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**Sustainability of artificially created social mix in capitals of
Serbia and Bosnia & Herzegovina**

Abstract

Concept of social housing was particularly developed in last twenty years in developed countries, as well as in transition and developing countries, leaning to experiences of similar concepts of affordable housing, low and minimal cost housing, low-income housing, fair housing, workers housing and self-help housing. One of the special questions that arise in social housing is concerning socio-economic and spatial segregation of residents, as negative aspect to social cohesion. In former Yugoslavia public housing was mainly located in areas which are central in urban matrix of cities, and today these areas are extremely attractive and expensive. Change of political system from liberal socialism to market oriented system led to stratification of society, which adducted to forming extremely wealthy and poor social groups. With “right to buy” public policy most of the residents bought their units in housing complexes which was previously public, with prices significantly less comparing to market value. Bad financial situation, caused by difficult circumstances in the region, triggered off selling certain amount of units to high-income groups. Two processes are noted: increase of tendency of buying out the units from the low-income groups in central areas and increasing need for housing for the vulnerable groups, which can not afford to buy such units in central areas. Current tenure policy in capitals of the region is still not market oriented, with lack of economic adequacy. Regarding to adjusting this policy to market conditions, by raising the rent, the changes are inevitable, followed by segregation of different social groups. Social mix, resulted by current tenure policy, has questionable sustainability, because of expected tendency of allocation of low-income groups to affordable locations. It is to be expected that this will cause creating of ghettos. This paper will examine possibilities of preventing of forming such homogeneous communities.

Key words: segregation, tenure policy, vulnerable groups, social mix

1. Introduction

Last ten years had brought in severe problems to housing sector, mostly because of impoverishment of the population in Serbia and Bosnia, and because of lapsing of government's bracing role in providing housing. At the same time, privatization of public- owned housing adducted reversal situation, with 98 percent of housing stock privately- owned. First we should give some basic facts, through noting the most interesting processes in housing policy background, retrospection to socialist period, 1990's experience and nowadays praxis.

1.1 Background: Socialist period

After WWII, by changing the political system from capitalist monarchy to socialist republic in former Yugoslavia, state had a prime role in providing housing for citizens. At start, some of the central lots were nationalised, actually bereaved from wealthier citizens (merchants, craftsman, etc.), and assigned for construction of buildings for meritorious citizen (party members). In later period of past century, from sixties on, large scale housing settlements were built by government's housing agencies and public enterprises, by virtue of which most of the housing fundus were public- owned. This was not mode of social housing for low-income groups; it was the solution for all citizens, which were entitled to decent housing. As jurist Damnjanovic-Petrovic (2006) explains, by 1958, when was enacted Law on nationalisation of rental buildings and building land (*Zakon o nacionalizaciji najamnih zgrada i građevinskog zemljišta*), dominant mode of property was state's and private property of building land. With nationalisation of buildings, at the same time was nationalized land underlying and of use for regular usage of building, in favour of municipality, and every legal claim of previous owners was lost¹. By 1955 two major forms of providing housing, beside nationalisation of existing housing fundus, was: partial reconstruction and multi-storey hem architecture in devastated central urban matrix, and housing colonies in boundary and industrial areas (Milic, 2006). In that and following period, municipalities had become real owners of large amount of flats and buildings, which were assigned by regulation in effect to natural persons, depending on individual's position on social, personnel and political stratification, favouring scarce experts, employed professionals and qualified labourers in industrial sector, public sector, multi-children families, war veterans etc. After 1960, municipal funds were formed, and the main source of income was enterprises'

contributing in amount of 4% acquitted wages for granting housing construction; after 1965, financing dominantly collective housing with 5.000- 10.000 inhabitants, undertook banks (ibid). In this period prevailing urban mode was large scale open block, with densities of 250- 500 inhabitants/ha, and elevation of 4- 5 floors, several even up to 15 floors, with standardized flats and common amenities. After 1972, providing and regulating housing was realized through municipal self- administration interest unions of housing, which coordinated activities and resources of banks, enterprises, developers, housing cooperatives and other actors of this domain (ibid). Basically, nothing changed in urban form: collectivization, unification and multiplication as premise in housing policy, was reflection of the then ideology of equality. Monism in housing policy left no space for differentiation, in order to provide affordable arrangements for different social groups, which led to equal flats for ones on the one hand; on the other, others were forced to sub- tenancing or illegal construction. Most of the communal taxes had symbolic prices, which wasn't adequate for real resources for reproduction of housing fundus. Individual construction and cooperative housing in terms of collectivism was not supported by government, although they were good modes for solving housing needs of those groups to which housing in the then distributive order was not available. In period 1971-1979 cooperative housing stake fell from 14,6 % to 1,5%, while at the same time in other East European countries share was following: Hungary 51%, Poland 50%, DDR 28%, or in West European countries: Netherlands 35%, Austria 30%, Norway 24% (ibid). Insufficient offer of land for individual housing adducted mass construction in suburban areas, deterioration of central urban housing zones and goad of illegal construction.

1.2 Background: 1990's experience

Privatisation of public- owned housing began in 1990's in Serbia, through introduction of 1992 Law on Housing (*Zakon o stanovanju*), which led to privatisation of approximately 95 percent of public- owned housing stock in Belgrade by the year 1993 (ed. Fearn, 2004). In Bosnia privatisation took place from the year 2000, after enacting Law on privatisation of the public- owned housing (*Zakon o privatizaciji državnih stanova*). By the 2007 Institute for construction's data, approximately 80 percent of public- owned housing (total 13.258 flats) was privatised in Banja Luka. It is not revealed what has happened with the rest 20 percent of flats, but we may presume that here is the matter of tenancy right in dispute, in other words: certain percentage of

flats were assigned to Ministry for refugees and displaced persons, because of non- existence of tenancy right on these flats (if the application for restitution of flat wasn't submitted in formal period, if the application was declined or abjured, etc). We may also presume that these flats will be privatised in future period, according to Law on public- owned housing with no tenancy right (*Zakon o državnim stanovima na kojima ne postoji stanarsko pravo*). Namely, all the flats with no tenancy right will be retrieved to municipalities, which will rent them to employees of the local government or other social categories, under Law on privatisation of the public- owned housing, as legal basis for further privatisation of mentioned units. We see that both, in Serbia and Bosnia, since the 1990's prevails private homeownership. We also must note that price of such privatised units is rather symbolic: cca 25-50 EUR/m² (50-100 then DEM) in Serbia, and 40 EUR/m² (80 DEM) in Bosnia. Considering this fact we may also presume that the collected funds were modest, deficient to satisfy new requirements for housing. As Djordjevic explains, a severe economic crisis, along with negligible transformations in all policy sectors, the withdrawal of the state from providing housing, and the lack of a housing policy under Milosevic, led to a considerable fall in overall housing investment and production as compared with the socialist period (ibid, p. 100). The 1992 Law on housing specified "solidarity flats" for low- income employees, financed from the solidarity fund, by contribution of 1,3 percent of total monthly income of public enterprises' and government's employees, aiming to solve housing needs through construction of new units. In reality, only the richest enterprises could ensure housing, because them only could provide 15 percent of the construction costs, inequitable to others (same matter as in previous, socialist period), considering the fact that everyone was paying to the Fund. These flats were subjected to privatisation again with significantly lower price comparing to market value, so improvement of housing stock was precluded. As we see, the opportunity for gaining the funds from socialist's patrimony for relevant public housing was deprived. We can conclude that privatisation of public- owned housing was exclusively political social stroke to attenuate impoverished society, with no apparent social housing policy². In the situation with no possibility for solving housing issue for almost 90 percent of those in need³, inherited form of self- help housing since the socialist period, i.e. illegal construction, was bursting⁴ with need to provide home.

1.3 Background: Beginning of the New Millennium

From the year 2000, in Serbia and Bosnia there has been structural reforms considering economics, politics, administration and other domains, with objective to heal the wounds of previous crisis and admitting Serbia and Bosnia in the EU membership. Regarding issue of housing vulnerable groups, some small steps have been taken towards improvement of housing sector. There is no national housing policy as official document, both in Serbia and Bosnia⁵. Housing issue was treated in General Plan for Belgrade 2012, as well as in Poverty Reduction Strategy or National Strategy for Solving the Situation of Refugees, and Strategies of Urban Development for Banja Luka. All these strategies specify introduction of social housing as new policy for solving housing problems of vulnerable groups (refugees, low- income population, start- up families etc). Also in Belgrade during 2004 there has been built 1.100 non- profit apartments for employees of public sector, with cca 100 units for renting to vulnerable groups and this praxis is continuing. In Banja Luka some small steps have been taken for housing disabled from civil war and families of victims. One of the significant actions in both countries is ensuring mortgage loans for housing. In 2004 in Serbia was formed National Corporation for Ensuring Housing Loans, which was government's agency for assuring lower credit risks through special budget assets (Milic, 2006). Through minimizing the risk, banks were incited to decrease loan interests, which increased housing affordability. In number interest rate was 5-7 percent of loan, with participation of 20-30 percent for amortization 20-25 years, so the annuity would be 150-350 EUR per month (ibid). This sum is exceeding average wage in Serbia, so these loans were affordable to mid- and higher- income groups, but anyway this mode is actually affecting housing market on secondary basis: new buyers (mostly by selling their old flats) are increasing offer in housing market. In Bosnia mortgage loans are ensured through Investment Developing Bank (*Investiciona razvojna banka*), which in similar way granted low interest credits: basic interest rate is 5,6 percent, subsidized 3,6-4,8 percent, participation 20 percent, amortization max. 20 years with annuity 200-300 EUR.

As we see in Serbia and Bosnia has been made certain efforts toward actualizing contemporary concept of social housing in transition circumstances⁶. This is direct outcome of emergency derived from severe social and economic crisis, and from overall reforms that are being carried out since the year 2000. Certainty of social housing system is still not to be foreseen, nor it is possible to estimate it's range in impoverished country where economic development is possible

only through liberalisation of market, reduction of public consumption and budget discipline (ibid).

2. Perceived problems

The following section will provide overview of current housing problems, in order to give some recommendations in next part of the paper. Those problems are: future costs of land use rent and housing expenditures, overcrowded housing units, substandard housing and homelessness. While privatising public- owned housing at the same time communal taxes are increasing and scope of built housing is decreasing. Number of homeless people is increased, mostly because of impossibility to provide housing and partially because of non existing formal data about homelessness in previous period. In current Law on Housing in Serbia there is no definition of minimum standard for housing. In Bosnia there is no Law on housing. As we shall see, national housing policy is needed to be established as soon as possible, since the mentioned problems are leading to even more severe crisis, particularly in housing sector.

Main problems of housing sector can be recognized through:

- Lack of housing strategy for planning and coordination of different activities, including gaining international organizations' help;
- Inadequate existing legal frame for answering changes, needs and problems in housing sector;
- Ambiguous responsibility distribution in different authority levels;
- Diminishing quality of housing sector and non- existence of adequate mechanism for maintaining and managing housing
- Insufficient housing fund for vulnerable social groups;
- Lack of appropriate financial mechanisms for providing stabile and predictable assets for housing investments;
- Emerging need for adjusting existing spatial and urban planning with problems of illegal construction, unsolved ownership issues and non- up- to- date land register (Ristic, 2006).

2.1 Problems: future costs of land use rent and housing expenditures

Inherited praxis referring to tenure policy from previous period continued, so urban land use tax has symbolic price: in Belgrade 0.12 EUR/m²; in Banja Luka 0.08 EUR/m² (the tax is defined as percentage of object value, approximately 0.01 percent per m²). Considering the fact that land is public- owned, and that it represents territorial capital of the city, we may presume that this mode of taxes can not reproduce funds for future equip of urban land. With transition to market oriented system it is to be presumed that rent for use of urban land will be adjusted to market value of land. Also, we must keep in mind that housing expenditures are exceeding certain percentage of average income (in Serbia 340 EUR, Bosnia 400 EUR): there is no established upper limit of housing expenditures. It is estimated that In 2002, in Belgrade, about 24 percent of household income were spent on housing expenditures, and 45 percent was spent just for food (ed. Fearn, 2004). One more fact should be mentioned: there is no formal data of private rental sector. In this case housing expenditures are exceeding 70 percent. Maintenance costs, on the other hand are regulated by Law on Housing Maintenance, but it is not obligatory, it is left upon the good will of the owners. Considering all these facts, we must pose following questions: What will happen to deprived social groups when living in central areas starts to be too expensive? And what will happen with the buildings from the 1970's and older if the negligence causes their deterioration? Is the social- mix created by privatisation of public- owned housing sustainable in this case? Will the owners of several flats dictate rent price in private sector (while the public sector covers barely 1.5 percent of rented housing)? Not much has been done for improvement of housing policy in Serbia and Bosnia in the past decade. Is it to be expected that the governments will be prepared for the following situation? These are all difficult questions to be answered. If we presume that the dark scenario will outcome from this situation, we may see deteriorated central urban areas housing the poor, that would remind us on past examples of Pruitt- Igoe or Columbia Point. Or we can see the mass migrations from central areas to cheaper zones and again creating of ghettos.

2.2 Problems: overcrowding, substandard housing, homelessness

As Djordjevic notes, there are three indicators of overcrowded housing: 1) number of square meters per person; 2) number of persons per room; and 3) number of households per housing unit. According to Serbian 2002 National Census data there are 27.750 flats (7 percent) with two and more households out of 395.879 inhabited flats for permanent habitation. A shortage of flats

was evident in 1991 (the time of the previous national census) as a consequence of the insufficient production of publicly-owned flats and the state's failure to enact regulations to encourage private housing construction during the socialist regime (ibid). Since that period there has been mass- migrations from Croatia, Bosnia and Kosovo, so we may presume that housing shortage is constantly increasing. Regarding the surface area of flats per person, in the Belgrade metropolitan area, approximately 6 percent of all inhabited flats have less than eight square meters per person and 12 percent of inhabited flats have less than ten square meters per person. According to Djordjevic, related to the number of rooms in a flat and the number of household members, there is *critical overcrowding* in about 23 percent of inhabited flats in Belgrade metropolitan area (91,804 units), and *partial overcrowding* in an additional 19 percent of inhabited flats (76,166 units). Taken together, about 42 percent of inhabited flats have some degree of overcrowding (ibid). The same author stresses that according to Ministry of Social Affairs survey from 2002, there are 58 percent of households not satisfied with their housing, from which 50 percent deem to live in insufficient space. In Bosnia last census data is the one from 1991, with no new records of the number of households per unit nor of the surface area per person. We may presume that percentage is similar as in Belgrade, since Banja Luka had proportional intake of inhabitants (immigrants, refugees, etc). According to this data it is obvious that there is a great need for new housing. Does this mean that these households will eventually sell their units and buy couple of smaller ones in cheaper areas? Would it then directly lead to certain ghettos in suburban area? Maybe, if some institutional actions won't be taken. Previously mentioned deterioration of central urban areas is endorsed by the estimation that in Belgrade today 15 percent of inhabitants live under technical and communal standards, while 40 percent of units has all necessary installations (Petovar, 2003); approximately 1.7 percent of all inhabitants of the Belgrade metropolitan area live in spaces other- than- flats housing units (ed. Fearn, 2004). We may presume that the last data is related to homeless people, since there is no official information about exact number of homeless, but it is estimated that total number of homeless reaches the number of 7.5 percent (ibid). It is evident that the upgrade of existing stock is necessary. Otherwise, the higher- income groups will tend to move to new- built flats, leaving old stock for the socially deprived categories, again negatively affecting existing social mix. Or, developers might see their opportunity in this situation: by buying out units from the low- income groups they could get in possession of land in central areas for new housing units (certain

embracation of this tendency is noted in Belgrade and Banja Luka), but with significantly higher prices, unaffordable to the natives. In this case these groups would by assumption move to cheap locations, again with tendency of creating ghettos.

3. Conclusion: What can be done?

In this part of the paper we shall note some alternatives for sustainability of housing with existing social mix. The lack of financial assets is heavily constraining the willingness of government for improvement of housing sector. It is crucial to introduce as soon as possible a comprehensive housing policy as legal framework for qualification of housing market to efficiently provide housing for all social groups (Bajec, 2006). As professor Bajec stresses out, housing policy is part of wider policies, an asset for management of overall development. Housing sector contributes achieving many goals in domain of reduction of poverty, employment, development of financial system, investments, etc. Housing fundus is seriously deteriorated by virtue of privatisation, since the collected assets were devaluated (in Serbia) and were insufficient for reproduce of housing fund and creating of institutional framework for new conditions. As the same author notes, the expected results of housing policy are:

- Formulating market provision of housing, creating institutional framework with offer and demand of **different categories** housing are related, with different prices;
- Engagement of all available private assets in certain form of legal construction, by which assets would be productively used for generating capital for owners, state and housing sector;
- Making housing actuator of economy. Production of housing is one of the most significant economic activities in process of urbanisation⁷;
- Flexible offer of housing enables mobility of labourer and represents basis for increasing of employment.

Prior instrument of the housing policy is legal framework with laws, directives, recommendations and standards in domains relevant for housing. Naturally, it is presumed that all relevant and accurate data are previously collected, with defined standards and housing needs. This creates basis for new set of instruments:

- Mortgage and housing loans, with competitive granting institutions and innovative instruments for providing loans even to low- income households;
- Social housing as new form of housing in rented sector, through public- private partnership;
- Time reduction of renting in social housing;
- Integration of non- profit housing in existing structure;
- Defining costs of maintenance and taxes and forming agencies for maintaining in private sector;
- Rationalising subsidies, that wouldn't distort housing market (as it is today). Supported programs must be adequate and affordable, clearly targeted, measurable and transparent (ibid) and the assets are to be directed to housing and investment funds;
- Supporting of development of rental sector, both private and public;
- Providing land for building, infrastructure and land equip, with transparent impact fee;
- Support of self- help housing and low- cost housing mode;
- Flexibility of regulation regarding planning and construction in relations with lot size, density, housing types, building and equipping standard, so it can easily be affordable for low- income households (ibid) or pluralism in housing production;
- Urban regeneration of deteriorated housing areas with goal of gentrification, through urban regeneration agencies;
- Facilitation of housing mobility (today relatively low);
- Participation and information of all social groups;
- Territorial balance of different social groups.

Housing solutions in Serbia and Bosnia can be evaluated only over the long-term strategy, so it is recommendable to start as soon as possible. It takes time and effort for a housing market to start working efficiently; in order to understand domain of housing policy it is evident that there are much more serious researches to be enforced.

¹ After 1958, special legal regime was established for inbuilt land, which became public- owned, while the previous owners had right of use for the mentioned land. After 1968, inbuilt land wasn't in trade.

² During the 1999, there was two pilot projects in Belgrade for social housing: housing for young married couples, army and police provided by then Administration for land revival (*Direkcija za obnovu zemljišta*) and housing for university's, academic's and art's offspring, both in expensive, quality locations (Milic, 2006).

³ During the 1990's, market value of flats in Belgrade were rating approximately 2400 DEM/m², respectively 60 m² flat costed cca 64 monthly wages, and rent for the same flat was exceeding average wage for 20-50 percent; at the same time there was civil war in Bosnia, so only small percentage of the richest could actually afford to build or buy (Milic, 2006).

⁴ According to General plan for Belgrade 2021 (*Generalni plan Beograda 2021*), there is in Belgrade cca 76.000 illegal dwellings (ibid); in Banja Luka, with area four time smaller comparing to Belgrade, the rate of illegal dwellings is proportionally 15.000-20.000 (Kunic, 2009).

⁵ In Serbia National Housing Policy is being prepared through past seven years, over several enacted strategies, that are mentioned in the paper.

⁶ In 2008 in Sarajevo started pilot project of social housing, supported by Austrian NGO, which is owner of residential- commercial building with flats for renting to Canton Sarajevo authorities, in period of 30 years, and on behalf of rent Canton is paying 5 percent of nominal value of the building, while social housing beneficiaries are paying 2.5 EUR/m²(market value 5 EUR/m²) (Topic, 2008).

⁷ Quality housing policy can have significant economic influence. Investment in housing are calculated to 2-8 percent GDP and investment in infrastructure are 5-10 percent GDP in addition (Bajec, 2006).

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