question was not included in the national questionnaire).

Note: The number of “true” re-lets, as a proportion of the number of dwellings in municipal ownership, should be calculated. The transfers (flat exchanges) are excluded from “true” re-lets!

Source: Local Government and Housing Survey.

The majority of municipalities in the selected CEE countries provide a waiting list of applicants: from 51% of the municipalities in the Czech Republic to more than 90% of the municipalities in Slovakia. However, in the Czech Republic and Slovakia, this concerns mainly small cities, the average “per inhabitant” is thus much lower (only about 31% in the Czech Republic and 84% in Slovakia). The opposite is true for Estonia where the average “per inhabitant” is higher than the average “per municipality” (smaller cities use waiting lists less than larger ones).

Not all the municipalities that use a waiting list of applicants have a clearly defined point system for the measurement of household social need. In Estonia and Slovakia probably only half of them do, while in Poland perhaps only one fourth of them. Moreover, some municipalities that do not use a waiting list of applicants at all, have a clearly defined point system for the purpose of the allocation of dwellings (mainly in Romania). A point system is not used by the majority of municipalities in Poland, Estonia and Slovakia (we do not have that information for the Czech Republic). The lack of a somewhat “objective” instrument used in the allocation of municipal rental housing can lead to abuse in the allocation of flats amongst “politically sensitive” groups of households.

Table 8.13
Country Averages—Share of Municipalities
with Balanced Income-cost Housing Budget

	Bulgaria	Czech Republic	Estonia	Poland	Romania	Slovakia
Average percentage of municipalities that said that total rental revenues cover full cost of municipal housing maintenance						
Weighted average “per municipality”	17.8	51.7	23.5	25.0	10.8	22.6
Weighted average “per inhabitant”	21.0	37.7	18.8	14.0	10.1	19.4
Missing cases [in % of total sample]	0	5.6	12.0	0	3.9	5.3

SOURCE: Local Government and Housing Survey.

Table 8.13 shows relatively large differences among countries when comparing the share of municipalities that answered positively on the question of whether or not maintenance costs are covered by rental income. The worst situation is in Romania where only 11% of the municipalities claimed that rent revenues cover the full cost of public housing maintenance; on the opposite end of the scale, this was mentioned by more than 50% of the municipalities in the Czech Republic.

In Bulgaria, Estonia, Poland and Slovakia the share of “satisfied” municipalities is around 20%. However, in all of the countries, a significant correlation between the size of the municipality and this statement occurred: we see that the average share of

“satisfied” municipalities decreases from 51.7% in the case of a weighted average “per municipality” to 37.7% in case of average “per inhabitant” in the Czech Republic, from 23% to 14% in Poland, etc. This means that the current level of rent prices is high enough to cover maintenance costs more often in smaller cities than in larger ones. The table confirms the aforementioned fact that the abolishment of central rent regulation (Bulgaria, Estonia) is not correlated with the level of an average rent price applied in municipal housing (rent deregulation).

2.3 Conclusion and Evaluation

The formal role of local government in the sphere of housing in the CEE countries does not differ much from those in the EU countries; however, the reality is far from general legislative provisions. Due to the financial restraints and lack of efficient state supply-side subsidies (with the exception of Poland) local authorities have very limited leeway to increase the financial affordability of housing by new social/affordable rental housing construction, though this is, with the exception of Estonia, perceived by a majority of them as the most important local housing policy objective.

Another barrier to the effective development of local housing policies represents the central rent regulation applied in most of the countries (with the exception of Bulgaria and Estonia). Though the abolishment of central rent regulation is not generally connected with the growth in municipal rental prices, the central government rent regulation leads to the fact that municipal housing maintenance costs still exceed rental income (the broadest gap is apparent in Romania). However, the State does not provide any operational subsidies to local government budgets to cover the difference between income and costs.

The final important restriction that has far reaching consequences on efficiency and effectiveness of independent municipal housing policies is represented by the application of right-to-buy legislation in several countries (Romania, Bulgaria, Estonia, in a limited way also Slovakia) when the right of municipalities to set privatization prices and to decide on the scale of housing privatization on their area is completely breached by state power. The large-scale public housing privatization lead to the residualization of municipal/public housing in Bulgaria, Romania, Estonia and also partially in Slovakia; public housing began to be occupied by socially weak households and the possibility of future growth in rental prices has fallen even lower than it was previously. The problem of poor homeowners appeared in many countries and, for example in Estonia, the mutual cooperation between the municipality and Homeowners’ Associations on the housing refurbishment process became an important local housing policy activity.

On the other hand, local governments obtained relatively large amounts of power in the spheres of vacant/new public dwelling allocation (with the exception of Bul-

garia, Romania and Estonia, where it is limited by the central law), definition of social housing (partially limited by central legislation in Romania, Poland and Estonia), rent setting in vacant/new public dwellings (application of different rent approaches) and sometimes even rent setting in all public dwellings including those utilizing current rental contracts (Bulgaria, Estonia).

Both absolute and relative decentralization occurred apparently in all the selected CEE countries. Due to the deregulation of state housing policy (cuts in state subsidies) and transfer of some allocation/rent setting competence to the local government level (connected to the transfer of former state housing to the ownership of municipalities) the State had substantially withdrawn from the responsibility for national housing policy and though the financial flow to local government budgets is limited, the significance of local housing policy relatively grew. In Poland, for example, municipalities are responsible also for fund designed for housing allowances paid to households living on their territory (though 50% of total payment duty is subsidized by the State), while full responsibility for housing allowance sources falls generally upon the State in developed EU countries. However, the approaches started to differ significantly among municipalities within one particular country and even within one region of a country.

This relatively quick decentralization process that has, however, not been accompanied by fiscal decentralization, includes both advantages and dangers. On the one hand, people will decide more directly about their own issues (strengthening of local democracy). On the other hand, even very significant differences among municipalities may occur that could endanger the flexibility of labor movement and the general economic growth of the country. The national programs of social housing construction opened for different judicial entities (municipalities, housing associations, housing cooperatives) should, therefore, explicitly define basic construction cost ceilings, allocation rules (including income ceiling), and a rent pricing ceiling as this can bring the aspect of uniformity and stability to the very diversified world of municipal housing policies.

It is not necessary to repeat the evaluation of local government performance in housing management as it was provided in detail in the text. Basically, the tenant turnover is very low, the “objective” point system for the measurement of applicant social need is very often completely missing, the waiting time from application to allocation is relatively very long, the cost-to-income ratio is not satisfactory and rent loss through rent arrears is already high and growing in many countries.

It is clear that the main factor influencing the variation in rent arrears is the character and size of municipal/public housing in a particular country: *relative rent losses through arrears are higher in those countries where municipal/public housing was residualized and started to be occupied mostly by lower income households*. The non-efficient management provided by municipalities can form another potential factor: *rent losses have the highest values mainly in those countries where management of public housing is provided mainly by municipalities themselves or budgetary companies owned by municipalities* (however,

Slovakia is the exception). Municipalities very often also postpone the solution of the problem of arrears to the time when the debt of a particular household is so high that it cannot be covered by its own means. More flexible activity and cooperation with the private sector is recommended to decrease the amount of arrears.

Another problem, from the point of view of economic efficiency, concerns the non-existence of separate housing accounts in municipal budgets; thus income from privatization or rents can be used for purposes other than the improvement of housing conditions. This is also the reason why the difference between maintenance/modernization costs and rental income often cannot be counted in a reliable way. In Slovakia and the Czech Republic the problem of the “black market” is a very important issue; municipalities do not have efficient control of housing stock utilization. This is partially caused by national legislation and the slow process of “legislative housing deregulation” concerning tenant rights.

However, the problem of effective and efficient municipal housing policy should not be perceived just as the problem of inappropriate national legislation and a lack of state budget subsidies. There is a great deal of room for improving housing management (e.g. by cooperation with the EU social landlords or municipalities, or together with independent non-profit consulting organizations), tenant/social participation, creation of different models of private-public partnerships, better targeting in municipal/social housing allocation, introduction of diversified rent setting procedures and mainly the control of housing stock utilization. The training of municipal housing specialists (again with cooperation with specialists abroad) seems to be a necessary condition for further positive development in this field.

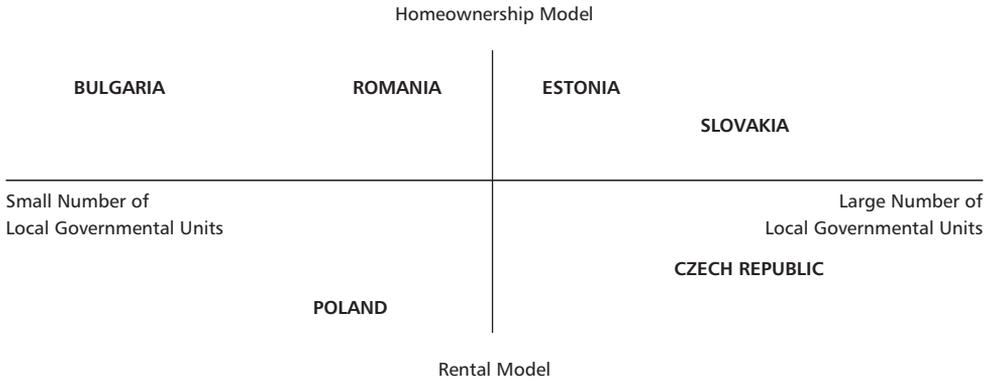
As for the state housing policies, the comparison of local housing policies in those CEE countries is not a simple issue. They are influenced by many factors: the character of state policy, economic wealth, political preferences, etc. Figure 8.3 shows the relationship between orientation of the central housing policy (towards the rental or towards the home-ownership model) and the number of decentralized local government units.

As can be seen, no relation (trend) is apparent from this comparison (higher “quantitative” decentralization is not connected with particular national housing policy approach). However, *there are some common features of local government housing policies in those countries where a large number of local government units were created (Czech Republic, Slovakia): limit on local government borrowing, rent regulation applied on the central level, missing social housing definition and a much higher share of municipalities with no housing policy strategy.*

The economic conditions (general level of GDP) influence logically the scale and goals of local housing policies. In countries with a lower level of GDP (Bulgaria, Romania), the local housing policy is relatively powerless with unrealistic goals of new rental/affordable housing construction. In countries with a higher level of economic development, the real (though limited) programs of new rental/affordable housing

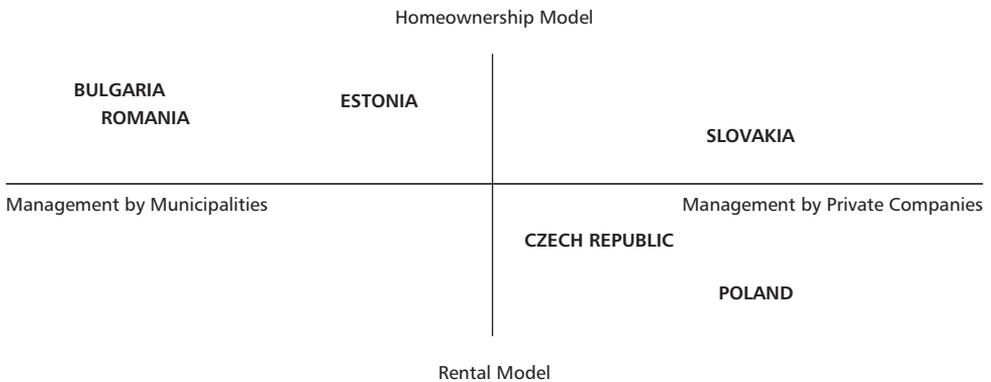
construction are already in operation and attention is being paid, among to other objectives—such as refurbishment/regeneration programs.

Figure 8.3
Comparison of Local Government Housing Policies



Concerning a comparison of performance indicators, we find out that no country can be labeled as the best in local government housing performance: if in one country local governments succeed in a low level of rent arrears, then there is a relatively low tenant turnover and long waiting time “from application to allocation” of municipal dwelling (or *vice versa*). The problem of rent arrears is very closely connected to applied central housing policy model and type of municipal housing management.

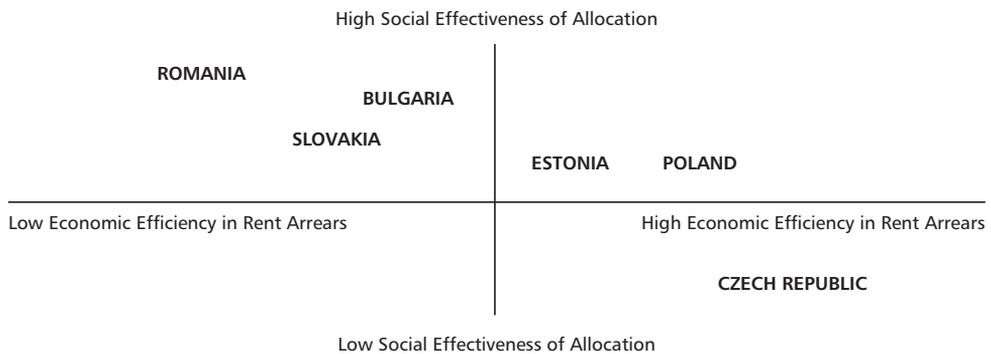
Figure 8.4
Comparison of Local Government Housing Policies



Though the introduction of private firms to municipal housing management seems not to be the only cure for rent arrears (case of Slovakia), *the lowest rent arrears are attained by local authorities in those countries where national policy, orientated towards the rental model is combined with management of municipal housing by private or semi-private firms.*

The conclusive figure shows a very interesting relationship between economic efficiency in the management of municipal housing (level of rent arrears) and social effectiveness in the allocation of municipal housing (application of waiting list and a clearly defined point system for determining housing need).

Figure 8.5
Comparison of Local Government Housing Policies



There is a very clear “trade-off” between economic efficiency of management and social effectiveness of allocation of municipal dwellings. Thus a *lower level of rent arrears is closely connected with a lower application of objective housing need measures (though hidden correlation done by economic conditions and type of central housing policy may influence the result)*. The precise allocation policy is mostly defined in countries with residualized municipal housing.

3. POLICY RECOMMENDATIONS

Table 8.14 shows the main strengths and weaknesses of current transitions in both the local and central housing policies in the selected CEE countries.

Table 8.14
Transition of Housing Policies in the Selected CEE Countries

Strengths	Weaknesses
On the Central Level	
<ul style="list-style-type: none"> • Substantial decrease in public expenditures • Higher share of private capital in housing construction and management • Deregulation of housing construction and home-ownership prices • Substantial deregulation of utility/energy prices • Partial deregulation of rental prices (mainly in the Czech Republic, Poland, Estonia) • Introduction of mortgages and housing market establishment (mainly thanks to quick privatization of public housing) • Introduction of demand- and supply-side subsidies helping to increase the affordability of housing (mainly the Czech Republic, Poland). 	<ul style="list-style-type: none"> • Decrease in financial affordability of housing • Residualization of public housing, spatial and social segregation (Estonia, Slovakia, Romania, Bulgaria) • The appearance of the problem of “poor owners” (continuous dilapidation of the housing stock due to the degradation of private ownership rights during privatization) • Non-existence of non-profit housing association legislation (with the exception of Poland) • Heritage from Communist past, strong tenant protection, rent regulation (mainly in the Czech Republic, Slovakia, Romania) • Very slow regeneration/refurbishment process • In some countries (Estonia) poor housing policy strategy, in others unclear or insufficient legislative framework (Bulgaria).

Table 8.14 (continued)
 Transition of Housing Policies in the Selected CEE Countries

Strengths	Weaknesses
On the Local Level	
<ul style="list-style-type: none"> • Local authorities began to play a vital role in housing policy • Decentralization of power connected with deregulation in housing policy lead to strengthening of local government position and local democracy • Improvement in management of municipal housing by semi-public and private management firms (mainly the Czech Republic, Poland) • Improvement in cooperation with NGOs, private or public housing organizations abroad (mainly Romania, Bulgaria). 	<ul style="list-style-type: none"> • Low public finance decentralization (decentralization of power was not accompanied by higher transfer of public sources to local level) • Non-existence of separate housing account in municipal budgets (income from rent and privatization can be used for other purposes) • In some countries (Romania, Bulgaria) instability in financial transfers from the central to local level • Low professional/manager skills of local housing policy makers • Low performance of local authorities as landlords of public housing: <ul style="list-style-type: none"> – High level of rent arrears in Bulgaria, Slovakia and Romania – Black market, public housing abuse in the Czech Republic, Slovakia – Non-existence of clearly defined pointing system of housing need (in all countries) – Maintenance costs are not covered by rental income – Low level of tenant participation. • Lack of clear local housing policy strategies (mainly the Czech Republic), lack of housing need measurement and planning.
On Both Levels	
<ul style="list-style-type: none"> • Increasing importance of economic efficiency in housing policy activities (on the central level mainly in Romania, Poland) • Increasing importance of social effectiveness, better targeting of housing subsidies (mainly in Poland, but also in Estonia, Bulgaria, Romania). 	<ul style="list-style-type: none"> • Economic efficiency of public subsidies has not been attained due to unclear conditions (Czech Republic) • Low targeting of the public help to those in real housing need (Czech Republic, Slovakia).

It is clear that some strengths are closely connected to weaknesses (each action includes both aspects). However, the main goal of both the state and local government housing policies in the future should be to put away the negative consequences of particular decisions and programs and the list of weaknesses is, thus, much more important than the list of strengths. There are many possibilities for public-private partnerships in the process of regeneration/refurbishment, social housing construction, management of public housing, tenant participation, etc. that are still not applied, though experience in the developed EU countries confirms their high social effectiveness and economic efficiency.

From the point of view of economic efficiency (italicized text in Table 8.15) and social effectiveness (bolded text in Table 8.15) the steps listed in Table 8.15 are recommended.

The supply- and demand-side subsidies should be introduced together as there is no convincing proof that the former or the latter should be preferred under all circumstances. Though demand-side subsidies do not need public expenditures as high as supply-side subsidies do and are better targeted at those who really need the help, they can sometimes lead to higher housing price inflation (and not an improvement in affordability or qualitative housing standards), stigmatization, the poverty trap and a strengthening of social inequalities. The negative consequences of non-targeted and badly managed supply-side subsidies are well known (social segregation, non-effective management, low tenant flexibility, abuse, black market, low quality standard of construction, bureaucracy, etc.). Moreover, in many CEE countries (Poland, Romania) physical lack of housing still exists and in all of them high debt on maintenance and the modernization of housing stock appeared. This situation cannot be compared to the Netherlands or Sweden, where the quality and quantity conditions are completely different.

Without supply-side subsidies only a little can be done in this field. The privatization of public housing (often done under preferential conditions to the hands of former “poor” tenants) is hardly the general cure from all the pains from which housing in this part of Europe suffers. The “enlightened” combination of both approaches, accompanied by a very careful analysis of all the consequences on both the economic efficiency (housing market functioning) and social effectiveness (possibilities of abuse) seems to be the only way to improve the general housing conditions in the CEE countries.

This poses a very important question: should local governments play a more active role not only in the field of supply-side subsidies (enabling, cooperating and controlling of non-profit housing associations, approval of allocation and rent policies in social/affordable housing, providing infrastructure, establishing private-public partnerships in housing refurbishment and living environment regeneration, etc.) and, also, in the field of demand-side subsidies (local housing allowances programs without national legislative framework, co-financing of allowances payments, power to set expenditure or income ceilings used for benefit calculation, etc.)? There is no universal recommendation.

Table 8.15
Efficiency and Effectiveness of Supply- and Demand-side Subsidies

Supply-side Subsidies	Demand-side Subsidies
On the Central Level	
<ul style="list-style-type: none"> • Approval of definition of social/affordable housing and comprehensive legislative framework on its operation (income ceilings, target groups, conditions for allocation of public subsidies, rent setting in case of rental housing, etc.) • Improvement in targeting rent regulation at households in real social need • Improvement in targeting all public subsidy programs to prevent abuse (define targeted household groups, e.g. homeless, single parents, etc.) 	<ul style="list-style-type: none"> • Introduction of a model of housing allowances that would not exclude any socially needy group of households: <ul style="list-style-type: none"> – Using real housing costs for calculation of benefit combined with locally or regionally defined expenditure ceilings (no expenditure normatives) – Not using the income ceilings – Using normative rate of burden rising with income and housing expenditures of applicant – Using “optimal” rate of degression not leading to the poverty trap
<ul style="list-style-type: none"> • <i>Paying higher attention to refurbishment/regeneration of housing stock and living environment (housing estates)</i> • <i>Approval of legislative framework for non-profit housing associations (private firms with social goals), definition of main activities, duties, controlling mechanism, etc.</i> • <i>Abolishment of non-targeted inefficient rent regulation and transfer to the system of locally relevant rent or profit regulation combined with cost rent in social/affordable housing</i> • <i>Abolishment of strong tenant protection (quasi-ownership character of rental housing), “legislative deregulation”</i> • <i>Application of econometric modeling on measurement of the consequences of different housing policy instruments before their introduction (estimates of crowding-out effect, inflation consequences, expenditure-to-cost indicators, effect of financial affordability in housing for targeted groups)</i> 	<ul style="list-style-type: none"> • <i>Improvement of housing finance accessibility (mortgage loans) by interest subsidies on mortgages, building saving schemes, tax relief</i> • <i>Higher orientation towards indirect aid (transport and infrastructure development programs) that would encourage private housing construction.</i>

Table 8.15 (continued)
Efficiency and Effectiveness of Supply- and Demand-side Subsidies

Supply-side Subsidies	Demand-side Subsidies
On the Local Level	
<ul style="list-style-type: none"> • Improvement of social/tenant participation in management of public housing, planning, and refurbishment process • Definition of the sector of social/affordable housing in a manner that would prevent spatial segregation (careful urban planning, combination of “market” and “social” rental dwellings in one residential building, etc.) • Introduction of a clear point system for the purpose of a more “objective” social/affordable housing allocation • Improvement of the control of social/affordable housing utilization • Improvement of cooperation with condominiums on refurbishment process (based on combined financial participation) 	<ul style="list-style-type: none"> • Improvement of cooperation with NGOs or special consulting organizations on activities directed to help disadvantaged household groups (disabled, handicapped, homeless, pensioners), creation of permanent consulting aid centers helping older people to move to smaller dwellings and young households to find their first dwelling • Setting local income/expenditure ceilings for housing allowances, targeting housing allowances, together with local rent policy, on needy households
<ul style="list-style-type: none"> • <i>Training of professional staff; improvement of managing skills of management firms</i> • <i>Transfer of housing management to professional private firms and/or non-profit housing associations</i> • <i>Improvement of cooperation with NGOs, private investors in social/affordable housing construction, neighborhood environment regeneration, tenant participation</i> • <i>Setting the conditions for efficient cooperation between municipalities and non-profit housing associations in new social/affordable housing construction (providing land for free, compensated by allocation competence)</i> • <i>Establishment of separate municipal housing budgets</i> 	<ul style="list-style-type: none"> • <i>Higher orientation towards indirect aid (careful land policy and urban planning, development of infrastructure, cooperation with private investors)</i>

Table 8.15 (continued)
 Efficiency and Effectiveness of Supply- and Demand-side Subsidies

Supply-side Subsidies	Demand-side Subsidies
On Both Levels	
<ul style="list-style-type: none"> • Clear definition and approval of long-term housing policy strategies including description of particular policy instruments (identification of possible obstacles) • Clear definition of the target groups of housing policy activities • Professional measurement of housing need for different segments of society, locations; the introduction of short-term plans • Higher decentralization of public sources towards lower levels of administration and a guarantee of the stable flow of local government income in future 	<ul style="list-style-type: none"> • Clear definition of the competence of both levels of administration in housing allowance system, co-financing should not lead to the blockage of local rental price strategy

However, from the point of view of public expenditure efficiency, it seems that more active participation from the municipalities on payments and the shaping of allowances “bears more fruit”; better targeting of subsidies can also be attained when local conditions are taken into account (higher social effectiveness). This is further enhanced by the professional skills of local administrators. A basic central legislative framework is, however, needed; otherwise there will continue to be large differences between housing policies – even within one district. The effect of “local political populism” also cannot be neglected (Polish example) and central criteria could help in this matter as well.

There is very often a difference between the local representative requirements (raised from LGHS) and the policy recommendations made by the authors of the country reports. This “gap” is, however, logical:

- 1) *Sometimes municipalities just want to have more financial sources, no matter how and for what purpose they should be allocated; representatives of local governments often do not pay any attention to the effectiveness and efficiency of public expenditures (example of the Program for Support of Rental Housing Construction in the Czech Republic that failed to meet even unclearly set social objectives).*
- 2) *Sometimes municipalities just want to have more power and not take responsibilities connected with this competence (freedom in rent setting without assuming the duty to co-finance housing allowances).*
- 3) *Sometimes municipality representatives prefer to make only short-term policy strategies (one election period) and are not motivated in the preparation of long-term sustainable housing policy strategies accompanied by a critical evaluation of potential instruments. The restriction of policy to “populist” privatization of public housing under preferential conditions can lead to a situation where new homeowners pay lower contributions for repair and modernization than what the original rental price was, hence a quick dilapidation of blocks of flats is emerging.*
- 4) *Sometimes municipalities prefer not having any housing policy objectives than to bind themselves for the future; they often set their objectives in a very unrealistic way dependent upon central housing policy decisions (higher public housing construction in Bulgaria) or they set objectives that are no longer realistic (e.g. privatization was mentioned as the most important objective in Estonia, though it was already finished several years ago).*
- 5) *Sometimes municipalities prefer to be conservative in their housing policy and are afraid of any cooperation with private capital (NGOs, non-profit sector). Though such cooperation may lead to a very substantial increase in efficiency and effectiveness, local representatives are sometimes afraid of such activities due to the large mistrust to private capital/firms apparent in all transitional countries.*

The transfer of management of the social/affordable housing to non-profit independent housing associations, higher attention to refurbishment of housing and environmental conditions, improvement of cooperation with the private sector, higher tenant/social participation and the improvement of managerial/professional skills of local government representatives belong among main recommendations repeated almost in all country reports. Particular excellent practices (especially different public-private partnerships or particular successful local government programs) are provided directly in the text of the country reports.

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ENDNOTES

- ¹ The normatives of housing expenditures are only rarely applied in EU housing allowance models. Instead, the housing expenditure ceiling (maximum costs) is often used. Above the level of the ceiling the household must meet all other expenditures from its own sources.
- ² However, allocation of municipal housing is regulated in Estonia and Bulgaria (in Estonia mostly due to the problem concerning tenants in restituted houses). It seems that abolishment of rental control is always compensated by more strict dwelling allocation rules to assure affordability of housing for low income groups of society.

- ³ Though some of the programs (mostly subsidies for young people) are targeted at people in housing need, they are often prepared in such a way that does not allow their long run sustainability (limited sources, too many applicants, long waiting period). These not very conceptual programs are rather expressions of political populism than effective/efficient housing policy instruments.
- ⁴ For example, if one municipality classified “higher affordability of housing for middle and low income households” with mark 1 and the second municipality with mark 2, then the average mark for the two municipalities in a country would be $1 + 2 / 2 = 1.5$.
- ⁵ The law establishes income ceilings only for the allocation of vacant/new rental dwellings of housing associations in Poland.

